An overview of local government in Scotland 2014

ACCOUNTS COMMISSION

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.
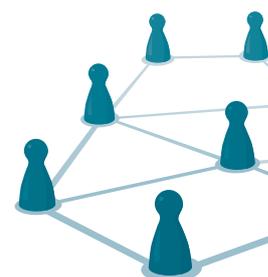
Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: **www.audit-scotland.gov.uk/about/ac**

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

ᴧᴧ Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Summary

Key facts

Revenue spend

£18.5 billion

£18.6 billion — Income

Value of assets — **£38** billion

£1.86 billion — Useable reserves[1]

Capital spend — **£2.3** billion

Staff employed — **204,500**
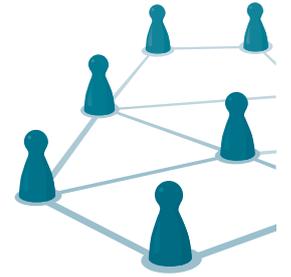
1,223 — Councillors
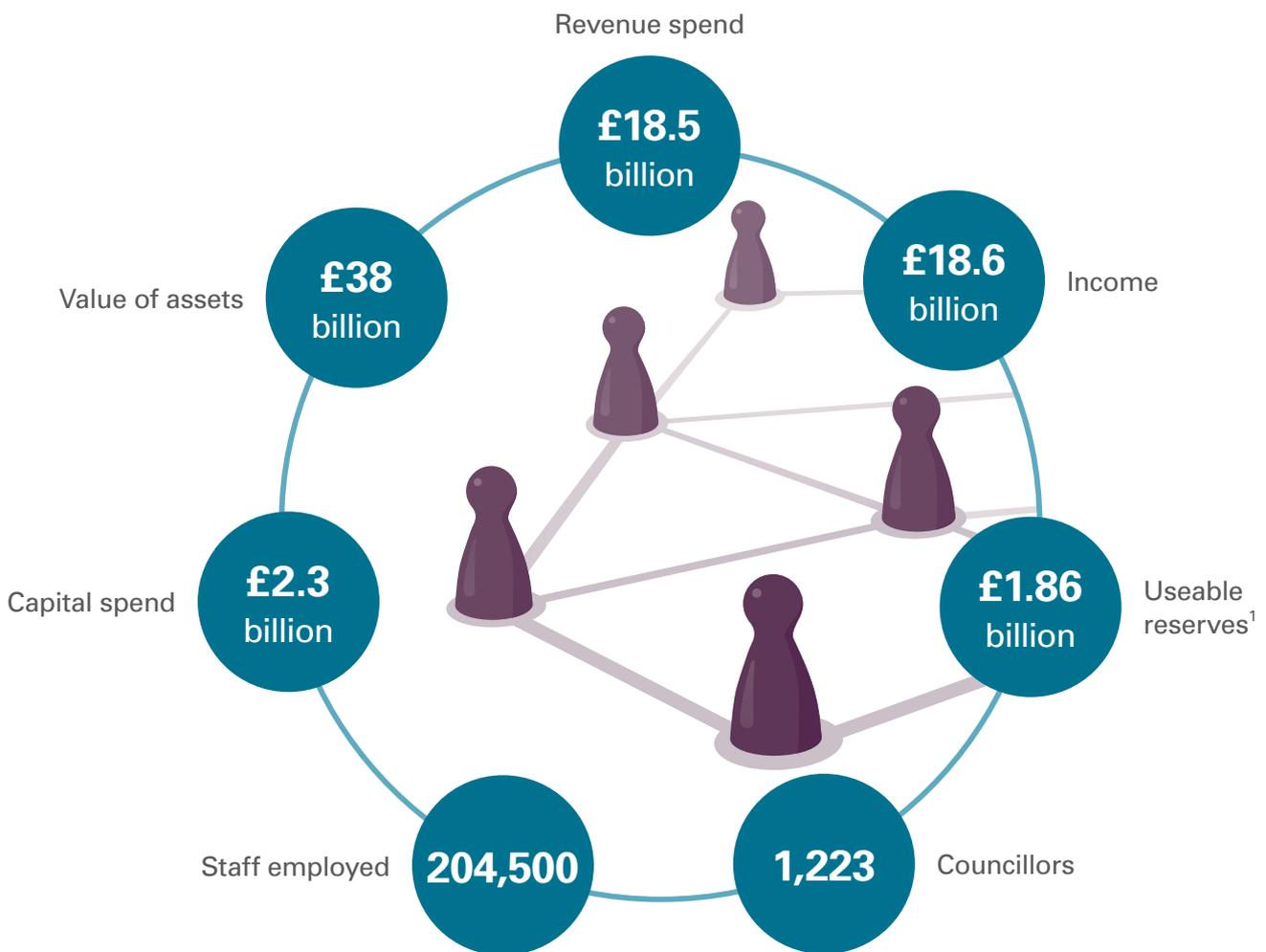
Note: 1. Excludes Orkney and Shetland Islands councils which hold large reserves and balances arising mainly from harbour and oil-related activities.

Chair's introduction

1. Scotland's 32 councils provide vital public services from the cradle to the grave. Delivered directly or in partnership with others, these services involve substantial resources. In 2013 councils spent nearly £21 billion, employed 204,500 staff and used buildings and other assets with a value of around £38 billion. Councils face reducing budgets and increasing demand. Finances remain tight and councils anticipate further budget reductions. To date they have balanced budgets mainly by reducing staff numbers but this alone is not sustainable in the longer term. Increasing numbers of older people, who typically need more public services – notably health and social care, as well as the public's rising expectations of service quality are among a range of factors contributing to increased demands on services.

2. Thus councils face increasingly difficult choices. To help make these decisions they need to make better and consistent use of options appraisal so that they can deliver the best possible value-for-money services to their communities. Councils need to ask the question, 'What works best and can we prove it?' The Commission recognises that options appraisal is challenging for councils, councillors, managers and staff. Loyalties run deep in councils, strong political beliefs are held and balancing competing interests is always difficult but the duty of Best Value – making best use of public resources – must always be paramount. Potential cuts require rigorous appraisal of alternatives so that decisions are transparent and based on solid information. Over and above these internal challenges, councils are having to deal with the impact of welfare reform, to plan with their partners for changes in health and social care and to deepen and strengthen the effectiveness of community planning.

3. In this complexity of change, the foundation stones of good governance and accountability remain constant. A fundamental principle of good governance is councillors and officers operating in clearly defined and understood roles. The role of the councillor can best be described as being at the start and the end of the process; at the start deciding policy, and at the end holding officers to account for their performance in implementing the policy. The part in the middle, the management of the council, is the responsibility of officers. Our audits have consistently shown that where roles are clear and respected and where Best Value is at the heart of its business, a council will be best placed to meet the challenges of 2014 and beyond. In contrast, bad governance is debilitating, time-consuming and expensive.

4. Strong political and managerial leadership is also more important than ever. While political coalitions have worked well in recent years there is evidence of heightened tensions in council chambers. Of course there will always be different views and approaches across political parties; that is the essence of local democracy. However, the Commission has expressed its consistent view that it is unacceptable if political tensions become so extreme that they compromise a council's ability to ensure effective leadership, demonstrate good governance and, as a result, weaken the public's trust and confidence in the integrity of the council and its councillors to conduct public business.

5. The Commission's messages and recommendations are not new; they reflect recommendations and messages in previous overview reports. The fact they are similar serves to underline their continuing relevance and importance.

Douglas Sinclair
Chair of the Accounts Commission

About the report

6. The Accounts Commission's overview report is based on the local government audit work in 2013. We use this to provide a high-level, independent view on the progress councils are making in managing their finances and in achieving Best Value, and to help councillors identify priorities in 2014.

7. The report focuses on what more needs to be done. First, we set out the context for local government and the key role of councillors within that. We then consider what more councillors need to know about current services and the options for providing services. We conclude by focusing on key elements needed to deliver Best Value, ie leadership and governance, and how more can be achieved through partnership working.

8. The report is supported by two appendices:

- Appendix 1 summarises how councils used resources in 2013.

- Appendix 2 contains a checklist and links to other material which is available to support improvement in 2014.

9. The report is primarily for councillors, as a source of information to support them in their role. However, councillors will need to work closely with officers to identify the position in their councils and to address the priorities we identify. We also expect councils to discuss the report with their community planning partners.

Key messages
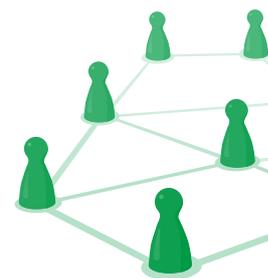
1 Councillors need to maintain a good understanding of the rapidly changing economic, social and political context. Demands on services and resources continue to increase and need to be managed alongside public service reforms, including changes in the welfare system and in health and social care.

2 Achieving Best Value requires good information about the cost and performance of current services and robust analysis of the options and the related risks associated with alternative ways of delivering services.

3 Governance is more important than ever. Councillors need to scrutinise reports from officers on the financial position and service performance: get the right information; ask the right questions; and ensure issues are resolved. They also need to scrutinise reports from auditors and get assurances from officers that weaknesses in financial systems are addressed. Councillors should assure themselves that the officer responsible for the council's finances retains appropriate access and influence within management structures.

4 The total level of reserves has increased but the level of 'free' reserves has fallen, with councils predicting future funding gaps. More work is needed to develop longer-term resource plans that show connections between savings, staff changes and how assets, such as land and buildings, are used to best effect in providing services.

5 Councils are working with their partners to meet the challenges of significant service reforms. Achieving more from Community Planning Partnership (CPP) working requires strong shared leadership, more effective governance and making the most of the combined public sector resources in the area.

6 There is increased evidence of political tensions and instability which is leading to strained working relationships. This comes at a time when decisions on services are becoming increasingly difficult and require strong political and managerial leadership. There will be additional demands on councillors in the run-up to the independence referendum. This will require a balance between their council responsibilities and their wider political activities.

Key recommendations

Councils continue to face significant challenges. They need to review how services are currently delivered and consider options as to how services might be delivered in future. They also need to increase the focus on partnership working and longer-term resource planning. Councils that place Best Value at the heart of all they do are best placed to deal with the challenges in 2014 and beyond.

Key priorities for councillors in 2014

- Understanding the changing context and the crucial role of councillors
  - Maintaining a clear understanding of the financial position.
  - Understanding the public reform agenda, including the impact of welfare reform.
  - Preparing for changes in health and social care.
  - Keeping up to date through training and development.

- Meeting user demands and the financial challenges
  - Appraising the options for delivering services and charging for services.
  - Requiring good-quality cost and performance information for decisions and scrutiny.
  - Making better use of benchmarking to support service improvement and public reporting.

- Providing strong leadership and governance to support change
  - Maintaining good professional working relationships and providing strong political leadership.
  - Getting assurance that governance is sound, including where arm's-length external organisations (ALEOs) are in place.
  - Providing stronger leadership of CPPs and working with partners to make the best use of the overall public resources available in the area.

Priorities in 2014
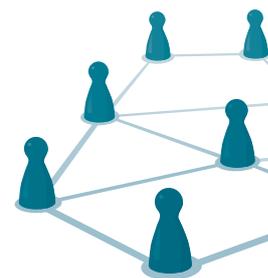
Understanding the changing context and the crucial role of councillors

10. Councils are continuing to operate in challenging financial circumstances and against a backdrop of increasing expectations and demands on services. To achieve success for their local communities, councillors need to maintain a good understanding of the rapidly changing economic, social and political context within which their council operates.

11. In this section of the report we set out the context for services in 2014 and review the councillor's role, which is crucial to success.

There are continuing pressures on finances and services

12. Pressures on resources in local government are not new. Councils, as with other parts of the public sector, have always faced difficult choices in allocating limited money, staff and other assets such as buildings across competing priorities. However, against a backdrop of savings and staff reductions to date, these decisions are increasingly difficult.

13. Local government's share of the Scottish budget has remained fairly constant but, for revenue funding, translates to a real terms reduction, ie after factoring in the effects of inflation. The funding settlement to councils for 2014/15 is £10.6 billion, an increase of about 2.9 per cent in cash terms or 0.8 per cent in real terms. Revenue funding has remained constant at £9.8 billion which represents a decrease of 1.2 per cent in real terms. Capital funding has increased to £0.8 billion in 2014/15, an increase of 40 per cent in cash terms or 37.1 per cent in real terms. The majority of this increase is due to the reprofiling of capital funding which resulted in £120 million moving from 2012/13 to 2014/15 and £100 million moving from 2013/14 to 2015/16.

14. Key information about council finances is included in Appendix 1 (page 33). This shows that spending on services is around £21 billion, ie £18.5 billion on the day to day business of providing services and £2.3 billion on buildings and other assets used to provide services over time. The day-to-day costs are matched broadly by income from government grants, council tax, charges for services and the application of reserves. Upward pressures on the costs involved in providing services, including energy costs, waste disposal and maintenance, are continuing and need to be managed alongside increasing expectations and demands for services Exhibit 1 (page 10).

15. The public sector faces significant challenges in reshaping care for older people. This involves changing the way services are delivered while continuing to meet current need. People are living longer with more complex care needs and
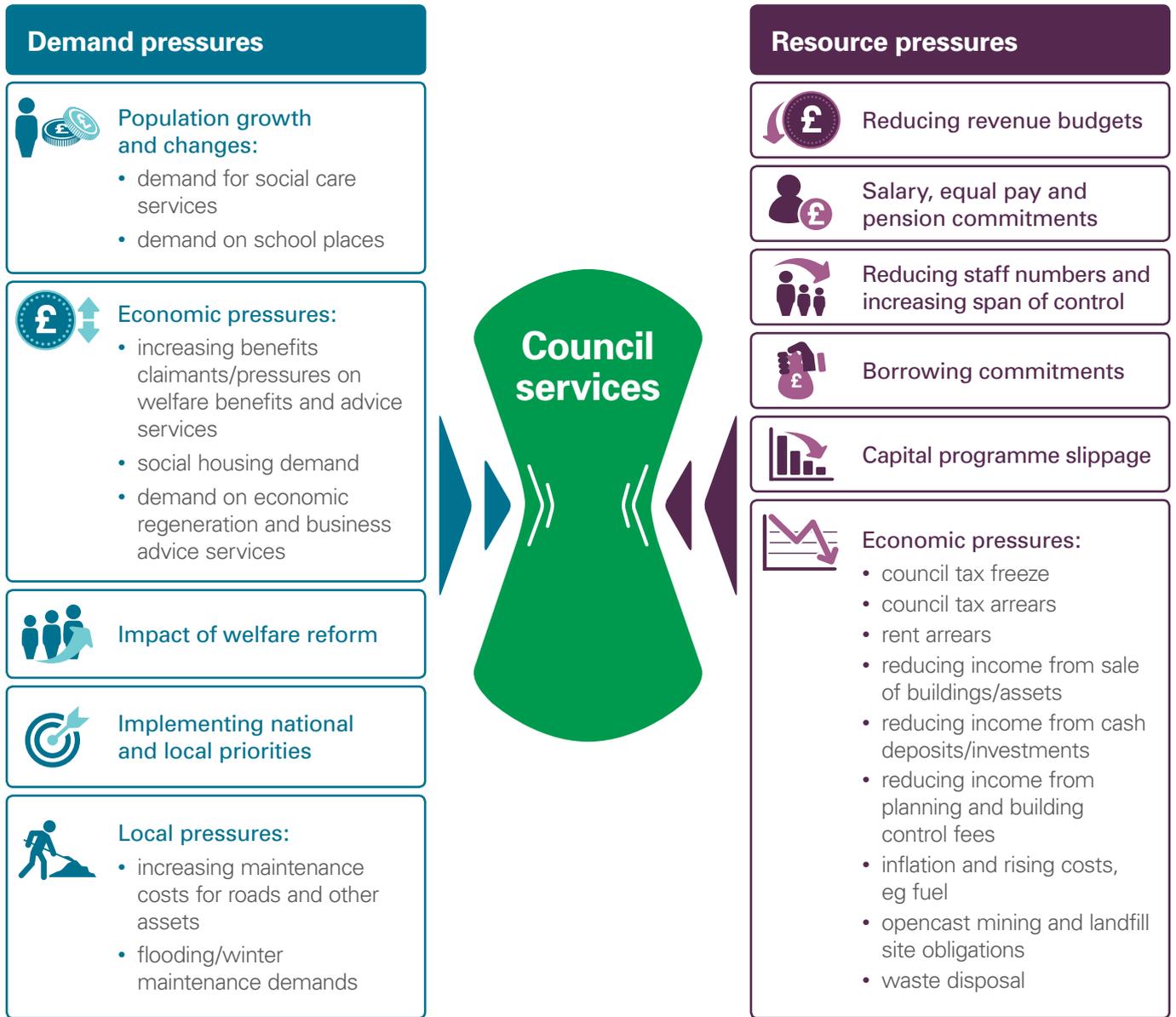
> the councillor role is crucial in meeting the challenges in 2014 and beyond

Exhibit 1
Demand and resource pressures in 2014 and beyond

Demand pressures

Population growth and changes:
- demand for social care services
- demand on school places

Economic pressures:
- increasing benefits claimants/pressures on welfare benefits and advice services
- social housing demand
- demand on economic regeneration and business advice services

Impact of welfare reform

Implementing national and local priorities

Local pressures:
- increasing maintenance costs for roads and other assets
- flooding/winter maintenance demands

Council services

Resource pressures

Reducing revenue budgets

Salary, equal pay and pension commitments

Reducing staff numbers and increasing span of control

Borrowing commitments

Capital programme slippage

Economic pressures:
- council tax freeze
- council tax arrears
- rent arrears
- reducing income from sale of buildings/assets
- reducing income from cash deposits/investments
- reducing income from planning and building control fees
- inflation and rising costs, eg fuel
- opencast mining and landfill site obligations
- waste disposal

Source: Audit Scotland

this has implications for councils and other organisations that provide services for older people. Our report *Reshaping care for older people* (PDF) found that the programme has brought together the different bodies involved in these services, which cost £4.5 billion a year. These organisations now need to better target resources at preventing or delaying illness and at helping people to keep living at home.

16. There are also substantial pressures within individual services. In housing, for example, councils have a long-standing role and wide-ranging responsibilities, including specific legal requirements to tackle sub-standard housing and homelessness. Our report *Housing in Scotland* (PDF) highlighted significant challenges from population and policy changes in the next few years. For example, the ageing population is likely to increase demand for supported living, the number of single-person households is set to rise and welfare reform will further increase pressures on housing services.

17. Dealing with equal pay claims and the associated costs remains a significant issue. Councils continue to settle equal pay claims and make provision for those cases not yet settled. Cumulatively, councils had paid out £507 million by March 2013, including payments of over £32 million in 2012/13. A further £73.2 million is set aside to meet expected future amounts. In addition, around two-thirds of councils anticipate future costs which cannot yet be quantified.

18. The costs of settlements are significant but there are also unquantified workforce resources and associated costs, particularly for legal and human resource departments. It is in councils' interests to resolve these cases as quickly as possible, not least to eliminate the continuing uncertainties this issue presents in terms of their overall financial position.

19. Councils' experience of dealing with equal pay claims has identified the ongoing need to deliver pay equality. The Convention of Scottish Local Authorities (COSLA) has been working with the Society of Personnel Directors in Scotland and unions to review the terms and conditions of service for local government employees. This review will reflect the developing legislative environment and best employment practices. These changes are not anticipated to raise difficult matters for negotiation, but will ensure that the employment schemes are compliant with the latest legal position at European and UK levels.

Public service reform provides challenges and opportunities for new approaches to services

20. Alongside demand and resource pressures in services, councils are at the centre of wider public service reforms introduced by the Scottish Parliament and by the UK Parliament. The Scottish Government's approach is founded on 'four pillars' for change: shifting resources towards prevention; integrated local services through better partnership working; workforce development; and transparent and improving performance.

21. Responding to public service reform is challenging but it can also help councils deal with demand and resource pressures, address inequality and better meet the expectations of people and communities. The increasing emphasis on partnership working and community empowerment, while challenging, also provides opportunities for new approaches to services.

22. Single police and fire and rescue services came into effect in April 2013. This was one of the largest and most complex restructuring reforms in the public sector for many years, involving services with annual expenditure of the order of £1.4 billion.

23. Councils retain an important role in helping to strengthen connections between the police and fire and rescue services and local communities and are responsible for monitoring services in their areas. They are working with their local commanders (police) and local senior officers (fire and rescue) to develop approaches to local scrutiny and engagement, including links to community safety partnerships and CPPs.

24. The Welfare Reform Act 2012 aims to improve work incentives, simplify the benefits system and deliver savings. This is the biggest reform of the UK welfare system for 60 years and has significant implications for households, and for councils and the services they provide.

25. We have been monitoring the position and our survey in 2013 indicated that councils have carried out a significant amount of work to plan for and to mitigate the impact of the reforms. They are working closely with partners such as COSLA, the Scottish Government and the UK's Department for Work and Pensions to deliver the changes. However, uncertainties remain that make it difficult for councils to plan ahead, particularly in relation to the shift from housing benefits to universal credit and the level of support they are expected to provide to customers in future.

26. It will be some time before the full impact of welfare reform is clear. However, surveys by the Scottish Housing Regulator[1] and COSLA[2] indicate that the removal of the spare room subsidy may be contributing to increasing levels of rent arrears. More widely, a report commissioned by the Scottish Parliament in April 2013 estimated that, when fully implemented, welfare reform will take more than £1.6 billion out of the Scottish economy each year. Councils with higher levels of deprivation are likely to be hardest hit and, over time, the reforms could have a substantial impact on local economies.

27. The integration of health and social care services affects major parts of the public services and, potentially, represent the biggest change in local government since reorganisation in 1996. The aim is to improve the quality and consistency of care for adults, and to shift resources away from institutional to community care.

28. Councils are at various stages in preparing for health and social care integration. We support the principle that public services should be designed around the needs of the service user, and that public bodies should seek to overcome the organisational barriers that get in the way of delivering seamless integrated health and social care. It is essential that services are able to work well together to respond to needs while making the best use of existing resources and delivering high-quality services. We have highlighted in several reports the need for barriers to partnership working to be addressed and the importance of a joint vision and clear priorities for the use of shared resources.

29. Looking further ahead, the Scottish Government has brought forward proposals in the Community Empowerment Bill.[3] These highlight the important role that communities can play in participating in new models of service delivery and developing models of 'co-production' that draw upon the knowledge, skills and experience of local people in ways that maximise the impact and value of public assets, eg people, buildings and local knowledge. This may lead to changes in the relationship between councils and communities.

30. We provided a response to the Bill covering areas such as common good, community planning, scrutiny and the possible accounting implications of the transfer of assets to communities. Our response reflects on our experience in the scrutiny of community planning and of our responsibilities in holding councils to account and encouraging improvement. We welcome the increased emphasis for CPPs on delivering outcomes and the opportunity for clarity on responsibilities, accountability and governance.

Councillors have a complex and demanding role, which is crucial to the success of their councils

31. Councillors represent their constituents, provide leadership and direction and scrutinise service performance and how resources are used. The effectiveness of councillors has a strong bearing on the achievement of Best Value and the overall success of councils.

32. As we state in our 'how councils work' report *Roles and working relationships: are you getting it right?* (PDF) this is a complex and demanding role, made more so in the current context where reduced budgets mean that choices and decisions are more difficult. Councillors are involved at the start of the process (getting views from people and communities and setting policies) and at the end (holding officers to account for the implementation of policies and keeping people and communities informed about services changes and performance), Exhibit 2 (page 14). The part in the middle, the management of services, is the responsibility of council officers.

33. The political context in 2014 is particularly challenging with local, national and international interest in the referendum on Scottish independence. This is likely to mean additional demands on councillors, requiring a careful balance between their crucial role in councils and their political interest in the referendum.

34. Whatever the outcome of the independence referendum, further discussions are likely on local services, governance and accountability. In October 2013, COSLA established a commission on Strengthening Local Democracy to consider how local democracy and accountability might be improved and to provide advice on what is needed for that to happen. Discussions are also ongoing on the the joint initiative 'Our Islands Our Future' which seeks greater powers for the islands councils. More recently the Scottish Parliament's Local government and Regeneration Committee launched an inquiry into the flexibility and autonomy of local government.

35. In this quickly changing context it is more important than ever that councillors are supported in their role. We are of the firm view that effective democratic decision-making can only take place when councillors have the right skills, information and support to carry out their roles. It is essential that officers provide councillors with sufficient, well-researched and presented information to enable them to carry out this role. Other key requirements are awareness and understanding of governance processes; our audits confirm that there is a continuing demand and need for more training and development.

36. There is already a wide range of material and resources available to councillors. For example, the Continuous Professional Development (CPD) framework established by the Improvement Service in consultation with local government provides professional and personal development opportunities in a wide range of important skills.

Exhibit 2
The councillor role
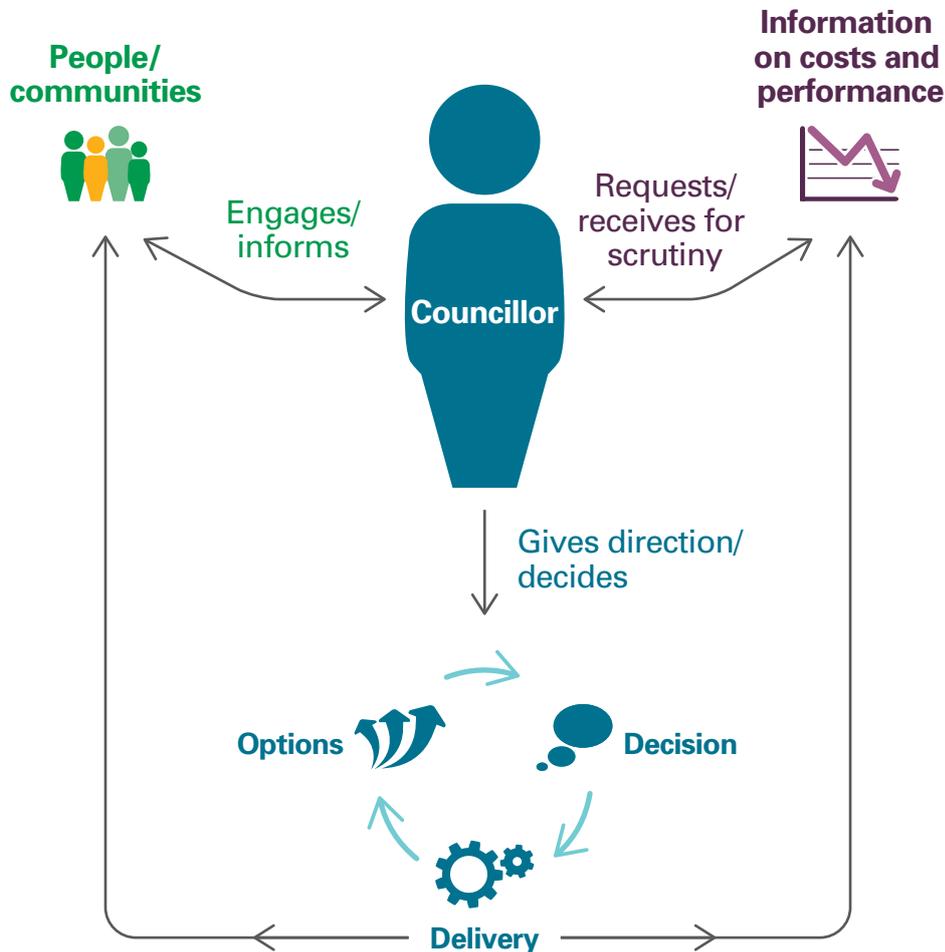
Source: Audit Scotland

37. However, the onus is on councillors to ensure that they regularly review personal development plans and discuss training needs. A recent Improvement Service survey of councillors showed that, of those who responded, around 80 per cent said that local induction programmes addressed their needs.[4] Around two-thirds felt that they had been given adequate training to carry out their scrutiny role effectively. This is encouraging but also suggests that there is still a long way to go before all councillors have the support they feel they need.

Summary and points for action in 2014

- Maintaining a clear understanding of the financial position.

- Understanding the public reform agenda, including the impact of welfare reform.

- Preparing for changes in health and social care.

- Keeping up to date through training and development.

Meeting user demands and the financial challenges

38. Councils need to consider options to decide which services best meet the needs of the people and communities they serve. In so doing, they must comply with their statutory duty to provide Best Value. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability.

39. Faced with reducing finance and increasing demands and expectations of services, councils are reviewing the way they deliver services. Pressures are building and councils need to identify innovative and ambitious approaches to services and then make consistent use of options appraisal to decide the way forward. Changes always carry some degree of risk; our expectation is that councils should be risk aware, not risk averse.

40. In this section of the report, we consider what more councillors need to know about current services and about options for future services.

Councillors need good information to support decision-making and accountability, consistent with Best Value responsibilities

41. To scrutinise and assess services, councillors need good information on performance and costs of current service activities. This is crucial information which highlights what is working well and where there may be emerging problems, where improvement may be needed and whether value for money is being achieved.

42. Our 'how councils work' report *Managing performance: Are you getting it right?* (PDF) ⬒ sets out the key aspects of performance management, including the key characteristics for managing performance and improvement. The report emphasises that everyone in the council has a role in managing performance and that, together, council officers and councillors are responsible for ensuring their council meets the Best Value duty.

43. Councils are working to review and refine performance arrangements. However, more needs to be done to ensure the quality of performance information and that there is clear read-across between the information which is collected and councils' objectives, so that progress can be measured. The evidence indicates, in particular, that the priorities in 2014 are to:

- Include more information on costs, outcomes and service users' views.

- Use performance information alongside cost information to assess value for money.

- Identify and prioritise areas for improvement.

- Evaluate the impact of improvement activity, including the impact of self-evaluation using approaches such as the Public Service Improvement Framework (PSIF).

44. Managing performance based on the 'plan-do-review-revise' cycle provides a systematic framework for performance management. Within that, councillors need to focus on the crucial contribution they make in this process Exhibit 3 (page 16). In summary, councillors:

- Need to be clear about what the council is wanting to achieve and how they will monitor and review performance.

- Need to be prepared and equipped to challenge officers on service performance and to ensure that priorities are delivered and that the needs of local communities are being met.

- Can support improvement by showing they are actively interested in performance management and taking action based on what performance information is telling them.

Exhibit 3
Councillors' role in managing performance: the 'plan-do-review-revise' cycle

Plan

- Set out the objectives or targets
- Identify what needs to be done to achieve these
- Identify how this will be done and what resources will be needed
- Identify who is responsible
- Set clear measures

Do

- Ensure the necessary systems and processes are in place
- Take action
- Identify and manage risks
- Support staff to achieve their objectives

Plan   Do

Revise   Review

Revise

- Incorporate improvements into future planning
- Revise objectives and targets
- Update resource planning

Review

- Monitor progress regularly
- Identify what worked well and what could be improved
- Speak to service users and stakeholders about their experience
- Scrutinise performance and hold those responsible to account

Source: Audit Scotland

45. As part of their Best Value responsibilities, councils have a duty to report their performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future. Public Performance Reporting (PPR) has significantly improved over the last three years, with improvement across all corporate themes and service areas. However, there is still room for improvement Exhibit 4 (page 17).

46. We are encouraged by developments in local government benchmarking. SOLACE, COSLA and the Improvement Service have been leading work in

Exhibit 4
Public Performance Reporting

Improvements achieved in 2013:

- More information on comparisons over time.

- Improved coverage of the statutory performance indicators.

Improvements required in 2014:

- More narrative and contextual information to help the reader understand the indicators and performance information provided.

- More use of targets, trends, progress with initiatives or actions being taken to address underperformance, to help the reader understand how well the council is performing.

Source: Audit Scotland

this area through the Local Government Benchmarking Framework (LGBF). This provides comparative benchmarking covering all major service areas, with a strong emphasis on costs. Data for 2012/13 was recently released accompanied by an overview[5] covering broad trends and variations. The benchmarking website has interactive capabilities to extract data sets both on a council basis and for individual indicators, allowing councils to undertake their own detailed analysis.

47. A key element of PPR is comparing performance with other councils. Consistent with the improvements in PPR generally, more councils are including this as part of their reports. However, fewer than half of councils include information showing how they are performing relative to other councils. With the increasing availability and refinement of LGBF data we expect there will be opportunities for greater use of comparisons with other councils in PPR material in 2014 and that this will result in better information for the public.

48. More generally, the LGBF will facilitate comparisons on spend and performance between similar councils so that councils can identify strengths and weaknesses, learn from councils that seem to be doing better and improve their performance. The data covers 60 per cent of the total spend of local government and provides the opportunity for services to use the data to determine why disparities exist between services in different councils and to support change and accountability for service performance.

Councils need to consider options for new ways of working and changes in the way services are delivered and paid for
49. Everything councils do has its roots in legislation. Some services are more prescribed in legislation than others, for example collection of council tax and business rates; for other services councils have discretion on the level of service provided. Even for those services where there is some prescription it is normally relatively limited and councils have substantial discretion on how services are delivered and by whom.

50. An options appraisal is all about making well-informed decisions; the basic stages are shown in Exhibit 5. The '*Best Value: Making Choices*'[6] guidance published by the Scottish Government in 2001 noted that, as with any decision-making tool, options appraisal provides support to the process, it does not provide the answers. The value of decision-making tools is that they take people through the process stage by stage, and assist in making sure that everything relevant is taken into account.

Exhibit 5
Basic stages of options appraisal
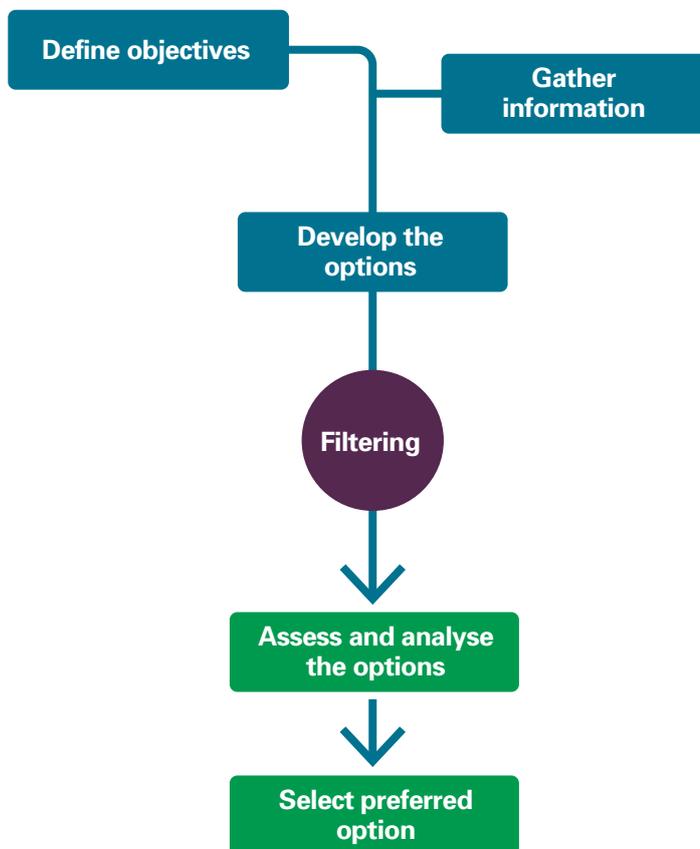
Source: *Capital Planning and Option Appraisal – A Best Practice Guide for Councils*, CIPFA Local Government Directors of Finance, October 2006

51. Our expectation is that options appraisal is a standard part of decision-making involving changes in how services are delivered and involving major capital projects. We recently published a further report in the 'how councils work' series, *Options appraisal: Are you getting it right?* (PDF) 🖥.

52. Cost information is important in assessing performance and value for money in existing services over time. Looking at service performance alone is not sufficient - what it costs to provide the services is an important factor in forming overall judgements. Cost information is also crucial in reviewing options for new ways of delivering services. Our 'how councils work' report *Using cost information to improve performance: are you getting it right?* (PDF) 🖥 identified what cost information involves and how it can be used more effectively.

53. In redesigning services, councils need to ensure they are designed around the needs and expectations of the people who use that service. A decision to pursue an alternative method of service delivery can change long-standing arrangements and can have far-reaching consequences for service users, services, systems and staff. Successful engagement with the public and staff can help manage expectations about what can be achieved in the context of reducing budgets.

54. Options for the delivery of council services include the use of arm's-length external organisations (ALEOs). ALEOs offer an alternative to more traditional 'in-house' or contract-based service delivery and usually take the form of companies or trusts. ALEOs provide recognised 'council services', such as leisure services, but they can also deliver commercial operations such as exhibition facilities. While the ALEO takes on responsibility for services, the council remains responsible for both the public money it gives to the ALEO and for the quality of services the ALEO delivers.

55. We have an ongoing interest in ALEOs. With COSLA, we published a *Code of Guidance on Funding External Bodies and Following the Public Pound*[7] which set out the principles of best practice for councils when establishing funding relationships of this type. While the context has changed since the Code was published in 1996, the principles remain valid Exhibit 6.

Exhibit 6
The 'following the public pound' code principles

The principles of openness, integrity and accountability apply equally to funds or other resources which are transferred to ALEOs. The code sets out six principles that require councils to:

1. have a clear purpose in funding an ALEO

2. set out a suitable financial regime

3. monitor the ALEO's financial and service performance

4. carefully consider representation on the ALEO board

5. establish limits to involvement in the ALEO

6. maintain audit access to support accountability.

Source: Audit Scotland

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56. Our 'how councils work' report *Arm's-length external organisations: Are you getting it right?* (PDF) pointed out that delivering projects or services through ALEOs is likely to make governance complex but that the same principles of good governance apply. For those councils that have not done so already, the time is right for a systematic review of their involvement in ALEOs and underlying agreements.

57. Our report *The Highland Council: Caithness Heat and Power: Follow-up statutory report* (PDF) demonstrated the serious consequences of weak governance in dealings with ALEOs. This case provides useful learning points

for all councils, particularly the need for robust governance and accountability in which roles and responsibilities are clear, particularly those of councillors. We have shared our findings with all councils.

58. Options not only include changing who provides the service; there will be opportunities to simplify, standardise or adjust existing approaches to achieve better value for money, eg by reviewing existing systems for paying for goods and for collecting money.

59. Intelligent purchasing may help public bodies to improve the quality of services they provide and help them to reduce costs. Public bodies need to have well-trained staff and effective systems to provide the procurement capability to achieve good results. While some bodies perform well in these areas others have a significant amount of work to do to demonstrate value for money in procurement. We will shortly publish a report on procurement in local government.

60. We welcome the Scottish Government's proposals to set a new general duty on public bodies to conduct procurement in a transparent and proportionate manner. The requirement on authorities with significant procurement expenditure to produce a procurement strategy and annual procurement reports will support this duty.

61. Also, within existing service arrangements, charges can be a means to sustain and improve services. They can also be used to bring in new sources of income or help a council to improve the services it offers.

62. Our 'how councils work' report *Charging for services: Are you getting it right?* (PDF) 🖥 looked at the contribution charges make to budgets and how charges can influence how people choose to use services (Exhibit 7, page 21). The report also contains examples of good practice, including understanding costs and getting the views of people who use services, and a guide to managing charges.

63. Our report found councils can make more effective charging decisions when they consult with service users, community planning partners, residents and other stakeholders over proposed charges. Councils need to provide leadership in ensuring that these decisions do not adversely impact on particular groups of people. Equalities-impact assessments should be considered as part of any significant charging decision or service change.

64. We concluded that councils should have clear policies in place for charges and concessions and that they should regularly review charges to ensure that they are appropriate and meet their intended objectives. The report also recognised the important role of councillors in determining charging policies, participating in the design of charges and concessions and understanding the contribution charges make to their council's overall financial position.

Summary and points for action in 2014

- Appraising the options for delivering services and charging for services.

- Requiring good-quality cost and performance information for decisions and scrutiny.

- Making better use of benchmarking to support service improvement and public reporting.

Exhibit 7

Income from sales, fees and charges compared to income from council tax (shown in 2011/12 prices)

Income from charges is increasing, while income from council tax has declined in real terms.

Note: Figures adjusted in real terms to 2012.

Source: Audit Scotland and Scottish Government Local Financial Returns

Providing strong leadership and governance to support change

65. In previous reports we highlighted the significant changes in the make-up of the people leading, managing and working in councils. Over a third of councillors elected in May 2012 were new to local government. There have also been substantial changes in council senior management teams in recent years, including changes in the chief executive in nearly half of all councils.

66. Working together, councillors and officers lead and manage their councils to provide vital services for the people and the communities they serve. Trust, confidence and good conduct between councillors, and between councillors and officers, are essential for good working relationships. Against a background of changes in the people leading and managing councils, we have highlighted the need to build and maintain strong working relationships, and the potential risks to leadership and Best Value where problems emerge.

67. We have also emphasised the importance of good governance, including the structures which provide the basis for good financial governance, and the role and behaviours of councillors and officers in ensuring effective governance in practice.

68. In this section of the report we focus on leadership and governance, and how to make more from community planning.

There is evidence of increasing political tensions and instability which is leading to strained working relationships

69. Our 'how councils work' report *Roles and working relationships: are you getting it right?* (PDF) acknowledges that politics is an integral and important part of local government decision-making and that tensions are inevitable given the differing policy objectives of political parties and individuals. The best performing councils are able to identify when to set aside political differences and work on a constructive basis to support the council as a whole. In these councils, councillors from all political groups generally agree on the overall priorities for the area, with debate focusing on how best to deliver them.

70. There is increasing evidence of political tensions and instability which is leading to strained working relationships or where working relationships have broken down and present risks to the council's ability to do business effectively and achieve Best Value.

71. For example, in Argyll and Bute Council the auditors concluded that political instability meant that there was a lack of collective strategic leadership by councillors. They also found that the council's political management arrangements were contributing to the problems rather than helping the council do business effectively. Working relationships between councillors and between a few councillors and officers were strained and the challenges facing the council were affecting the capacity of senior managers.

72. While the problems were not yet affecting frontline services, they were beginning to inhibit progress with strategic planning and there was a risk that services may suffer in the future if the difficulties were not addressed. We expressed concerns in our findings and requested a report on progress within six months (Exhibit 8, page 23).

73. In Falkirk Council auditors reported that not all councillors were participating in new decision-making structures. Some councillors were not attending executive and scrutiny committee meetings and scrutiny and policy development panels because of their concerns about the lack of effective scrutiny. The auditors noted significant risk to the effectiveness of the council's governance arrangements.

74. At Aberdeen City Council the auditors highlighted the importance of setting aside politics to support the constructive working of the council. They had observed political tensions among councillors in several meetings which affected the effectiveness of decision-making. Behaviour in the council chamber was regularly disrespectful and it had been necessary for councillors to be reminded of the requirements of the councillors' Code of Conduct. A number of local issues had been particularly challenging and had added to the political tensions.

75. Helping to improve working relationships can absorb a large amount of councillor and senior manager time when there are already pressures on senior managers to deliver the changes required to address existing service and financial issues.

76. Looking ahead, further pressures and tensions are likely. Locally, the political make-up of councils is closely balanced, with half of councils run by coalitions, and reduced budgets mean that choices and decisions on services are harder. Nationally, the referendum on independence is the main political issue in Scotland in 2014, with heightened political activity for all parties and elected representatives, including councillors.

Exhibit 8
Argyll and Bute Council: extract from the Accounts Commission's findings

'...the Commission is seriously concerned about substantial risks to the council caused by the instability of leadership by elected members since the last council election. The council's ability to set and maintain a clear strategic direction is at risk of being compromised and the Commission is concerned that this will, in time, negatively affect the services that the council provides for the people of Argyll and Bute. We are also concerned about the negative effect that this is having on the council's reputation.

The quality of leadership of the council has been inadequate. We urge the elected members and the corporate management team to work together to provide stronger and effective leadership of the council. Effective working relationships between elected members, and between members and officers, need to be based upon mutual trust, respect and transparency. Elected members need to achieve a more effective balance between focusing on local issues and priorities and the longer term strategic objectives of the council and the best interests of the whole community of Argyll and Bute...'

Source: Accounts Commission's findings, Argyll & Bute Council Statutory report, October 2013

77. Councils are also changing the way services are managed. Management restructuring and significant changes in the role of officers need to be handled carefully to ensure consistency and continuity of leadership and governance. This can provide opportunities to review and develop the senior management arrangements. For example, our report *The City of Edinburgh Council: the Audit of Best Value and Community Planning* (PDF) highlighted significant changes at managerial level and that good relationships and strong leadership resulted in a more corporate and strategic approach.

78. Building and maintaining good working relationships are vital to the success of all organisations. In local government, good working relationships are a key component in the conditions necessary to achieve Best Value (Exhibit 9, page 24).

Decisions on services are becoming increasingly difficult and require strong leadership and governance
79. So far, tighter budgets have been met by reducing staff numbers (Appendix 1, page 33). Our report *Scotland's public sector workforce* (PDF) identified that councils have managed workforce costs and numbers in a number of ways including pay restrictions/freezes, managing vacancies and redeploying staff to new areas of work. All councils have used voluntary departures to reduce staff costs. As part of a wider review across the public sector in Scotland, we considered the use of voluntary departures in local government.[8] In view of the likelihood of further early departures to reduce costs we took the opportunity to emphasise good practice standards including the need for clear policies, to consider all costs and potential savings, and to check that savings are delivered (Exhibit 10, page 25).

80. More work is needed to monitor the impact of staff reductions on front-line services but also on the capacity and resilience of support functions, including

Exhibit 9
Governance, working relationships and Best Value
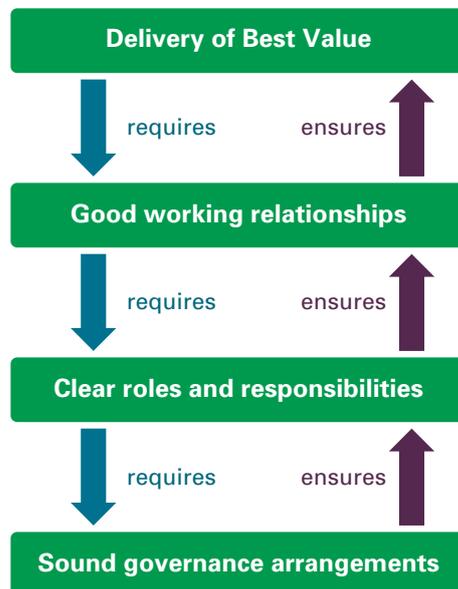
Source: Audit Scotland

finance departments, ICT and people management. This may be apparent from routine performance information but may also require connections to be made with other information, including audit reports. For example, councillors should consider whether delays in performing key, routine accounting controls or delays in receiving up-to-date information on the financial position are indicative of under-staffing or reduced skills and capacity in finance departments.

81. More widely, increasing levels of staff overtime may be indicative of pressures in services which in time may affect service performance and diminish the savings anticipated from decisions to reduce the size of the workforce.

82. While councils have relied mainly on staff reductions, this is not sustainable in the longer term and they face having to consider policy options which they may have previously rejected because they are politically unacceptable or unpopular. There is emerging evidence that councils are considering options to reduce or stop services by, for example, removing subsidies for bus services, closing libraries or reducing support for arts development. As indicated earlier, good decision-making requires good-quality information on costs and performance and rigorous options appraisal.

83. Having taken difficult decisions, strong leadership is required to see them through. Councillors need to explain the rationale to local people and to monitor the impact. Officers need to implement the changes agreed by the council and ensure systems are in place to provide information on the consequences of the changes in terms of cost, performance and value for money. Our report *Maintaining Scotland's Roads: An audit update on councils' progress* (PDF) 🖥, for example, highlighted the need for councils to continue to monitor the impact of changing levels of maintenance expenditure on the condition of their roads.

Exhibit 10
Early departures – principles of good governance
The Accounts Commission's report on voluntary departures re-emphasised key principles in the governance of early retirements.

Framework for decision-making

- Early retirement policies should be approved by councillors and reviewed regularly.

Informing members

- Councillors should receive a report at least annually that details the number of early retiral decisions, along with information on the associated costs and savings.

Decision-making

- Councils should rigorously appraise individual cases to ensure the expected savings associated with a retiral outweigh the costs.

- To improve accountability and assist in monitoring, the costs of early retirement should be charged to the appropriate service budget.

- Councillors should be involved in approving early retirement decisions for senior staff.

Source: Audit Scotland

Effective governance of finances is more important than ever

84. In the current financial circumstances, the principles of good governance are more important then ever. This means providing clear direction and strong control, regardless of how services are provided, ie by in-house services, through contracts and, as set out in the previous section of this report, through other options including ALEOs.

85. Audit committees provide a focus on financial control and risk and enhance public trust and confidence. We remain strongly of the view that audit committees should be separate from the executive and chaired by someone who is not a member of the political administration. We are pleased to note that this has been achieved in councils where that was previously not the case. Elsewhere, councils need to monitor their approach to ensure transparency and that the actual and perceived independence of the Audit Committee is not compromised.

86. The effectiveness of the Audit Committee depends on the committee members and their approach. They need to know how services and resource management work and be prepared to ask challenging questions. Particular areas for focus include cases where weaknesses in basic accounting systems and controls, under-resourcing of internal audit (generally, and in relation to pension funds) and under-developed risk management are reported to the Audit Committee. If basic financial information is compromised so are decisions based on that information.

87. Councillors need to be firmer in asking what officers are doing to address these problems and to follow through to obtain assurances that effective action is

implemented within acceptable timescales. This in itself requires particular skills, and there is evidence that councillors see the need for more training to support their scrutiny activities.

88. The chief officer for finance (also known as the statutory officer for finance or the section 95 officer) has a crucial role in providing professional advice to colleagues and councillors on all aspects of the council's finances and is central to effective financial governance. CIPFA's guidance[9] develops the requirements of the role.

89. The focus on finances means that the chief financial officer role is increasingly important. The role carries overall responsibility for financial management and reporting, contributing to the strategic management of resources and advising on the financial aspects of what are often complex options for new ways of delivering services. However, management restructuring and the shift to smaller management teams means that in about half of councils the chief financial officer is not now a member of the senior management team.

90. There is a risk, therefore, that the statutory role is less visible and that financial governance is affected. Where the chief financial officer is not a member of the senior management team, we re-emphasise that councillors need to understand why that is the case and satisfy themselves that the officer has appropriate access and influence to perform this crucial role.

91. Councillors also need to be aware of the important contributions provided by the other statutory officers who, like the proper officer for finance, act independently to promote and enforce good governance. The monitoring officer, for example, is responsible for advising councillors on the legal position on proposals and ensuring that the council follows proper procedures. More details about the statutory officers can be found in our 'how councils work' report *Roles and working relationships: are you getting it right?* (PDF) 🖥.

Reserves have increased but the level of 'free' reserves has fallen, partly because they have been applied to reduce funding gaps

92. Annual audited accounts show a council's financial performance and position and are important in demonstrating the proper stewardship of public money. The accounts should be published as soon as possible after the end of the financial year, along with an opinion from the independent, external auditor stating whether the accounts present a 'true and fair' view. This provides important assurance on financial reporting.

93. For financial year 2012/13, accounts for all councils and other local authority organisations, including the 11 local authority-administered pension funds, were presented for audit on time and signed off by auditors without qualification. We welcome this achievement and the assurance it provides to the public and other stakeholders.

94. Despite the financial pressures that they face, all councils managed to balance finances and most identified underspends at the end of 2012/13. Reduced staff numbers and the corresponding reduction in costs was the main reason for under-spending but the reasons varied. Some councils used 'free' or unearmarked reserves to ease financial pressures.

95. Councils hold cash-backed reserves (useable cash funds as opposed to reserves which are the product of accounting practice) which are available to

finance service expenditure, to ensure stability in cash flow, to build up funds for predicted costs pressures, and as a contingency for unforeseen expenditure. The overall level of reserves increased by £174 million to £1.86 billion at 31 March 2013.

96. Within the overall figure, general fund balances totalled £1.05 billion. Councils earmark these reserves for reasons including devolved school management, workforce change or voluntary redundancy and corporate improvement programmes. Earmarked reserves increased by £170 million to £743 million at 31 March 2013. The remaining reserves are deemed unearmarked or 'free'. The level of 'free' reserves has fallen for the first time in recent years, from £334 million at 31 March 2012 to £312 million at 31 March 2013, a reduction of 6.7 per cent.

97. The amounts in cash-backed reserves are substantial and we remain of the view that more needs to be done to provide more information on why reserves are held, how this fits with the council's overall financial strategy and how they will be used. Councillors in particular need good information about movements in earmarked funds, to assist their full understanding of their council's overall financial position.

98. While the short-term (this year and next) financial position is relatively stable, councils are identifying medium-term funding gaps and need to make substantial savings, at least over the next four years. Few councils have longer-term financial plans, beyond a four-year period, which identify gaps and how these will be addressed, with full explanations of the assumptions and risks under-pinning projections.

99. More work is also needed in these longer-term financial plans to show the links between finances, workforce and assets, to build a complete picture of how the overall resource will be applied and the connections between resources.

100. As indicated, there is some evidence that reserves are being used in the short term to narrow funding gaps. However, this is not sustainable because reserves can only be used once and can not support recurring expenditure.

101. In terms of annual budgets, we are encouraged by the extent to which councils are engaging with the public, employees and other key stakeholders, sometimes with the assistance of external researchers. This helps build a better understanding of the council's financial position and the choices that have to be made within available budgets. Particularly, within councils, it helps further reinforce awareness of costs and the need to make the most of available resources.

102. There is also evidence of councils developing a priority-based approach to budgets, which is an alternative to the traditional, incremental approach to budget-setting. It involves a clear understanding of how services contribute to the council's strategic priorities, developing options for services and agreeing options which are prioritised to achieve particular outcomes.

103. Following our previous reports on *Scotland's public finances*[10] we have collected further information on how councils are addressing the financial pressures in budgets. We will summarise key issues in a report later this year, in advance of the next budget cycle. This will include materials for councillors to assist their consideration of 2015/16 budgets.

104. We will continue our focus on other key aspects of councils' finances. In our previous overview report we noted that councils determine programmes for capital investment in accordance with the prudential code, which supports local authorities' capital investment decisions.

105. In the period since the code was introduced in 2004, the overall level of net indebtedness increased by around 45 per cent, from £9.1 billion to £13.3 billion. Bearing in mind local circumstances, there is wide variation across councils in the change in net indebtedness in the years since the prudential code came into effect. We will review the position, including the use of the code, as part of our audit of council treasury management and borrowing.

Achieving more from partnership working requires strong shared leadership supported by more effective governance

106. Community planning is the process by which councils and other public bodies work together, with local communities, businesses and voluntary groups, to plan and deliver better services and improve the lives of people who live in Scotland. It was given a statutory basis by the Local Government in Scotland Act 2003 (the Act). That Act, and the statutory guidance supporting it, sought to establish community planning as the key means of leading and coordinating partnership working at the regional, local and neighbourhood level.

107. The Scottish Government and COSLA reviewed community planning and Single Outcome Agreements (SOAs) in 2012. They then published a joint Statement of Ambition. This sets out high expectations for community planning and puts the community planning process at the heart of public service reform Exhibit 11. It also emphasises that all partners are collectively accountable for delivering services.

108. The Statement of Ambition is clear that significant changes to improve community planning are needed to respond to the challenges of reducing public finances while demand for services increases. CPPs also need to be equipped to reduce the stark variations in outcomes experienced by different communities.

Exhibit 11
Expectations of community planning:

- taking the lead role in securing integrated public services

- focusing more on potential problems and identifying ways to prevent them happening

- ensuring public bodies continue to improve the ways in which they manage and provide services

- achieving better outcomes for communities, such as better health and lower crime

- providing the foundation for effective partnership working, within which wider reform initiatives will happen.

Source: Audit Scotland

109. There is now a renewed focus on community planning which provides a clear opportunity to deliver a step change in performance. This will require strong and sustained shared leadership from CPP boards.

110. Partnership working is now generally well established and many examples of joint working are making a difference for specific communities and groups across Scotland. But overall, and ten years after community planning was introduced, CPPs are not able to show that they have had a significant impact in delivering improved outcomes across Scotland.

111. *Improving community planning in Scotland* (PDF) identified key issues from the CPP audits carried out in 2013. To implement the Statement of Ambition successfully we concluded that CPPs need to:

- focus more clearly on where they can make the greatest difference in meeting the complex challenges facing their communities

- ensure that all partners align their service and financial planning arrangements with community planning priorities

- significantly improve their governance and accountability, and planning and performance management arrangements.

112. Community planning is at a crossroads. This offers a significant opportunity to establish a system of leadership, governance and performance that ensures continuous improvement in community planning (Exhibit 12, page 30). This will not be easy. Barriers stand in the way, and this virtuous cycle will only be achieved through a level of sustained leadership that is significantly stronger than we have seen to date.

113. Our other national report work supports our key findings. For example, our report *Housing in Scotland* (PDF) recognises that planning arrangements are complicated and have many partners. Councils must demonstrate leadership and work to influence partners. Our report *Maintaining Scotland's Roads: An audit update on councils' progress* (PDF) recommends that councils need to work with partners to produce a strategy for developing the best service and structural models to deliver roads maintenance.

Partnerships need to identify and make better use of the overall resources available in their area

114. CPPs need to focus more clearly on where they can make the greatest difference in meeting the complex challenges facing their communities. They need to make their SOAs a true plan for the communities that they serve. They need to show how they are directing the significant public money and other resources available to CPP partners to target inequalities and improve outcomes. SOAs need to specify what will improve, how it will be done, by whom, and when.

115. CPPs also need to ensure that partners align their service and financial planning arrangements with community planning priorities. This means ensuring that budget setting and business planning decisions by CPP partners such as councils and NHS boards take full account of community planning priorities and SOA commitments.

116. The national Community Planning Group agreed that it should focus on getting partners to deploy their resources jointly towards partnership objectives.

As a result an Agreement on Joint Working on Community Planning and Resourcing was published in September 2013 (Exhibit 13, page 31). We will review progress during our CPP audits.

Summary and points for action in 2014

- Maintaining good professional working relationships and providing strong political leadership.

- Getting assurance that governance is sound, including where ALEOs are in place.

- Providing stronger leadership of CPPs and working with partners to make the best use of the overall public resources available in the area.

Exhibit 12
A virtuous cycle of continuous improvement in community planning

- Meaningful community consultation
- Working with, and for, communities
- Locality-based planning and service delivery

Effective community consultation and engagement

- Critical review of partnership working and its effectiveness
- Robust self-evaluation by CPPs

Review of outcomes and culture of self-evaluation

Strong shared leadership supported by effective governance

Ambitious shared improvement priorities

- SOA as true 'plan for place'
- Improvement targets focused on equalities outcomes
- Shared vision for public service reform driven by the CPP

- Meaningful, relevant performance data
- Robust challenge and holding to account by CPP boards
- Effective external scrutiny of CPPs

Effective performance management, scrutiny and challenge

Robust planning and alignment of resources to agreed goals

- Partnership prevention plans
- Shared workforce development strategies
- Joint asset planning
- Partner resources directed to agreed improvement areas

Improved outcomes for communities and demonstrable impact of community planning

Source: Audit Scotland

Exhibit 13
Resourcing CPPs – Agreement on joint working

Individually and collectively the relevant partners in each CPP will:

- ensure the SOA is the focal point for the planning and deployment of resources locally

- share budget, investment and resource planning information through the CPP, at an early stage in the decision-making process, including setting out the broad financial parameters they are working to, key milestones, and how resources are already utilised and can further support SOA delivery

- agree how total resources can most effectively be deployed and aligned between partners to achieve the outcomes set out in the agreed SOA and ensure that deployment and alignment in practice

- demonstrate commitment and adherence to this agreement through their engagement with CPPs and in relevant governance and budget-making processes, including final budget documents, delivery plans and subsequent accountability arrangements.
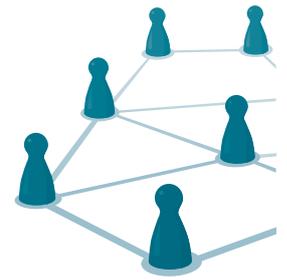
Source: National Community Planning Group

Endnotes

◀ 1   *Early Impacts of Welfare Reform on Rent Arrears - Research Report*, Scottish Housing Regulator, October 2013.

◀ 2   *Housing Impacts of Welfare Reform - Survey of Councils*, COSLA, July 2013.

◀ 3   Community Empowerment (Scotland) Bill, November 2013.

◀ 4   *Scotland's Councillors 2013, Research Report*, Improvement Service, December 2013.

◀ 5   *2014 Scottish Local Government Benchmarking Overview report*, Improvement Service, March 2014.

◀ 6   *Making Choices: Volume 2: A Practice Guide to Best Value, Procurement and Competitiveness*, Scottish Government, December 2001.

◀ 7   *Code of Guidance on Funding External Bodies and Following the Public Pound*, Accounts Commission/COSLA, 1996.

◀ 8   *Managing early departures from the Scottish public sector* (PDF) 🖳 Audit Scotland, May 2013.

◀ 9   CIPFA statement on the role of the chief finance officer, CIPFA.

◀ 10 *Scotland's public finances: Preparing for the future* (PDF) 🖳 Audit Scotland, November 2009 and *Scotland's public finances: Addressing the challenges* (PDF) 🖳 Audit Scotland, August 2011.
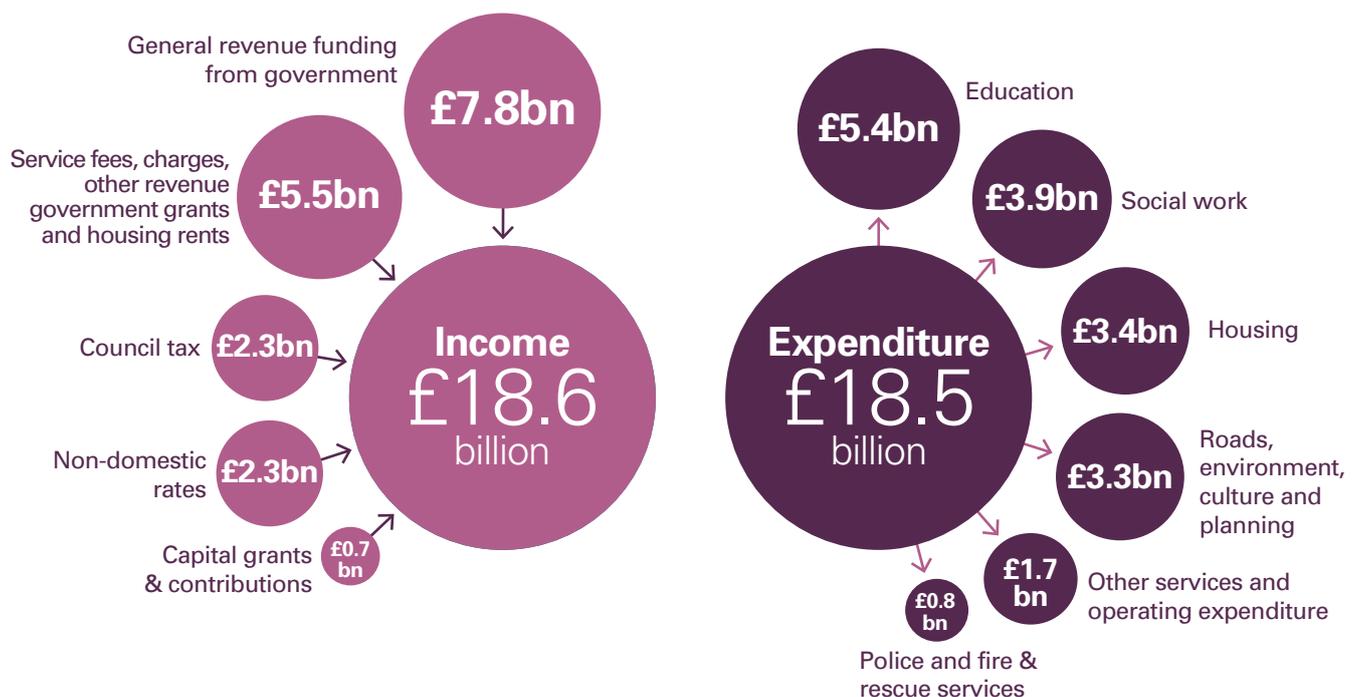
Appendix 1

Resource use in 2013 – summary
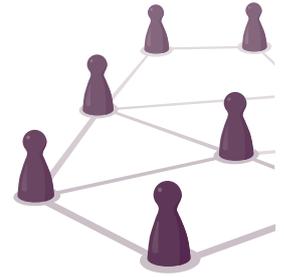
Finance

- Total income was **£18.6 billion** (Exhibit 14), the same as in 2011/12. The Scottish Government provided around 80 per cent of total income through revenue and capital funding and the redistribution of non-domestic rates.

- **Councils spent £20.8 billion**, £18.5 billion on services and £2.3 billion on capital.

- Spending on services was **£18.5 billion** (Exhibit 14), a one per cent reduction on 2011/12 (£18.7 billion). The proportion of spend on individual services was broadly the same as 2011/12.

Exhibit 14
Council income and expenditure 2012/13

General revenue funding from government
£7.8bn

Service fees, charges, other revenue government grants and housing rents
£5.5bn

Council tax **£2.3bn**

Non-domestic rates **£2.3bn**

Capital grants & contributions **£0.7 bn**

Income £18.6 billion

Expenditure £18.5 billion

Education **£5.4bn**

Social work **£3.9bn**

Housing **£3.4bn**

Roads, environment, culture and planning **£3.3bn**

Other services and operating expenditure **£1.7 bn**

Police and fire & rescue services **£0.8 bn**

Source: Audit Scotland

- Spending on capital assets was around £2.3 billion, three per cent less than 2011/12 (£2.4 billion) and around ten per cent less than planned (£2.6 billion). Three-quarters of councils spent less than they planned.

- Useable cash-backed reserves increased by £174 million (over ten per cent), they totalled £1.86 billion at 31 March 2013. Within that General Fund balances increased by £147 million to £1.05 billion at 31 March 2013. The amounts earmarked for specific purposes increased significantly by £170 million to £743 million at 31 March 2013.

- The unearmarked portion of council General Fund balances reduced by £22 million, around seven per cent, to £312 million (Exhibit 15). This is the first time in recent years that there has been a reduction in unearmarked balances.

- Net indebtedness has increased. From a level of £9.1 billion in 2003/04 net indebtedness has increased by around 45 per cent to £13.3 billion at 31 March 2013 (£12.9 billion at 31 March 2012).

Exhibit 15
Earmarked and unearmarked General Fund balances
Percentage increase or decrease on previous year
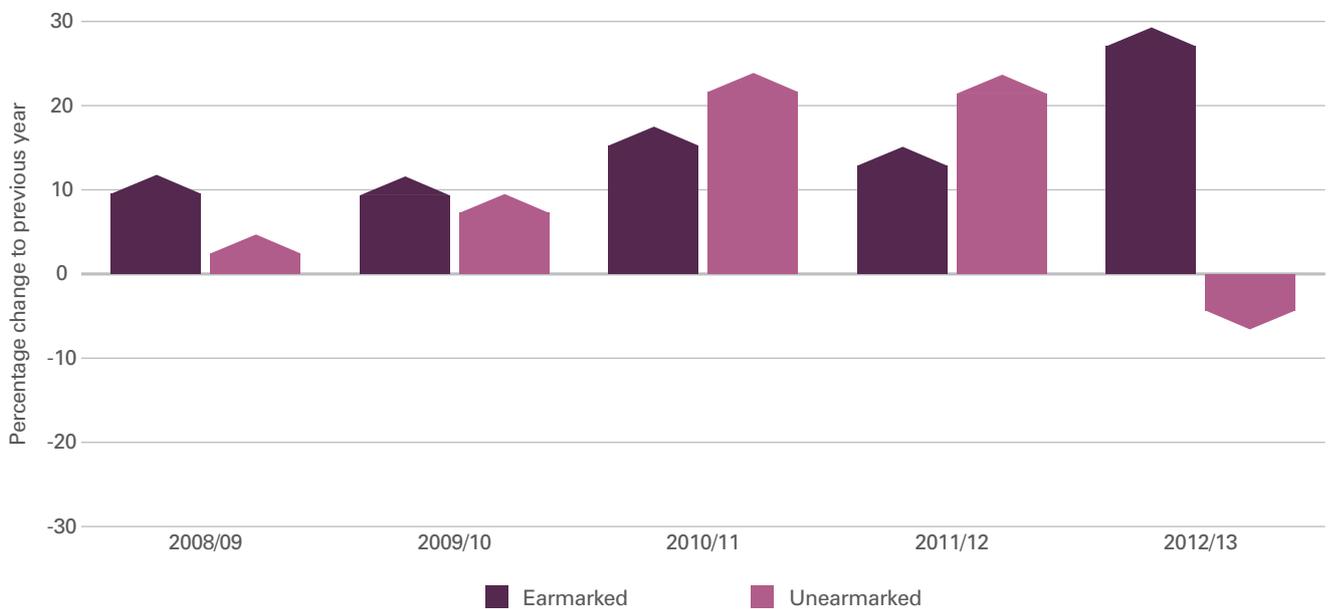
Source: Audit Scotland

Assets

- Councils held assets worth £38 billion at 31 March 2013. This is a slight increase in the balance sheet value of assets of £37.4 billion at 31 March 2012 and reflects changes in valuation and accounting adjustments, in addition to spend on assets.

- Major capital projects generally cost significantly more than councils estimate. An audit of major capital projects reported that only two-fifths of projects were completed within initial cost estimates. Estimating improved significantly as projects advanced, plans became clearer and contracts were awarded.

Procurement

- Councils spend over £5 billion annually in procuring goods to deliver public services, around half of the total for the whole Scottish public sector.

- Most spending is on social care (23 per cent) and construction/ construction materials (30 per cent), spending on goods and services is diverse.

- Four councils have still to achieve the 50 per cent target level of procurement capability that the Public Procurement Reform Board set for all public bodies. This is based on the results of the 2013 Procurement Capability Assessment.

Workforce

- Workforce numbers are falling. In March 2013 there were 204,500 whole-time equivalent staff employed by councils. In 2009 there were 228,300 whole-time equivalent staff but numbers have fallen by an average of 2.6 per cent each year. This is in part due to the transfer of staff to ALEOs. In the four year period since March 2009, around 9,000 staff transferred to ALEOs. Councils forecast that numbers will continue to fall over the next two years.

- Staff costs are at least £6 billion, one-third of the £18.5 billion spent on providing services.

- Councils paid out £32 million on equal pay claims in 2012/13. Council balance sheets identify future payments of £73.2 million. Twenty-three from 32 councils have identified the need for potential future payments but their uncertainty means they can not yet be quantified.

- Sickness absence increased in over two-thirds of councils in 2012/13. Overall sickness absence rates were 6.6 days for teachers (6.2 the previous year) and 10.9 days for other council staff (10.4 the previous year). These increases go against the trend of recent years.

Appendix 2
Checklist and resources
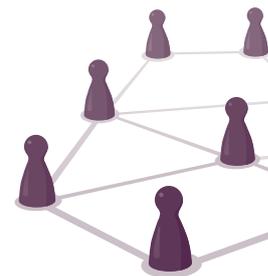
Checklist to support the local government overview report

Do I have a good understanding of the changing context in my council around:		
• financial and service pressures?	Y	N
• the impact of police and fire reforms?	Y	N
• the impact of welfare reform?	Y	N
• the integration of health and social care?	Y	N
Do I understand my role and responsibilities and those of officers?	Y	N
Am I supported in my role?	Y	N
Do I have access to, and take up, appropriate development opportunities?	Y	N
Do officers provide me with performance information which is clear and concise and enables me to judge how well we are doing?	Y	N
Does the information I receive cover:		
• service performance?	Y	N
• service costs?	Y	N
• customer satisfaction?	Y	N
• trend data?	Y	N
• benchmarking data?	Y	N
• targets and outcomes?	Y	N

Question	Assessment	
Do I have good understanding of performance and value for money across the council?	Y	N
Do we, as a council, provide clear information to the public on our performance?	Y	N
Am I provided with options and supporting information to support the decisions on services and capital projects that I have to take?	Y	N
Do I receive cost information that helps me make decisions?	Y	N
Does the way our services are designed and delivered meet people's needs?	Y	N
Am I clear on our objectives, purpose and role when involved with ALEOs?	Y	N
Do I give direction over aims and priorities for charges (in areas where the council has discretion)?	Y	N
Do I understand the non-financial contribution of charges, eg to behaviours and service uptake?	Y	N
Providing strong leadership and governance to support change (paragraphs 65 – 116)		
Is my relationship with other councillors, and with officers, professional and constructive?	Y	N
How effective am I in contributing to constructive challenge and debate at meetings?		
How well do we work together as councillors, and with officers, to deliver the best outcomes for our communities?		
Do I receive information on early retirals along with associated costs and savings?	Y	N
How effective is the Audit Committee (or equivalent)? Is it challenging to officers?		
Do I know who the council's statutory officers are and what they do?	Y	N
How well is the council working with the leaders of community planning partners to deliver better outcomes for communities?		
Are we working with community planning partners to deploy resources jointly in our partnership objectives?	Y	N

Useful resources

Councillors may find the following publications in our 'how councils work' series, along with their checklists useful. These publications explore some of the issues highlighted throughout this report in more detail.

Roles and working relationships: are you getting it right? (PDF)

Arm's-length external organisations (ALEOs): are you getting it right? (PDF)

Using cost information to improve performance: are you getting it right? (PDF)

Managing performance: are you getting it right? (PDF)

Major capital investment in councils: good practice guide (PDF)

Charging for services: are you getting it right? (PDF)

Options appraisal: are you getting it right? (PDF)

An overview of local government in Scotland 2014

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

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