

An overview of local government in Scotland 2010



 AUDIT SCOTLAND

Prepared for the Accounts Commission
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The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue services).

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together, they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Commission findings



The Accounts Commission welcomes evidence of improvement, and urges councils to build on this to meet the very significant challenges they face.



Each year the Accounts Commission asks the Controller of Audit to produce an overview report on issues arising from local authority audits. The Commission has considered the report for 2010. We welcome the report, noting in particular its aim to provide both a review of recent audit work and an overview of the challenges facing local government in 2011 and beyond.

The Commission notes the relatively stable financial position achieved by councils in 2009/10 and welcomes the commitment shown by them to improving financial planning and overall resource management. Almost all councils have achieved clean audit certificates on their financial statements.

The Commission also acknowledges and welcomes:

- the continuing commitment of councils in responding to Best Value and providing good quality outcomes for local citizens
- evidence of significant developments by councils – such as corporate improvement programmes to review existing and alternative ways of providing services
- improved strategic workforce planning by councils
- improvements in asset management.

The Commission recognises the very significant challenges faced by councils in the coming years – both from reducing budgets and growing demand for services. We note the substantial work that councils have done to begin to address this very challenging financial outlook.

We acknowledge that councils and councillors are now faced with extremely difficult decisions

in allocating funds and prioritising services. These decisions must be taken on the basis of full information on costs and risks. Councils urgently need to ensure that they have comprehensive and comparative baseline data on service costs and quality, and integrate this information into their approaches to performance management and options appraisal. There is also scope for significant further improvement in standardising and simplifying common processes and benchmarking costs.

The various service redesign initiatives under way require coordination if all developments are to achieve their maximum potential effect. We encourage councils to continue to work with partners including the Scottish Government to coordinate initiatives, remove barriers and support delivery of shared projects.

It is essential that focus remains on strategic workforce planning to manage the effect that staffing reductions in the short term will have on skills and councils' capacity to meet their service commitments effectively. Councils also still need to achieve better value for money from procurement and asset management.

The role that elected members play in scrutinising the use of resources and ensuring robust appraisal of options continues to be key to securing decisions that represent value for money. Given the financial position, councillors must continue to work to ensure that they retain the support of the public through their leadership and community engagement roles.

The Commission again has to emphasise a number of the findings that it has made in previous years. We have highlighted the importance of robust performance management systems, sound governance and accountability and good quality information to support decision-making.

We have encouraged councils to make progress on these issues in recent years in order to secure Best Value. More than ever it is now absolutely essential that councils have them in place. Those that do will be best placed to make the difficult short-term decisions with a clear understanding of the effect these will have on their service users and citizens, while maintaining focus on the medium and longer term.

We encourage the local government community in its endeavours and look forward to continuing to work with it to address the issues in these findings.

Summary



Public finances are under significant pressure, and councils face increasingly difficult choices and decisions.



Introduction

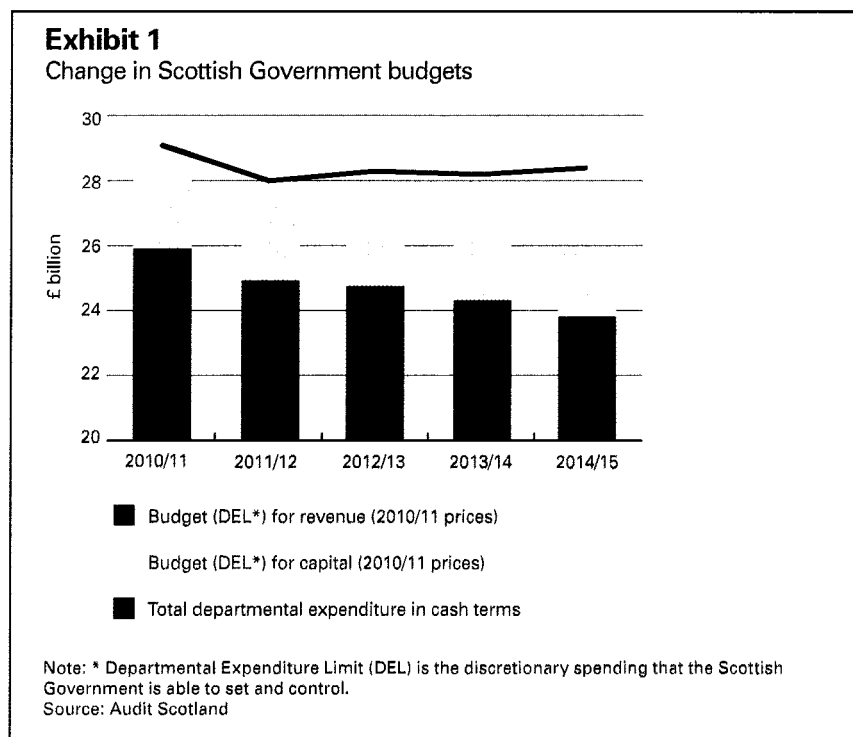
1. Scotland's 32 councils have a key role in communities and provide vital public services including education, social work, housing, roads, refuse collection and leisure services. They are also responsible for regulatory and licensing activities such as planning and environmental health. In addition, 45 related local authority organisations provide a range of local public services, including police services, fire and rescue services, and regional transport strategies.

2. These public services, delivered directly or in partnership with others, involve substantial resources. Councils spend around £20 billion each year, employ around 250,000 full-time equivalent staff and use assets worth about £32 billion.

3. This report provides an overview of the main issues arising from our audit work in local government in 2010. It draws on a range of sources to highlight strengths and areas for improvement, and examines the challenges and risks in 2011 and beyond.

Public finances are under greater pressure than at any time since devolution

4. The financial challenges facing the Scottish public sector are well documented. In June 2010, the new UK government published an emergency budget, planning for a period of significant fiscal consolidation starting with an immediate UK budget reduction of £6 billion. The Scottish Government agreed that it would defer its share of this cut, estimated at £332 million, until 2011/12. It will have to implement this alongside reductions in the Scottish budget, announced in the UK Comprehensive Spending Review in October 2010, which resulted in a real terms fall of £3 billion over the four-year period from 2011 to 2015. The combined overall reduction is £3.3 billion (11.3 per cent), with the most



significant impact in financial year 2011/12. The impact on capital spending is particularly marked, involving a 36.5 per cent reduction over the four years (Exhibit 1).

5. The Scottish Government's Cabinet Secretary for Finance and Sustainable Growth announced the draft Scottish budget for 2011/12 on 17 November 2010. After years of increases, the draft Departmental Expenditure Limit budget is £1.2 billion less than the previous year, a reduction of 4.2 per cent. The proposed settlement for 2011/12 for local government is £11.6 billion, which represents 34.5 per cent of Scottish Government expenditure, the same relative proportion as in 2010/11. Capital grants are due to decrease by £151 million (18 per cent in cash terms). The final settlement depends on whether authorities agree to meet national priorities including the council tax freeze. If they do, government grant money for services will go down 2.6 per cent in cash terms. If they do not, the reduction will be 6.4 per cent in cash terms.

Councillors face difficult choices and decisions

6. There remains uncertainty about the financial implications for individual councils; the position will not become clear until they determine local budgets in February 2011. However, all councils face significant budget reductions over the medium term, at a time when there are already substantial financial pressures from reducing income and increasing demands on services, particularly demand-led services such as social work.

7. In view of the tightening financial position, it is unlikely that councils will be able to maintain and improve performance across all services. Councillors therefore face difficult choices in prioritising the level and quality of services to provide. Their community leadership role is vital to the success and well-being of their local areas, and their role in scrutinising the use of resources and value for money will be increasingly important.

8. Adapting to this new context will not be easy. Almost half of the councillors elected in May 2007 were new to local government and have not had to deal with financial pressures of this range and scale. The strength of the political coalitions which currently dominate the local government landscape is likely to be tested. This comes at a time when national and local elections are to take place in May 2011 and May 2012 respectively.

9. The current financial context presents risks and challenges which require councils and councillors to consider radical changes in services. But it also provides an opportunity to design services that are more closely aligned to the needs of service users and citizens; that are more efficient; and which provide improved value for money and outcomes for the communities they serve.

Fundamental changes to service delivery are needed

10. Councils are preparing for the challenges ahead and are setting out savings targets and financial plans which reflect the likely reduction in resources in the next few years. In many cases, councils have set up transformation programmes to review existing and alternative ways of delivering services, for example in partnership with other parts of the public sector, the private sector and the third sector. Fundamental changes to service delivery will be required if councils are to achieve the level of savings needed while maintaining service quality.

11. In the short term, councils need to act quickly to reduce expenditure. Staff costs account for over half of council spending and most are looking to cut staff budgets by

reducing the number of people they employ. Typically this involves voluntary severance and early retirement schemes. While there is significant variation in local terms, the overarching requirement is that schemes are fully costed and funded, and provide value for money. There is likely to be a loss of experienced staff and there is therefore a risk to service performance, at least in the short term.

About our report and next steps

12. This report informs the Accounts Commission of the key messages arising from the 2009/10 audits. It also highlights strengths and areas for improvement. The report is organised in two parts:

- Part 1 reports on how resources were managed by councils in 2010. This provides an indication of the basis from which councils will deal with the challenges ahead.
- Part 2 highlights challenges for councils in 2011 and beyond. This looks ahead and identifies key issues for councils as they prepare for the future.

13. Councillors and officers should review this report and identify how their council is dealing with the points raised. Appendix 1 sets out action points for councils and key questions for councillors, and Appendix 2 lists key reports and resources to support councils. Annual audit reports are already available for each local authority; these reports contain action plans setting out steps required locally. In addition, to help councils assess their financial position relative to others, we will publish the underlying financial data used in compiling this report on our website www.audit-scotland.gov.uk

Key messages

Managing resources in 2010

- The audited accounts for 2009/10 show a relatively stable financial position, with the overall level of reserves similar to last year. Capital expenditure continued to increase and financing patterns are changing, with more borrowing and less funding from capital receipts and grants.
- Clean audit certificates were issued on the 2009/10 accounts, except at Shetland Islands where the auditor again qualified the opinion on the accounts because the group accounts did not include the Shetland Charitable Trust.
- There is evidence of improving resource management, with better planning for finances, workforce and assets, and with better connections across resource areas.
- Councils have some way to go before they can demonstrate Best Value through improved procurement practices.

Challenges for 2011 and beyond

- Councils are faced with reducing finances and increased demands on their services. The scale of the challenge is significant. Councils are taking the financial challenge seriously and are planning to reduce budgets in 2011 and beyond.
- When considering alternative ways of providing services, councils should consider all options, including working with other parts of the public sector, private sector and third sector. There is scope to make better use of partnership working.

- Sharing services offers potential for efficiencies. But progress to date has been slow and is unlikely to yield substantial short-term savings.
- Service users and citizens are central to planning service delivery. Councillors need good information about service users' and citizens' current and future needs to make informed decisions about priorities.
- The financial position requires a clear focus on budgets alongside councils' continuing requirement to achieve Best Value. This includes: considering the impact of service changes on different groups; their wider responsibilities in relation to equalities; and sustainability and the longer term impact of service changes.
- Councils that have made most progress in embedding strong performance management and governance are best placed to deal with the challenges ahead.
- Strong leadership, in which senior officers – particularly the chief executive – and councillors work together for the good of an area, is crucial.
- The councillor role is key; their effectiveness will have a significant bearing on how well councils cope with tough budget decisions and on how well they perform in delivering vital public services to local communities.
- The chief financial officer role is particularly important in the current context and is fundamental to ensuring sound financial management and in establishing and maintaining strong financial controls.

Part 1. Managing resources in 2010



Councils made further progress in managing finances, workforce and assets in 2010.



Appendix 1.

Action points for councils and key questions for councillors

Councils need to:

- demonstrate that they have tested the longer-term impact and equalities aspects of workforce reduction plans (paragraph 44)
- provide assurance that they are not being compromised by a loss of experience from those staff (particularly long-standing staff) that they release (paragraph 44)
- carefully balance the cost of retaining physical assets against the short-term expediency of selling them, to ensure that they achieve Best Value (paragraph 56)
- do more to fully integrate the planning of the use of all types of council assets, including property, roads, ICT and vehicles (paragraph 57)
- continue progress in demonstrating Best Value in procuring goods and services (paragraph 65)
- regularly review financial plans to take account of changing national budgets and local actions (paragraph 66)
- ensure that medium-term financial planning includes evaluating the financial effects of different policy options, backed up by good quality information about service costs and value for money (paragraph 73)
- continue progress in taking into account environmental and long-term sustainability in financial planning (paragraph 82)
- consult fully with citizens and service users on short-term budget considerations, and in the longer term, on reshaping services for local areas, as an integral part of their wider approaches to engaging with their communities (paragraph 86)
- in fulfilling their equalities obligations, better understand and demonstrate the impact of their activity on different groups (paragraph 88)
- better meet the requirements of Public Performance Reporting (paragraph 89)
- consider more transparent ways of reporting their accounts and financial performance (paragraph 91)
- work with their community planning partners to recognise the potential of community planning structures in setting out the shape of future provision of services in their local areas (paragraph 93)
- get better at showing how various options of models of service provision are properly evaluated (paragraph 97)
- consider shared services as one option in an approach which considers the range of options of service delivery (paragraph 102)
- make full use of the relationship with the third sector (paragraph 107)
- provide councillors with better information on service costs and quality, and user satisfaction (paragraph 112)
- make better use of comparative performance information and activities such as benchmarking (paragraph 112)
- work with community planning partners to improve their performance management, monitoring and reporting processes of partnerships (paragraph 113)
- use self-evaluation more routinely and systematically across all council activity, including testing competitiveness and efficiency (paragraph 115)
- make full use of the Accounts Commission report *How councils work: an improvement series for councillors and officers — Roles and working relationships: are you getting it right?* to explore ways of improving leadership and governance (paragraph 117)
- make full use of scrutiny and audit to challenge performance and demonstrate value for money (paragraph 122)

Key questions for councillors

- How are decisions made between competing priorities? What will success look like in relation to service delivery on the ground?
- Is there sufficiently good information on the cost, quality and quantity of services to support evidence-based priority setting?
- What needs to be done to improve understanding of the links between spending, activities, performance and outcomes?
- What contribution beyond three per cent efficiency savings can be reasonably expected? What more could be done to improve understanding of productivity in public services as a basis for further action?
- Is the balance right between short-term measures and long-term changes?
- Is enough being done across sector and service boundaries to deliver efficient services that place the needs of users first?

Appendix 2.

Reports and other resources to support improvement

2010 reports

- *Protecting and improving Scotland's environment*, Auditor General for Scotland and the Accounts Commission, January 2010
- *Improving public sector efficiency*, Auditor General for Scotland and the Accounts Commission, February 2010
- *How councils work: an improvement series for councillors and officers – Roles and working relationships: are you getting it right?*, Accounts Commission, August 2010
- *Physical recreation services in local government*, Accounts Commission, October 2010
- *The Scottish Police Services Authority*, Auditor General for Scotland, October 2010
- *Financial overview of the NHS in Scotland 2009/10*, Auditor General, December 2010

Reports to be published in 2011

- *Public sector pensions: a follow-up report*, Auditor General for Scotland and the Accounts Commission, February 2011
- *Road maintenance: a follow-up report*, Auditor General for Scotland and the Accounts Commission, February 2011
- *Scotland's public finances: planning for the challenges*, Auditor General for Scotland and the Accounts Commission, May 2011
- *How councils work: an improvement series for councillors and officers – Arms-length external organisations*, Accounts Commission, spring 2011

Other resources

- Best Value toolkits:
 - Asset management
 - Challenge and improvement
 - Community engagement
 - Customer-focus and responsiveness
 - Efficiency
 - Equalities
 - Financial management
 - Governance and accountability
 - Information management
 - Partnership working and community leadership
 - People management
 - Performance management
 - Planning and resource alignment
 - Procurement
 - Public performance reporting
 - Risk management
 - Sustainability
 - Vision and strategic direction

Appendix 3.

Summary financial information

Reserves

	31 March 2010 £ million	Change in 2009/10 £ million
General Fund	642	+64
Housing Revenue Account	107	-9
Capital Fund	262	-41
Capital Receipts Reserve	68	-9
Insurance Fund	78	-2
Repair and Renewal Fund	89	+6
Other	18	+14
Total	1,264	+23

Performance of significant trading organisations (STOs)

	2005/06	2006/07	2007/08	2008/09	2009/10
Number of STOs	140	117	108	89	81
Number of STOs breaking even over three-year rolling period	103	91	81	75	71
Percentage of STOs breaking even over three-year rolling period (%)	73.6	77.8	75.0	84.3	87.7
Total surplus over rolling three-year period (£ million)	86	86.6	78.0	97.2	128.5