Overview of the local authority audits 2007

Embargoed until 6pm, Tuesday 19 February

AUDIT SCOTLAND

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 41 joint boards (including police and fire and rescue services). Local authorities spend over £16 billion of public funds a year.

Contents

Commission findings

The Commission recognises the general improvement achieved. However, councils will need to increase their focus on key areas to meet the significant challenges ahead.

1. This latest report shows that local government in Scotland continues to face and address significant challenges and the Commission recognises the general improvement which has been achieved. We particularly welcome:

- Progress in service delivery, such as a further increase in the amount of waste which is recycled and composted to over 28 per cent.

- The general picture of sound financial accounting and reporting, with accounts and audits completed on time.

- Scrutiny more embedded than before.

- A further improvement in the trend of in-year council tax collection, with nearly 94 per cent of the amount due for 2006/07 collected during the year.

2. Last year we highlighted the major changes likely as a result of the 2007 elections. Many of the improvements in decision-making and scrutiny are still bedding in and councils need to keep them under review to make sure they are effective. The report shows that councillors are receiving training and councils need to build on this to support them in their new and developing roles, especially in strategic leadership and policy choice.

3. The overall context for councils is one of continuing change and pressures on resources. In particular:

- The concordat between the Scottish Government and COSLA, and in particular the shift to an outcomes-based approach, mean that councils and their partners will need to give renewed focus to ways they can demonstrate improved services for customers and citizens.

- The pressure on budgets is likely to lead to difficult choices for councils at a time when the shift to single status, for example, is still far from complete. This underlines the importance of robust long-term financial planning which is risk-based and sustainable.

4. If councils are to meet the challenges ahead, they will need to increase their focus on a number of key areas, including:

- supporting and developing leadership skills and capacity

- demonstrating the net benefits from community planning, other partnership working and shared business support services

- taking a more strategic approach to resources which informs and integrates finance, workforce and asset planning

- stronger commitment to testing the competitiveness of services and to continuous improvement

- developing robust baseline data against which improvements in service delivery can be measured and demonstrated

- improving performance management significantly to demonstrate delivery of the outcomes approach.

5. Looking ahead, the Crerar report on scrutiny, audit and inspection highlights the need for more streamlined scrutiny based upon robust self-assessment and a sharper focus on the needs and concerns of service users. We support this approach and welcome the role envisaged for the Accounts Commission in taking this forward.

Summary

This report draws on our 2007 audit work to highlight strengths and areas for improvement.

1. This report provides an overview of the main issues arising from our audit work in local government in 2007. It draws on a range of sources to identify common features in the management and delivery of services and to highlight strengths and areas for improvement.

2. The report is organised into five parts.

- Part 1. Setting the scene: gives an overview of the current context for local government in Scotland.

- Part 2. Governance: covers progress on Best Value, the arrangements for supporting governance and how councils are organised to deliver services.

- Part 3. Use of resources: covers how councils are managing their finances, workforce and assets.

- Part 4. Performance: looks at performance management and how well councils are delivering services.

- Part 5. Outlook: looks ahead and sets out the key priorities and risks for local authorities in the coming year and our audit approach.

3. We have used extracts from audit reports as exhibits and case studies; these are provided to support the text and are not necessarily the best or only examples.

Key messages

- The political context for local government has changed significantly, with a new government and a shift to more coalition and minority administrations at councils. Almost half of the councillors elected in May 2007 are new to local government; they will need continuing support to carry out their roles effectively.

- The government is committed to giving councils more flexibility in return for a focus on outcomes which are important to the achievement of national priorities. The concordat between the government and COSLA signals the start of what are likely to be significant changes for councils.

- Best Value audits are contributing to better governance, but councils could make faster progress with their improvement plans.

- Councils need to keep their political and business management processes under review to make sure that they are effective in the new context and meet the needs of citizens.

- Councils need to do more to demonstrate that the time invested in developing community planning and other forms of partnership working is resulting in improved services; the proposed new outcome agreements will require more effective management of joint delivery arrangements.

- In delivering services through external organisations such as companies and trusts, councils need to ensure good governance and to maintain clear accountability for finance and performance.

- Overall financial reserves were restored to the levels of two years ago but there are wide variations among councils. The demands on services are increasing and competing pressures on resources mean difficult choices for councils.

- Financial accounting and reporting in councils remains generally sound. Accounts and audits are completed on time and audit qualifications are rare.

- Councils are taking a more strategic approach to managing their finances, workforce and assets but greater improvement is possible, particularly in developing longer term planning which is sustainable.

- More systematic and consistent approaches are needed for seeking users' views and using complaints to inform service improvements.

- There remains an urgent need to improve performance management, including robust challenge and balanced public performance reporting. This is particularly important in the light of the outcomes approach. Councils still have some way to go in producing good quality management information to inform decision-making and to demonstrate efficiency gains and service outcomes. This limits audit's ability to provide an overview of performance across services.

Part 1. Setting the scene

The overall context for councils is one of continuing change and pressures on services and resources.

Key messages

- The political context for local government has changed significantly, with a new government and a shift to more coalition and minority administrations at councils. Almost half of the councillors elected in May 2007 are new to local government; they will need continuing support to carry out their roles effectively.

- The government is committed to giving councils more flexibility in return for a focus on outcomes which are important to the achievement of national priorities. The concordat between the government and COSLA signals the start of what are likely to be significant changes for councils.

- The overall picture is one of continuing change, with mounting pressures on services and resources.

Local government in Scotland

4. Scotland's 32 councils have a key role in providing community leadership. They deliver a wide range of 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, 41 related organisations provide local public services such as police services and fire and rescue services.

5. Councils vary widely in the area that they cover and in the size of the population they serve. There are also wide variations in the age profile of their populations, levels of deprivation and other factors which affect the way councils plan and deliver services.

6. These vital public services, delivered directly or in partnership with others, involve substantial

Exhibit 1
The outcome of the 2003 and 2007 council elections – comparison of party control in councils

2007 elections

2003 elections

Legend:
- Coalition
- Conservative (majority/minority)
- Independent
- Labour (majority/minority)
- LibDem (majority/minority)
- SNP (majority/minority)

Source: Audit Scotland

resources. Councils spend around £16 billion each year, employ around 258,000 full-time equivalent staff and use assets worth about £22 billion.

7. Councils are accountable to their local electorates and are independent of central government. But they need to take account of national priorities and balance national objectives with the local priorities of their communities.
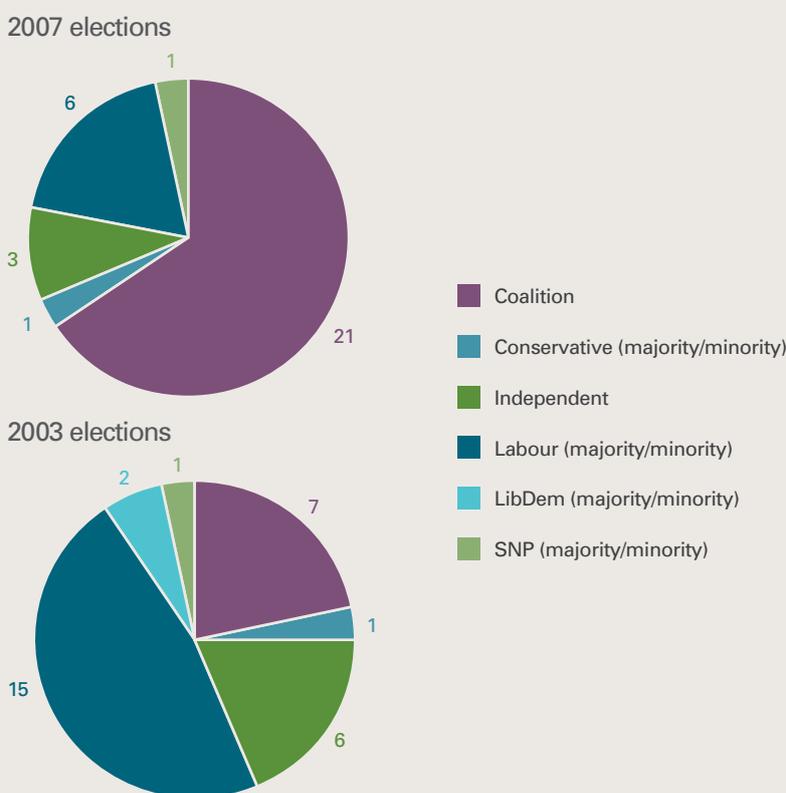
Political context

8. Since our last overview report there has been major change in the political context. The May 2007 elections for the Scottish Parliament resulted in a new minority SNP administration. At local level the move to proportional representation resulted

in changes to the political balance, with many councils seeing a shift from one party control to coalition or minority administrations (Exhibit 1). And while the overall number of councillors across Scotland (1,222) was unchanged, nearly half of elected members (583 or 48 per cent) are new to local government. At the previous elections in 2003 only about a quarter were new. New councillors bring fresh ideas and impetus but, because of their limited experience in the elected member role, will require continuing training and development to be fully effective.

9. In September 2007, the new Scottish Government published *Principles and Priorities: The Government's Programme for Scotland*[1] which sets out its

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1   *Principles and Priorities: The Government's Programme for Scotland*, Scottish Government, September 2007.

programme across five strategic objectives (Exhibit 2). The achievement of these national objectives depends to a great extent on councils and the performance of local services in areas such as school class sizes, policing levels and social care. The government has also signalled plans to change local taxation which could mean a move away from the current council tax system.

10. Delivery of the strategic objectives will require councils to give renewed emphasis to partnership working, environmental issues, equalities and shared services. This will add to the demands and pressures which local government faces and will reinforce the need to use resources efficiently.

11. The government has stated its intention to move towards a new relationship between central and local government and, as part of the budget and spending review announced in November 2007, a concordat was signed between the Scottish Government and COSLA (Exhibit 3). In summary, the government is committed to giving more flexibility to councils in how they spend money and provide services in return for clear commitments from local authorities to achieve outcomes that are important to national policies.

The context for services

12. Demographic changes have major implications for individual council services such as schools and services for older and vulnerable people. Increases in migration (Exhibit 4) and birth rates (in part due to migration) mean that Scotland's population is expected to increase by about five per cent to a high of around 5.4 million in 2031 before declining slowly. Within these figures, the number of children is projected to decrease and the number of people of pensionable age is projected to increase substantially, by about a third.

Exhibit 2
The Government's strategic objectives for Scotland

- **Wealthier and fairer** – Enable businesses and people to increase their wealth and more people to share fairly in that wealth.

- **Smarter** – Expand opportunities for Scots to succeed from nurture through to life long learning, ensuring higher and more widely shared achievements.

- **Healthier** – Help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to healthcare.

- **Safer and stronger** – Help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life.

- **Greener** – Improve Scotland's natural and built environment and the sustainable use and enjoyment of it.

Exhibit 3
The concordat between central and local government – key features

In addition to setting out the characteristics of the proposed new relationship, based on mutual respect and partnership, the concordat represents a package of measures. These include:

- A Scottish Government commitment not to undertake structural reform of local government during the current Parliament.

- Details of the total funding for local government to be available between 2008/09 and 2010/11, and a freeze on council tax in 2008/09.

- The establishment of a Single Outcome Agreement between the Scottish Government and each council covering national objectives. These will be on a standard structure based on 15 strategic outcomes linked to the five strategic objectives in *Principles and Priorities: The Government's Programme for Scotland*. These outcomes will be underpinned by 45 national outcome indicators.

- The development over time of a new performance reporting system and streamlined external scrutiny, enabled by more effective performance management and self-assessment.

- Substantial reductions in the number of separate funding streams to local government and in the ring-fencing of funds.

- Retention and redeployment by local government of all efficiency savings.

- Local authority agreement to deliver on a specified set of Scottish Government commitments using the funds agreed in the concordat. Examples include: freezing council tax rates at 2007/08 levels; making additional police officers available in communities; introducing a Small Business Bonus Scheme; reducing primary school class sizes in P1, 2 and 3; expanding pre-school provision; improving care home quality and improving support to carers.

- Joint monitoring of the new partnership by the Scottish Government and COSLA.

13. Migration and changes in the age profile of the population will have a significant effect on council services; the challenge is to plan ahead, to shift resources and to find new ways of meeting the needs of communities now and in the longer term.

14. Local authority expenditure has increased steadily in recent years and that trend is set to continue with the government's budget showing financial support for local government increasing in real terms over the next three years. There was also an overall increase in staff numbers in the seven years to 2007. There is limited information on the outcomes achieved from these additional resources.

15. Delivering their improvement agendas and managing ongoing service pressures represent real and significant challenges for councils. At the same time, they need to demonstrate service achievements more effectively and show that the results justify the level of resources invested.

Exhibit 4
Net migration and natural change (births minus deaths) 1951 to 2006

Source: Audit Scotland

Part 2. Governance

Many of the improvements in decision-making and scrutiny are still bedding in and councils need to keep them under review to make sure they are effective.

Key messages

- Best Value audits are contributing to better governance, but councils could make faster progress with their improvement plans.

- Councils need to keep their political and business management processes under review to make sure that they are effective in the new context and meet the needs of citizens.

- There is progress in developing scrutiny arrangements but councillors would benefit from more support to develop the skills needed to challenge policy, performance and the use of resources.

- Considerable time has been applied in developing community planning and other forms of partnership working. Councils now need to do more to demonstrate the benefits of this through improved services; the proposed new outcome agreements will require more effective management of joint delivery arrangements.

- Councils are continuing to move towards service delivery through companies, trusts and other external organisations. This has the potential for greater innovation but increases the importance of the principles of 'following the public pound'.

Best Value

16. Best Value audits examine councils' corporate performance and how well they are supporting continuous improvement. We have now completed two-thirds of our first round of audits and by the end of 2007 we had reported to the Accounts Commission on 20 of the 32 councils.

17. During 2007, we published Best Value audit reports on West Dunbartonshire, City of Edinburgh, Scottish Borders, Clackmannanshire and East Lothian. These reports continue to show wide variation in the progress that councils have made in establishing Best Value. They also provide further evidence that the better performing councils demonstrate ambitious and effective leadership which provides clear strategic direction. Councils that have achieved most progress have also established open and transparent decision-making which is supported by effective scrutiny.

18. Councils that have made limited progress in Best Value often provide evidence of some successful service delivery but, overall, they have important governance issues to address which limit their ability to improve. These issues are considered in more detail later in this report.

19. The Accounts Commission has questioned the capacity of some poorly performing councils to tackle the problems they face. On West Dunbartonshire, for example, the Commission said that the council had to accept the need for external assistance. On East Lothian, the Commission expressed concern about the capacity of the council to address the major issues it faced and urged the council to consider external help, including learning from best practice elsewhere in local government. And on Clackmannanshire, because of issues of scale and capacity, the Commission concluded that it was vital that the council placed the highest priority on more joint working, sharing management and service delivery arrangements with others, particularly other councils.

20. Where there is evidence that the council is clear about the action needed and has the capacity to implement the necessary changes, follow-up is carried out by local auditors. Their reports show that

councils are making progress in implementing their improvement plans. There are signs that some are consolidating their plans with other actions arising from local reviews to ensure a joined-up approach to improvement. It is important to maintain the pace of improvement and at some councils, for example North Ayrshire and Shetland Islands, there has been some slippage against their timetables.

21. The Commission has called for further work outwith the planned programme in four cases. At West Dunbartonshire, following a public hearing, the Commission concluded in February 2007 that the council was not in a position to deliver Best Value. The Commission considered a progress report in December 2007 and acknowledged the council's increased commitment to continuous improvement and the progress made in a fairly short timescale. It encouraged the council to increase the momentum of change and has requested a further follow-up report on the position at June 2009.

22. The Commission also considered update reports during the year on Inverclyde, where it found that the council is moving in the right direction and that there is a clear commitment and enthusiasm to improve, and on Moray, where it concluded that there were improvements in corporate leadership and direction although there were still areas of concern. Further follow-up work is planned at these councils during 2008, and at Argyll & Bute where we will assess progress following the initial Best Value audit in 2006.

23. In 2007, the Commission requested an independent report which provided a comprehensive analysis of the Best Value audit process.[2] The overall conclusion was that the audit is established and credible and has been effective in broad terms. The Commission is consulting councils and other

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2   *Decisive Moment: The independent review of the Best Value audit process*, Clive Grace, Sandra Nutley, James Downe and Steve Martin, May 2007.

stakeholders on the development of the second round of Best Value audits. It is preparing its own improvement plan to ensure that the next phase of audits is fit for purpose and continues to contribute to improving services and governance in local government (Exhibit 5).

Supporting more effective governance

24. Elected members are central to good governance and the success of their council. The role is complex and involves: providing leadership and direction; representing wards and constituents; and scrutinising policy direction and the performance of services. They also perform key roles in making choices between competing priorities, setting objectives to meet the needs of their communities and ensuring that their council fulfils its statutory duty to achieve Best Value.

25. Our Best Value work this year confirmed effective leadership

as a key characteristic of better performing councils. This is particularly so where the council leader and senior councillors provide strategic direction which draws on an in-depth understanding of the needs of their communities (Exhibit 6). In contrast, where councillors have not provided clear leadership and strategic focus to drive a corporate culture of improvement, those councils have made limited progress in establishing Best Value.

26. Good governance requires open and effective decision-making. In 2007, we reported on departmental reorganisation at East Lothian and concluded that the way in which the council made its decisions fell a long way short of the standards expected of public bodies. The report also commented on decision-making relating to the council's approach to recruiting a new chief executive (Exhibit 7). We are continuing to monitor the position.

27. More generally, many councils reviewed their governance arrangements in 2007 and introduced new structures for decision-making, involving revised committee structures and in some cases cabinet style

Exhibit 5
Key principles for round two of the Best Value audits

The Commission is consulting councils and other stakeholders on the changes that should be made in the second round of Best Value audits. The key principles are:

- a focus on outcomes as well as corporate principles
- reflecting the experience of citizens and service users
- demonstrating community leadership
- more proportionate audit and more self-assessment
- improved audit reporting and transparency
- rolling-out good practice.

Source: Audit Scotland

Exhibit 6
Leadership at Scottish Borders

In recent years the council has become an ambitious council which demonstrates good self awareness. It has a clearly articulated vision and a sound strategic planning framework. Elected members, officers and community planning partners share a consistent vision and work well together. Within the council, elected members and senior officers provide strong, clear leadership, supported by effective political and managerial structures.

Source: *Audit of Best Value and Community Planning – Scottish Borders Council*, Audit Scotland, March 2007

Exhibit 7
The Accounts Commission's findings on our report on departmental reorganisation and voluntary redundancy of the chief executive at East Lothian

The Commission considered the Controller of Audit's report and endorsed its overall conclusions. In its findings, the Commission stated that it believed there are lessons to be learned for general application in such circumstances:

- Recognised best practice should be followed when councils make such decisions.
- Information provided to elected members should be sufficient and supported by professional advice.
- Members should be given sufficient time to consider the issues and should be provided with information on alternative options.
- The decision-making process should be transparent.
- The process for appointing a chief executive should demonstrate that the council appointed the best candidate. Given the critical importance of the post of chief executive to the good management of a council, the public are more likely to have confidence that the best candidate has been appointed if the recruitment process is not restricted but open to all potential candidates.

The Commission stressed the importance of good governance and highlighted the protocol on relations between members and officers which is part of the National Code of Conduct for Councillors.

Source: Accounts Commission's findings on Audit Scotland's report on departmental reorganisation and voluntary redundancy of the chief executive, June 2007

structures. Around a third now have cabinets, which typically involve a small number of councillors with responsibilities for a portfolio of services while the full council holds the cabinet to account. The new structures are still developing and bedding in, and councils will need to keep them under review to ensure that they are effective.

28. One of the main changes after the election was the move to multi-member representation, with three or four councillors responsible for each council ward. Many councils have produced guidance and protocols to support these arrangements and they seem to be making early progress in agreeing ways of sharing information and workload among councillors and in dealing with complaints from constituents.

29. Councils have provided training to support new and continuing elected members. In most cases this involved general induction on the role of the elected member, the local government legal framework and the Code of Conduct,[3] with additional support for those involved in regulatory activities such as planning and licensing. More information will be available when councils publish details of training undertaken by councillors, as required by guidance issued by the government. Council officers are now starting to work with councillors to produce personal developments plans which set out individual training needs and how these will be delivered. This is an important step in ensuring effective outcomes for elected member development.

30. The Standards Commission enforces the Code of Conduct and considers allegations of misconduct by elected members. Its annual report[4] shows a further increase in complaints received, up from 253 in 2005/06 to

284 in 2006/07. The majority (around 97 per cent) concern councillors and the most common complaints relate to the registration or declaration of interests and planning applications. The Commission reported that the rising trend of complaints suggests an increasing awareness of the Code and the Commission's role rather than an increase in behaviour which may be in breach of the Code. Only around two per cent of complaints resulted in a finding that there had been a breach of the Code. The Commission held six public hearings in 2006/07 and in each case decided to censure or suspend a councillor.

31. Good governance also relies on the actions of council officers and strong leadership by senior officers. Our Best Value audits also show that councils that are making most progress in establishing Best Value are likely to demonstrate good working relations between officers and elected members.

32. During the year, the Scottish Public Services Ombudsman (SPSO) upheld a complaint that the chief executive at Shetland Islands did not declare an interest when dealing with organisations in which a relative was involved. Although this did not create an advantage, the SPSO emphasised the importance of the public's perception of the actions of council officers.

33. Strong governance will remain a key requirement for local authorities over the coming year as political and scrutiny arrangements become more established. At some councils the bedding-in period for elected members coincides with changes at senior officer level. This increases the challenge for elected members in maintaining good governance and strong leadership.

34. CIPFA/SOLACE have recently published a new governance framework, Delivering Good

Governance in Local Government – Framework,[5] and associated guidance. This provides a useful best practice framework against which local authorities can review their arrangements.

Scrutiny

35. Effective scrutiny of policy, service performance and use of resources is central to good governance and accountability and provides an important spur for improvement. In many cases, councils decided to review their approach to scrutiny as part of wider changes to business structures around the time of the elections.

36. Best Value audits show progress in developing scrutiny structures but there is scope for more effective scrutiny of progress against corporate priorities and, in some cases, of proposed policies and significant decisions. Where scrutiny arrangements are complex, there is often a need to clarify the respective roles of the various scrutiny panels and committees. Best Value audits also indicate the need to improve the quality of information provided to councillors to support their scrutiny of policy and performance.

37. At East Lothian, our Best Value report concluded that the consensual nature of the engagement between some elected members and officers did not lend itself to robust scrutiny and challenge. West Dunbartonshire regarded informal scrutiny between committee convenors and service directors as an important part of its approach, but this approach cannot demonstrate the levels of openness, accountability and transparency required for good governance.

38. It is too early to say whether the advances made in scrutiny in recent years will be maintained in all councils over the current period of change, particularly where the effectiveness of the former scrutiny approach was mainly due to the personal qualities

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3   *Code of Conduct for Councillors*, Scottish ministers, March 2002.
4   *Annual Report and Accounts 2006/07*, The Standards Commission for Scotland and The Chief Investigating Officer.
5   *Delivering Good Governance in Local Government: Framework and Guidance Note*, CIPFA/SOLACE, 2007.

of individual councillors. But there is evidence that some councils are making a smooth transition to new arrangements (Exhibit 8).

39. There is still scope for more training for councillors in this important area, particularly for new councillors who are unaccustomed to the role, to support them in challenging policy, performance and use of resources. In addition, councils need to review revised audit committee arrangements to ensure they meet the good practice principles set out in CIPFA's guidance.[6] In particular, where audit committees continue to meet in private they are unlikely to fulfil the principles of openness and inclusivity.

40. Adequate and effective internal audit is a key element of good governance which supports scrutiny by providing an independent view on the effectiveness of internal controls, including key accounting systems. There is, however, evidence of slippage in internal audit coverage due to its involvement in reactive work and shortages of resources. In particular, some councils' internal audit functions were operating below strength in 2006/07 and were having difficulties in recruiting staff.

Risk management
41. Our previous reports have highlighted the importance of effective risk management as a basis for more effective decision-making, better use of limited resources and greater innovation.

42. Overall, it appears councils are making good progress with a greater awareness and recognition of the importance of risk management. But more work is required to follow this through from corporate level to services, with a greater emphasis on individual and group responsibilities (Exhibit 9).

43. Around a third of councils acknowledge that some further work is required to develop and embed

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Exhibit 8
The Audit Committee at East Renfrewshire

The council's Audit Committee functions effectively and also fulfils a scrutiny function by undertaking investigations in areas of concern.

The previous Committee, which existed until the May 2007 elections, was described as 'exemplary' in the 2005 Best Value report and evidence suggests that this had not changed during 2006/07. The success of the Committee was in a large part due to the experience of the chair and vice-chair and the concentration on the issues rather than party politics. The Committee was well attended and required a quorum of three members to operate. These aspects all demonstrate the high status of the Committee within the council.

After the elections the Committee has a new chair and four of its seven members are new councillors, with two of the other three having been on the previous Audit Committee. Induction training has been given to all new members and specific Audit Committee training will be given in due course. After the first couple of meetings it appears that arrangements are operating well, but the auditors will assess arrangements again during 2008. The Committee has taken on the previous functions of the now discontinued Policy Review Committee and again this new arrangement will be assessed during 2007/08.

Source: Annual audit report on East Renfrewshire Council, Audit Scotland

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Exhibit 9
Risk management at Scottish Borders

The council has made significant progress in delivering a coherent and effective approach to risk management. It has a well considered risk management strategy and has been pursuing an action plan that has delivered comprehensive risk registers and associated risk mitigation action plans at corporate, strategic and operational levels. All projects and programmes in which the council is engaged are required to maintain risk registers and the project or programme boards are required to deal with risk issues arising, including the impact upon the council's Business Continuity Plans.

The council has agreed a review cycle and a methodology for linking risk management outcomes with business plans and budgets and this was implemented with effect from 1 April 2007. The 'Covalent' system will be used to store the registers, monitor action plan delivery and ensure regular risk reviews are undertaken.

The risk management strategy was first introduced in 2004 and a review of the strategy is now under way to ensure that it remains fit for purpose and continues to serve the council's needs. The council continues to reinforce the need for risk awareness through training. The course design for advanced manager training has recently been completed and sessions in risk management were included in the induction sessions for new members following the May 2007 elections; a member workshop is being planned to broaden their appreciation of risk issues.

Source: Annual audit report on Scottish Borders Council, Audit Scotland

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6   *Audit Committee Principles in Local Authorities in Scotland – a Guidance Note*, CIPFA Scotland/CIPFA Directors of Finance, 2004.

risk management throughout their organisations. Others, such as Orkney Islands, recognise that they have made limited progress and more significant action is needed to address this.

Community planning and partnership working

44. Councils continue to explore opportunities for partnership working as they seek new ways of providing services and sharing resources to better meet the needs of their communities and deliver efficiencies. Considerable staff time is spent in activities connected with partnership working and councils need to be able to demonstrate the benefits of this through improvements in services.

45. Community planning provides an opportunity to develop a coordinated and strategic approach to partnership working. Our national report[7] included recommendations for councils and their partners and contained an evaluation framework to help partnerships and partner organisations to improve the effectiveness of their community planning activities.

46. All councils have considered the report's recommendations although the approach and progress achieved varies. Highland and North Lanarkshire, for example, are using our evaluation framework to self-assess and identify priority areas for improvement. Others are developing action plans and improvement agendas to take forward the specific recommendations for partnerships.

47. Some councils, such as East Ayrshire, have decided to adopt the community plan as their overarching strategic plan and have aligned individual service plans accordingly. But, in general, our work suggests a need to improve the links between community planning and other planning activity. More also needs to be done to ensure that both performance management and risk management are extended into community planning activities.

48. Developments in partnership working include:

- Community Health Partnerships (CHPs), which involve councils and health boards working together to devolve decision-making for health care and social services.

- Regional Transport Partnerships (RTPs), which plan and deliver regional transport to serve better the needs of people and businesses.

- Community Justice Authorities (CJAs), which plan, coordinate and report on the delivery of justice-related services by local partners.

49. There is some evidence that CHPs are encouraging new thinking on service delivery, creating the environment for better use of overall resources and contributing to the drive for more joined-up services across the public sector. However, more work is required to demonstrate efficiencies and improvements for services users. RTPs and CJAs are more recent developments and it is too early to assess their contribution to improvement.

50. Five Community Health and Care Partnerships (CHCPs) have been established in the Glasgow City area. Although at an early stage, an audit review concluded that partnership working has already demonstrated improvements (Exhibit 10).

51. The environment for community planning and partnership working is complex and is likely to become more so as the process of public sector reform continues. Councils will continue to have a central role, working with new and different

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Exhibit 10
Community Health and Care Partnerships (CHCPs) in Glasgow

The auditors of NHS Greater Glasgow & Clyde and Glasgow City Council reviewed the arrangements to develop partnership working in health and social services. This focused on the five CHCPs in the Glasgow area.

The auditors acknowledged the progress made by both organisations in bringing together two different and complex services to work in partnership. Good practice identified included:

- establishment of a CHCP Executive Group to drive improvements in the CHCPs

- regular reporting of financial performance of the CHCP services to the CHCPs and partners

- CHCP objectives are clearly aligned with those of the health board, council and social work services plans, and the community plan.

The auditors identified key challenges for the CHCPs in developing budgets, exploring co-location opportunities for new projects and implementing an overarching CHCP information and communications (ICT) strategy. The auditors also saw scope for further development of performance measures to identify improvements in the services provided by the CHCPs, and for harmonisation of policies, practices and procedures to further enhance partnership working.

Source: Annual audit report on Glasgow City Council, Audit Scotland

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7   *Community planning: an initial review*, Audit Scotland, June 2006.

partners in the public, private and voluntary sectors.

52. The recent moves to an outcomes-based approach raises the importance of effective community planning and partnership working between councils and other local service providers. The national strategic outcomes and indicators in the concordat cover activities that are not delivered exclusively by councils and achieving progress will require joint working between partners at a local level.

53. There is still a good deal of work to be done to clarify how outcome agreements will work in practice. Key issues to be resolved include the accountability arrangements for councils and their partners and the amount of information about services, as well as high-level outcomes, that councils will need to publish in order to fulfil their statutory duty of Best Value. Successful outcome agreements are likely to build on existing community planning arrangements, with partnerships and plans updated to ensure that the new commitments are met.

Shared services

54. Shared services are a key part of the efficiency agenda offering the potential for lower costs and better quality by sharing business support services such as finance and procurement between public bodies. A number of projects are under consideration but to date there is limited evidence of progress in securing efficiencies through shared services.

55. Pathfinder projects are under way at City of Edinburgh and Glasgow City councils. These are considering the opportunities for improving customer service, reducing operating costs and improving process efficiencies. The government envisages that

the results will assist councils to identify improvements which can be made to their own processes and organisational models to reduce costs and increase efficiency.

56. More generally, councils need better quality information, including the unit costs of activity, to identify where most potential exists for savings and gains through shared services. Also, operational issues such as different IT systems may be a barrier to efficient joint working. Considerable staff time is spent in supporting shared services initiatives and councils need to be able to demonstrate the net benefits through improved services.

57. During 2007, the UK's public audit agencies produced an indicator set[8] for measuring the value for money of five core corporate services functions: finance, human resources, information and communications technology, estates management and procurement. Use of the indicators is voluntary, but we encourage organisations to use them to demonstrate value for money and best value, to identify opportunities for improvement and to inform decisions about service delivery (including the potential for shared corporate services). Our audits will examine how councils are doing this.

Service delivery through external organisations

58. Councils often work with companies, trusts and other external organisations to deliver a range of services, including leisure services and services which provide social benefits such as employment opportunities. In 2004, councils provided financial support of around £220 million to external organisations which in turn provided council related services.[9] This represented only around 2.4 per cent of overall

spending, but by its nature this type of expenditure can present more risks to councils.

59. There is evidence of a shift towards greater use of external organisations to deliver services previously provided by councils directly and it is likely that the level of financial involvement has grown substantially since 2004 (Exhibit 11). This has the potential for innovative service delivery. Maintaining good governance and clear accountabilities is essential in such circumstances, as is ensuring that councillors who represent the council as a company director or trustee understand and are supported in these roles. The Companies Act 2006, for example, introduced a wide range of changes affecting companies and the responsibilities of their directors.

60. In this context the principles set out in the Following the Public Pound Code[10] are of increasing importance. They underline the need for good governance and clear accountabilities, in relation to both finance and performance.

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8   *Value for money in public sector corporate services – a joint project by the UK public sector audit agencies*, Audit Commission, National Audit Office, Audit Scotland, Northern Ireland Audit Office, Wales Audit Office, June 2007.
9   *Following the Public Pound: A follow up report*, Audit Scotland, December 2005.
10   *Code of Guidance on Funding External Bodies and Following the Public Pound*, Accounts Commission/COSLA, 1996.

Exhibit 11
Providing services through external organisations – Fife and Glasgow City

Fife
During 2006/07, the council considered alternative arrangements for the delivery of leisure and arts services and, in particular, the establishment of trusts to deliver these services.

The auditors noted that these trusts represented a significant re-configuration of service provision, with elected members and senior officers serving as board members on these bodies. While they concluded that the council had embraced the 'following the public pound' principles the auditors reported that management arrangements were being finalised. They underlined the importance of sound monitoring and reporting arrangements, risk management and the need to have clear procedures in place to deal with any situations where performance does not meet agreed standards.

Glasgow City
Projects under way as part of the council's reform agenda involve the delivery of services through new arms length organisations. These include:

- the establishment of a social enterprise company with charitable status to deliver cultural and leisure services

- the delivery of off-street parking through a limited liability partnership

- the transfer of building services trading operations to a limited liability partnership.

The auditors highlighted that such complex patterns of service delivery may make it more difficult to coordinate activity and ensure that resources are properly matched to the needs of the community. In addition, they underlined the risk that lines of accountability may become blurred.

Source: Annual audit reports on Fife Council (Scott Moncrieff LLP) and Glasgow City Council (Audit Scotland)

Part 3. Use of resources

The pressures on budgets underlines the importance of robust long-term financial planning which is risk-based and sustainable.

Key messages

- There was a further improvement in the in-year council tax collection trend, with nearly 94 per cent of the amount due for 2006/07 collected during the year.

- Councils continue to face a range of significant pressures on their finances, particularly from workforce costs, increasing demands for social care services and rising costs of waste management.

- The overall amount held in General Funds has increased but there are significant variations among individual councils. Councils may face difficulties in maintaining working balances at the level they consider appropriate.

- Financial accounting and reporting in councils remains generally sound, with accounts and audits completed on time, and audit qualifications are rare.

- Councils are taking a more strategic approach to managing their finances, workforce and assets but greater improvement is possible, particularly in developing longer term planning which is sustainable.

Finance

61. Local authority service expenditure in 2006/07 was £16 billion, financed by:

- government grants and redistributed income of £11 billion

- housing rents and other income of about £3 billion

- council tax of £2 billion.

62. An analysis of government funding shows that financial support levelled off in real terms after 2005, but the recent settlement indicates growth in real terms over the next three years (Exhibit 12).
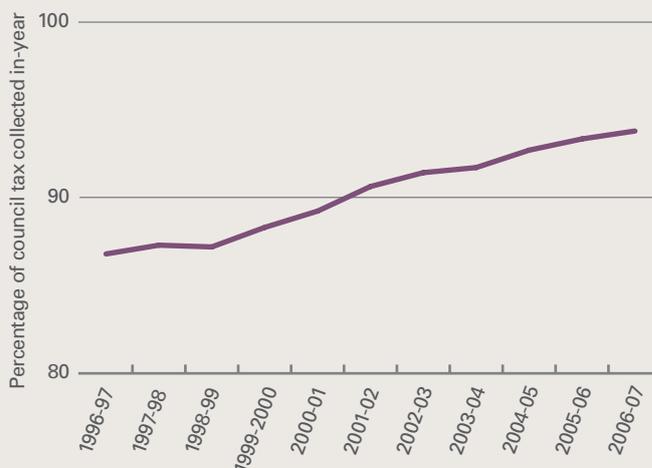
Exhibit 12
Local authority revenue funding 2005-2011

Legend:
- Actual/proposed
- Real terms (Nov 2007 prices)
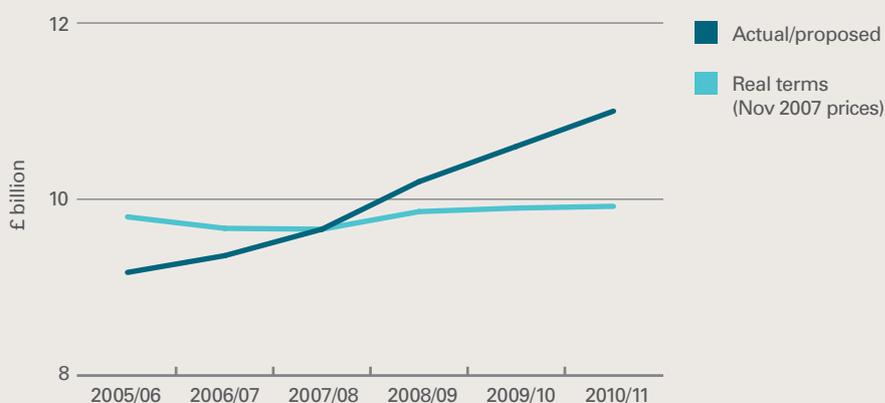
Note: 2005/06 to 2007/08 may not be directly comparable with 2008/09 to 2010/11 due to the revised funding process. The exhibit reflects the general trend.
Source: Audit Scotland

Exhibit 13
Percentage of council tax collected in-year 1996/97 to 2006/07

Source: Audit Scotland

63. As part of the concordat, the level of ring-fenced grants will reduce. In 2007/08, specific grants (which include police grant) total £2.7 billion. The concordat will result in specific grants being transferred into the local government settlement. The level of ring-fencing in 2008/09 (excluding police grant which will remain ring-fenced) will reduce to £0.5 billion with the intention that the level will reduce further to £0.3 billion by 2010/11.

64. The statutory performance indicators (SPIs) show that the trend of improved council tax collection continued in 2006/07. The proportion of council tax due and collected during that year rose to 93.8 per cent (2005/06: 93.3 per cent) (Exhibit 13). Early collection is important as it becomes more difficult to collect older debts. Full council tax collection information for each council is available at www.audit-scotland.gov.uk/performance

65. The highest spending services are education and social work services (Exhibit 14, overleaf).

Exhibit 14
Percentage share of spending and amount by service 2006/07

- Education £5.1 bn — 32.1%
- Social Work £3.2 bn — 20.2%
- Housing £2.9 bn — 18.3%
- Contribution to Police, Fire, Valuation Boards £1.0 bn — 6.2%
- Cultural and Related Services £0.8 bn — 5.3%
- Roads and Transport £0.8 bn — 5.3%
- Environmental Services £0.7 bn — 4.6%
- Central Services to the Public £0.5 bn — 3.3%
- Planning and Development Services £0.4 bn — 2.7%
- Other £0.3 bn — 2.0%
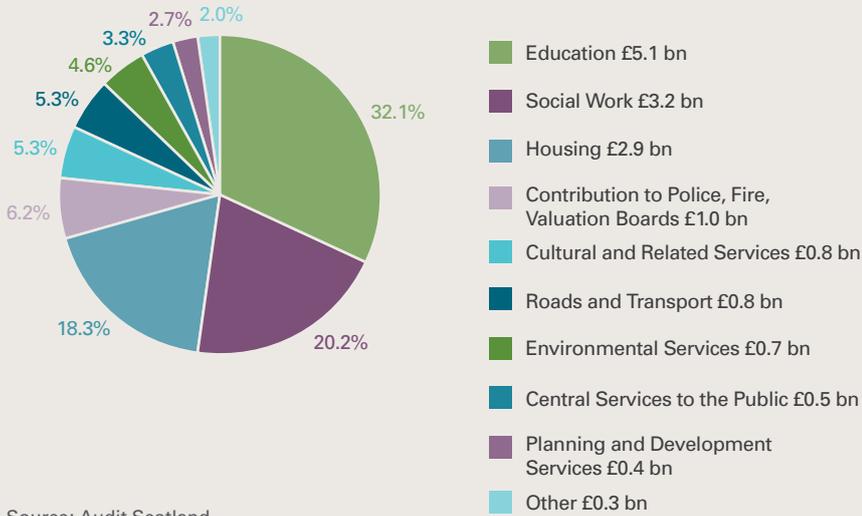
Source: Audit Scotland

Exhibit 15
Proportion of gross expenditure on six main services across councils 2006/07
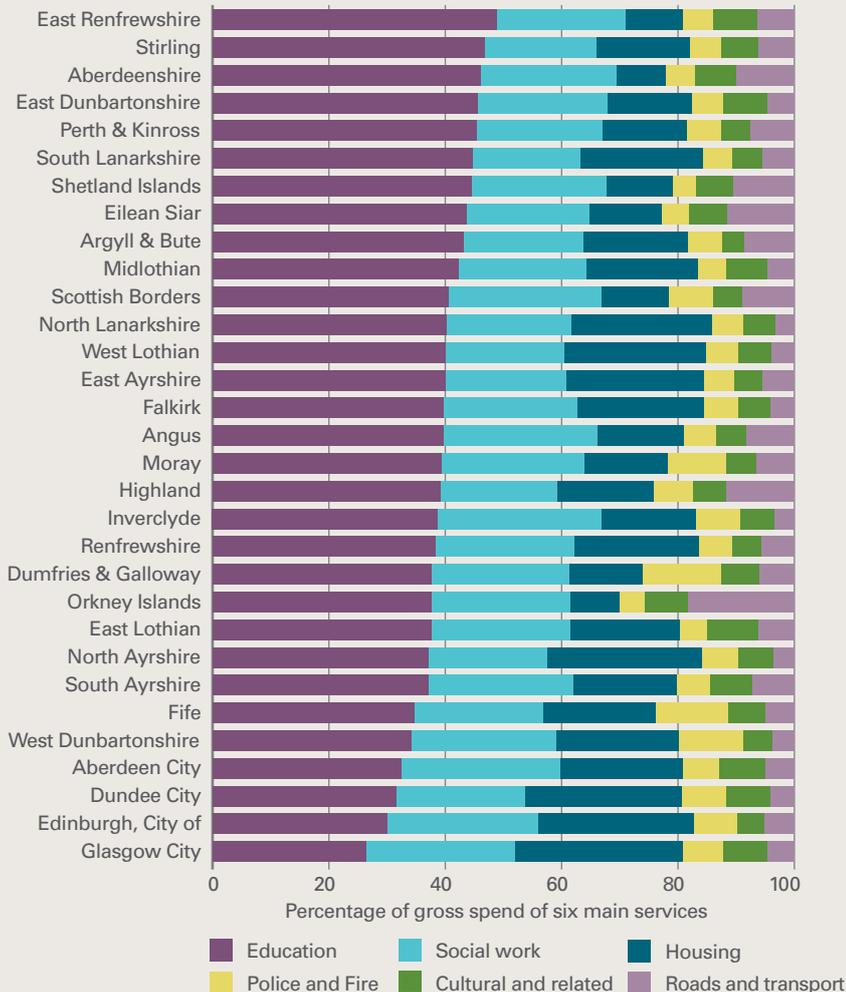

East Renfrewshire, Stirling, Aberdeenshire, East Dunbartonshire, Perth & Kinross, South Lanarkshire, Shetland Islands, Eilean Siar, Argyll & Bute, Midlothian, Scottish Borders, North Lanarkshire, West Lothian, East Ayrshire, Falkirk, Angus, Moray, Highland, Inverclyde, Renfrewshire, Dumfries & Galloway, Orkney Islands, East Lothian, North Ayrshire, South Ayrshire, Fife, West Dunbartonshire, Aberdeen City, Dundee City, Edinburgh, City of, Glasgow City

Percentage of gross spend of six main services

- Education
- Social work
- Housing
- Police and Fire
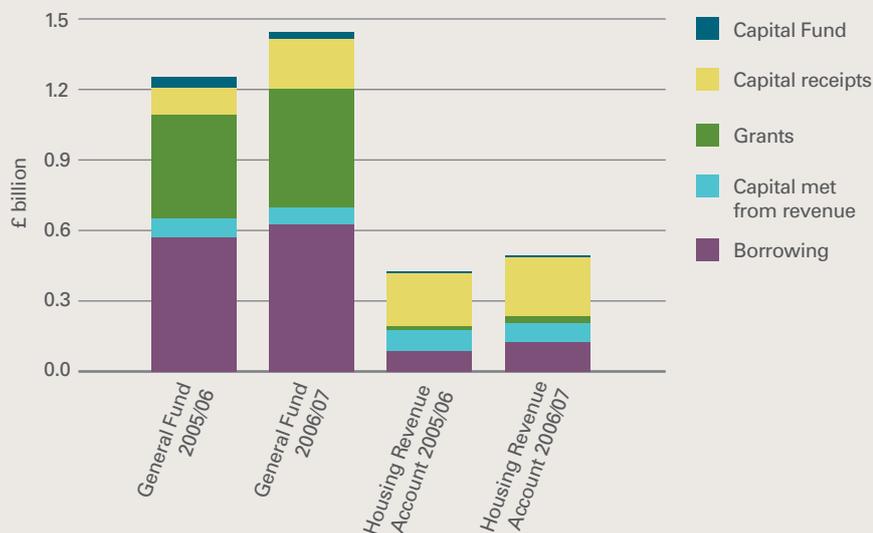- Cultural and related
- Roads and transport

Note: Clackmannanshire is not included as the council's Income and Expenditure account does not provide a comparable figure for cultural and related services.
Source: Audit Scotland

66. Councils make their own decisions about how to allocate their finance. Exhibit 15 sets out the proportion of spend on the six main services across Scotland's councils.

Financial pressures
67. Councils faced continuing and substantial demands on their financial resources in 2006/07 and many of these are set to continue. The most important factors include:

- Implementation of the single status agreement – around a third of councils have implemented the agreement. Experience to date shows that the additional costs following implementation of the single status agreement range from around one per cent to eight per cent of the pay bill. Employee costs represent about 40 per cent of total spend, so the costs of implementing the single status agreement are substantial.

- Equal pay – council accounts show total equal pay costs of £233 million in 2006/07 (£280 million in 2005/06); around half of this represents amounts set aside for future payments and outstanding claims. With the single status agreement implemented in only around a third of councils, there is a high-risk of further equal pay claims.

- Service demand – there are pressures on financial resources in most services areas, particularly in social work services and waste management. In social work there are general increases in demands for services, including services for older people arising from the ageing population. A particular issue is the cost of residential care for children. Councils are also experiencing increased waste processing costs arising from the drive for more recycling and above inflation rises in energy and fuel costs.

Exhibit 16

Capital expenditure and financing 2005/06 and 2006/07

Source: Audit Scotland

Exhibit 17

Slippage in capital programmes at Stirling

There has been progress in some key capital projects but there is still some significant slippage. The council faces some challenges in terms of the capacity for delivering major projects on time. This could impact on the achievement of the council's corporate priorities, several of which require major capital investment.

Source: Annual audit report on Stirling Council, Audit Scotland

Exhibit 18

Councils' total reserves

Source: Audit Scotland

Capital expenditure

68. Total capital expenditure in 2006/07 was £1.9 billion, comprising general fund capital expenditure £1.4 billion and housing capital expenditure of £0.5 billion. Exhibit 16 shows the increase in capital expenditure over the last two years. The proportion of general fund capital expenditure met from borrowing is similar to last year but a higher proportion of expenditure was met from capital receipts, up from 9.3 per cent in 2005/06 to 14.6 per cent in 2006/07. For housing, reflected in the Housing Revenue Account (HRA), there has been an increase in the proportion of capital expenditure met from borrowing from 20 per cent in 2005/06 to 25 per cent in 2006/07.

69. Slippage in capital programmes remains a recurring problem. This is caused by delays in site acquisition and, more generally, because projects take longer than expected to complete. In some cases this is attributed to weak project management. Delays in completing capital projects may mean that assets essential for improved service delivery are not in place, posing risks to the achievement of corporate objectives and priorities (Exhibit 17).

Reserves

70. Councils hold reserves to deal with the effect of uneven cash flows, to build up funds for known and predicted costs and as a contingency for unforeseen expenditure. Individual councils decide the type and level of reserves to hold as part of their overall approach to sustainable financial management.

71. Councils' accounts at 31 March 2007 show total reserves of over £1.1 billion, up from £0.9 billion at the end of the previous year (Exhibit 18). The 2007 figure comprises General Funds (£419 million); Housing Revenue Account balances (£111 million); and other reserves set up and earmarked for specific purposes (£613 million). These figures

exclude the substantial funds held by Orkney Islands and Shetland Islands (£203 million and £304 million respectively), arising mainly from harbour and other oil-related activities.

72. The figure for General Funds, which are most closely associated with council tax decisions, at £419 million was up from £273 million in 2006 but below the total of £449 million in 2005. For 2007, £255 million (61 per cent) was earmarked for specific purposes and £164 million (39 per cent) was unallocated. These proportions are broadly similar to those in 2006.

73. There are wide variations among councils. Factors contributing to increased General Fund balances include higher than expected council tax income, under-spending on services and lower than expected financing charges. Some councils have taken deliberate steps to restore their General Fund balances to the level they consider appropriate, in the context of their finances and in accordance with their reserves policy.

74. Across Scotland the unallocated element of the General Fund represents 1.8 per cent of the overall total net cost of services, compared with 1.2 per cent last year. This money is set aside to meet contingencies and, in view of the increasing financial pressures faced by councils, the overall amount appears reasonable.
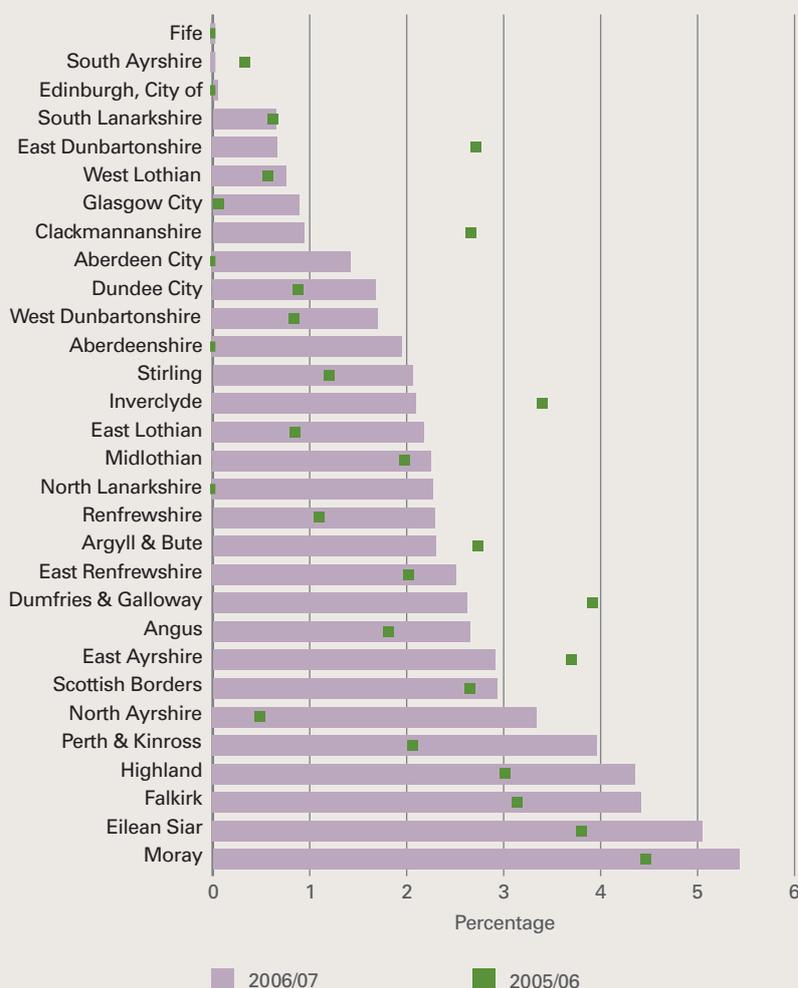
75. The position at individual councils varies, reflecting the local position and local policies on reserves (Exhibit 19).

76. At Fife and South Ayrshire, the accounts show no unallocated General Fund balance at 31 March 2007. In terms of their overall reserves:

- Fife had total reserves of £16.4 million at 31 March 2007, of which £9.6 million was earmarked General Fund.

- South Ayrshire had total reserves of £22.7 million at 31 March 2007, of which £17.7 million was held in

the HRA. There was no General Fund balance at 31 March 2007.

77. Where the unallocated proportion of the General Fund at 31 March 2007, as a percentage of the net cost of services, was high relative to other councils, for example at Eilean Siar, Falkirk, Highland and Moray, the councils' financial statements provided further details and stated that the level was within their determined policy level or that extra funds were being retained for other specified purposes, including anticipated financial pressures.

78. It is worth emphasising that the figures shown for reserves are extracted from the most recent annual accounts and reflect the position as at 31 March 2007. Reserves are available to finance spending and meet one-off costs and cannot in themselves support ongoing service improvements and development. These need recurring and sustainable financial resources that are only available by reallocating funding, often by making difficult choices from among the priorities competing for financial resources.

Exhibit 19

Unallocated General Fund balance as a percentage of net cost of services 2005/06 and 2006/07

Source: Audit Scotland

79. In the current financial context, there is a risk that councils may make short-term, expedient decisions which may take reserve balances below the levels determined locally. It is important that financial plans address the long-term sustainability of council income, expenditure and efficiencies.

Financial planning

80. Recent years' experience of the demands on council finances from, for example, the implementation of single status, equal pay claims and increasing pension costs has underlined the need for better medium and long-term financial planning.

81. Longer term financial planning which focuses on sustainability needs to take account of a range of matters including:

- The proposed levels of central government support and decisions on council tax levels; the government's intention is that 2008/09 council tax levels will be held at those which applied in 2007/08.

- Identification of service specific pressures.

- The need to maintain some balances for contingencies.

- Recurring slippage in capital programmes and the impact on the timing and extent of borrowing requirements.

- The resources needed to meet Scottish Housing Quality Standards, particularly for councils not pursuing housing stock transfer.

- Projected demographic changes due to an ageing population and migration and the impact on services, particularly social care and education.

> **Exhibit 20**
> City of Edinburgh – Progress in developing efficiency arrangements
>
> An efficiency board was established, chaired by the Chief Executive, to coordinate monitoring activities council-wide and with the aim of making processes more systematic and embedded. Progress in achieving savings is monitored as part of the council's performance management framework through the two monthly scorecard reporting mechanism.
>
> The Council distinguished between efficiencies (the job is reorganised) and rationalisation (where an activity is carried out with less resource) and budgeted to save a combined £17 million. In overall terms £14 million of this amount was achieved in cashable efficiencies leaving £3 million to be funded from existing budgets.
>
> Source: Annual audit report on City of Edinburgh Council, Audit Scotland

82. Because of the constraints on resources, councils must make increasingly difficult choices about which service developments to pursue. They then need to produce funding plans which fully recognise known and likely costs, are sustainable in the long term and are realistic about actual and planned efficiencies.

83. The timing of the spending review is aligned with the first full electoral term of councils. This provides an opportunity to develop work programmes and priorities which are reflected in three-year financial plans.

Efficiency

84. Efficiency is defined as delivering the same services with less money or delivering more or better services with the same money.

85. The Improvement Service worked with councils and others to develop a set of standard measures and a framework[11] for use by councils from 2006/07 in preparing statements on the value and nature of efficiencies. The government's efficiency out-turn report for 2006/07[12] shows total cash-releasing efficiencies in local authorities of £278 million (against a target of £167 million) and time-releasing efficiencies of £35.5 million.

86. The position in developing efficiency arrangements across individual councils varies and some councils have made good progress (Exhibit 20). The introduction of efficiency statements has improved the information available but there is scope for greater improvements in identifying, classifying and measuring gains. Councils recognise that if they do not achieve the level of savings planned this will contribute to the pressures on financial resources.

87. There is a greater focus on public sector procurement, particularly since publication of the McClelland report.[13] Councils have made progress including, for example, through the Scotland Excel project which aims to deliver best value for local authorities by creating a centre of procurement expertise. The main objectives of the project include cost reductions and increased quality of service from suppliers through collaborative procurement initiatives. Overall, there is scope for further development of procurement practices and organisation and in the skills and resources devoted to the function. Procurement is a strategic function which has long-term consequences for the financial position of councils.

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11   *Efficient government reporting: Framework for local authorities in Scotland,* Improvement Service, May 2007.
12   *Efficiency out-turn report for 2006/07,* Scottish Government, November 2007.
13   *Review of Public Procurement in Scotland, Report and Recommendations,* John F McClelland CBE, March 2006.

Competitiveness

88. Best Value requires councils to demonstrate competitiveness in the provision of services. The legislation requires them to maintain and disclose trading accounts for significant trading operations (STOs), and for STOs to break even over a rolling three-year period.

89. In previous years we reported that some councils are treating trading accounts as a compliance exercise rather than using them to demonstrate that service delivery meets the Best Value requirements. This appears still to be the case in some councils. There is evidence that a number of services have not been reviewed and, in some cases, trading is based on contracts agreed over ten years ago under Compulsory Competitive Tendering (CCT). Where this is the case, there is an urgent need for review and to demonstrate that services are competitive.

90. CIPFA guidance[14] governs the areas of activity reported as trading accounts but there is wide variation in the number of trading accounts reported by individual councils, ranging from nil to eight in 2006/07, and in the nature of operations reported as STOs.

91. Overall, the number of STOs reported fell again, from 140 in 2005/06 to 117 in 2006/07, as councils reconfigured their STOs or concluded that services did not meet the definition of a trading operation.

92. This was the second three-year rolling period for evaluation of the statutory break-even requirement. Of the 117 STOs, 32 (27 per cent) did not achieve the three-year break-even. This is similar to the position in 2006. In 16 of these cases the STOs involved catering or cleaning activities, with equal pay settlements the sole

reason or a major contributing factor. For the remaining 16 STOs there are underlying concerns about trading performance. In these cases councils have generally taken steps to review the position and some have decided to market test the service.

93. Our Best Value audits suggest that there is scope for councils to explore improvement in services and efficiencies through best value service reviews and more consistent use of options appraisal, including market testing and competitive tendering.

Public Private Partnerships

94. Public Private Partnerships (PPPs) have been important in delivering services for local authorities, with 42 local authority PPP schemes with a capital value of £3.4 billion complete or under way, most relating to school projects.

95. Auditors have commented on the accounting treatment and value for money of projects during the year. A number of projects are now complete and councils are committed to long-term funding contracts. Some councils have indicated that these would be funded by increasing council tax (Exhibit 21). If these councils decide

> ### Exhibit 21
> Financing PPP contracts at South Ayrshire
>
> The council has a strategy in place to finance the PPP. This relies on a combination of council tax increases to be set aside along with capital receipts transferred to the capital fund to finance the unitary payments and debt charges.
>
> Source: Annual audit report on South Ayrshire Council, Audit Scotland

to freeze their council tax levels, their strategies need to be reassessed and this may mean additional pressures on financial resources.

Common good

96. There continues to be strong public interest in common good funds. Councils administer these funds within their area and are responsible for the assets they hold for the common good. Of the overall assets under council control, worth £22 billion at 31 March 2007, £160 million relates to common good. Expenditure shown in common good funds in 2006/07 was £10.3 million.

97. Councils face some practical difficulties in maintaining records of common good assets. These assets tend to have been held for a long time, having transferred from predecessor councils through local government reorganisations. This presents significant challenges for record keeping. Answering questions about the nature and origin of common good assets may require research going back many years.

98. Nevertheless, to fulfil their obligations, councils need to ensure that they identify all common good assets and record them as such, distinct from the general body of assets they manage. Councils also need to ensure best value and asset management practices are applied to common good assets in the same way that they are applied to their other assets, taking a proportionate approach which reflects their value to the local community and market value.

99. CIPFA has recently published a guidance note on accounting for common good funds[15] to promote consistency of accounting and reporting. Application of the accounting guidance is recommended for 2007/08 with full implementation, including the

14   *A Best Value approach to trading accounts – A guidance note for local authority practitioners*, CIPFA, 2003.
15   *Accounting for the Common Good Fund – A guidance note for practitioners*, The Local Authority (Scotland) Accounts Advisory Committee, December 2007.

recommendations on asset registers, expected by 31 March 2009.

Accounts and audits

100. All councils and related local authority bodies submitted their 2006/07 accounts for audit by the statutory deadline of 30 June 2007.

101. In some cases there was scope for improvement in the quality of supporting working papers. In cases, including Shetland Islands, the auditors had to carry out additional work to ensure full compliance with the disclosure and other requirements of the Accounting Code of Practice.[16]

102. Timely completion of audits is an important part of public accountability. The Accounts Commission required auditors to complete the local authority audits for 2006/07 by 30 September 2007 and all were completed by that date.

103. The accounts of Shetland Islands were qualified because the council did not comply with the group accounting requirements (Exhibit 22). While this is a technical accounting matter, qualifications are important and the council is working to ensure that qualification is avoided in future.

104. Auditors produce annual audit reports which summarise the main matters arising from the year's work. Annual audit reports for all local authorities are available at www.audit-scotland.gov.uk

National Fraud Initiative (NFI)

105. During 2006/07 councils, police boards and fire and rescue boards, along with other public bodies, took part in the National Fraud Initiative (NFI) which is overseen and reported by Audit Scotland. This matches data from a wide range of public bodies to help identify fraud and error. The exercise includes information about benefit applicants, employees, tenants and occupational pensioners. Other datasets can also be submitted if a

Exhibit 22
Audit qualification at Shetland Islands

Extract from audit certificate:
'The council's group accounts do not include the Shetland Development Trust and the Shetland Charitable Trust, and their related subsidiaries. In my opinion, the substance of the council's relationship with these bodies represents a significant interest and their omission results in a material mis-statement of the group accounts.'

Source: Audit Certificate – Shetland Islands Council

Exhibit 23
NFI identified overpayments and savings 2006/07

- Housing benefit
- Pensions
- Further 2004/05 savings

£1.1m
£1.9m
£2.7m
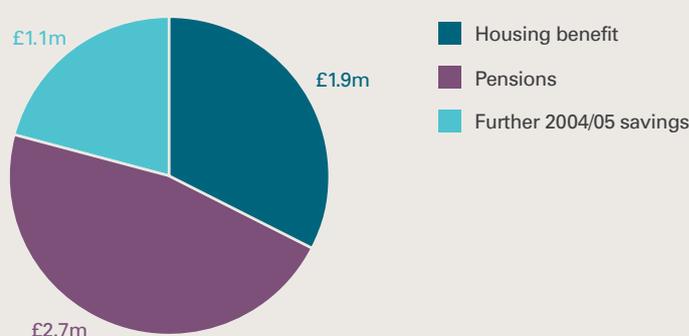
Source: Audit Scotland

council considers that the risks merit their inclusion.

106. By the end of December 2007, councils had identified overpayments and savings (including forward savings) from the 2006/07 NFI of around £5.7 million (Exhibit 23).

107. Most councils have taken a positive approach to NFI, but many could work more efficiently by focusing initially on the best matches and making better use of the facilities provided within the NFI application. We will report on the 2006/07 NFI more fully in late spring.

Workforce

Staff numbers
108. In June 2007, the number of staff employed in local government was around 258,000, a reduction of 1.5 per cent compared with last year.

The position varies across councils and the reduction this year may be attributable in part to the transfer of council staff to companies and trusts set up to deliver council-related services. There is evidence that councils look to achieve savings by managing vacancies and in some cases by freezing recruitment.

Single status and equal pay
109. Implementation of equal pay and the single status agreement are at the forefront of council business. Equal pay is about eliminating discrimination between men and women where they are doing the same or similar work, work regarded as equivalent, or work of equal value. Single status concerns harmonising the terms and conditions of workers.

110. Several councils have been successful in implementing a single

status agreement for employees but around two-thirds have yet to implement it. These councils are still at various stages of negotiation with trade unions involving significant input from councils' Human Resources (HR) sections.

111. Councils that have not yet implemented the agreement face the risk of continuing equal pay claims. There are significant numbers of equal pay cases at employment tribunals with consequent pressures on resources, both financially and in terms of HR time.

Sickness absence
112. Sickness absence is one of the priority areas for efficiency savings and should be part of councils' wider workforce strategies. However, reported efficiencies for 2006/07 show little in the way of savings through reducing sickness absence. There may be scope for councils to improve with reference to best practice in local government and elsewhere.

113. The SPIs show that council staff and teachers in Scotland took over 3.1 million days off sick last year, equivalent to 5.3 per cent of working time (2005/06: 5.1 per cent). Sickness absence rates for both police support staff and officers rose, from 5.1 per cent to 5.9 per cent for support staff and from 4.5 per cent to 5.0 per cent for officers. In the fire and rescue service, levels fell from 5.4 per cent to 5.0 per cent for fire support staff and from 6.4 per cent to 6.0 per cent for firefighters. Details are available at www.audit-scotland.gov.uk/performance

Equalities
114. Ensuring equality in the workforce is a key element of workforce management. The SPIs show that the proportion of women among the highest earners employed by councils rose. In 2006/07, 33.9 per cent of the highest two per cent earners were women, up from 31.7 per cent in 2005/06. Of the

highest five per cent of earners, 40.4 per cent are women, up from 38 per cent in 2005/06.

Staff morale
115. Our Best Value audits show that good working relations between elected members and officers coupled with positive leadership tend to create a positive culture throughout the workforce. Where this is the case there is often a clear focus on corporate objectives and individual staff members are clear about their roles and how they contribute towards their council's overall aims. Our Best Value audits also look at the organisational culture in councils and generally show that staff feel positive about their council as an employer, but there are indications that the ongoing negotiations and time being taken to implement single status may be affecting morale.

116. The Best Value audits emphasise the importance of corporate monitoring of staff appraisal systems including the extent of uptake and consistency across the council, including at senior officer level. Some councils need to review their staff appraisal schemes and ensure more consistency in their use. This is a particular issue at South Ayrshire, which does not have a corporate staff appraisal system in place, reportedly as a consequence of a lack of resources in its HR department.

117. Our work also shows that good communication and consultation with staff contributes to a positive culture. Regular staff surveys and other activities such as staff focus groups help determine changes in staff attitudes and satisfaction. But it is also important to ensure that appropriate action is taken to follow up matters arising from staff consultations, not least to demonstrate that the council values the views of its workforce.

Workforce strategies
118. There is increasing recognition of the importance of workforce strategies to support longer term planning. However, progress has been slower than anticipated in a number of councils, often because HR sections have had to commit significant resources to single status and equal pay issues.

119. Some councils face particular challenges in recruiting staff and this needs to be reflected in their strategies (Exhibit 24).

120. Good workforce management and planning depend on good information about current capacity and skills and on robust information about current and future service demands. This should also take account of service redesigns and other changes in working practices which will determine the skill needs and training requirements.

Exhibit 24
Developing a workforce strategy at Aberdeenshire

The council faces particular challenges with regard to its workforce due to the area's low unemployment levels. During the year the council developed a draft workforce strategy to provide a framework to address workforce issues. Work is also under way with services to profile both the existing and projected workforce requirements in the short, medium and long term. Progress has been slower than anticipated and the initial timescale for approval of the strategy was missed. In the absence of such a strategy, there is a risk that the council does not have a corporate approach to workforce planning and therefore staff resources are not deployed effectively to deliver quality services.

Source: Annual audit report on Aberdeenshire Council, Audit Scotland

Exhibit 25
Asset management at West Lothian

Significant work has been ongoing during 2007 to develop the council's corporate asset management planning system. Service level asset management plans were prepared in February 2007. These resulted in strategic outline business cases which included option appraisal and measures of the benefits of the proposed capital projects. Core investment projects were identified, these are the areas of work which must be done, and the remaining projects were prioritised using a scoring mechanism. This process has resulted in a ten-year corporate asset management plan which has now been discussed and agreed by the corporate management team.

Work is also continuing on the development of a suite of performance indicators to measure the effectiveness and performance of assets over time and support future decision-making. Performance data has been collected and analysed in respect of 2006/07, included in the asset management plan and is being input to the performance management system.

Source: Annual audit report on West Lothian Council, Audit Scotland

121. COSLA is leading a national shared workforce management and planning project which also involves SOLACE, the Scottish Government and the Society of Personnel Directors in Scotland. The project aims to improve councils' capacity to plan effectively for the right workforce to meet future needs across local government in Scotland.

Assets

Asset management
122. The value of assets under the control of local authorities as shown on their balance sheets and including common good funds is around £22 billion. These include land and buildings, equipment and vehicles. Some councils have made good progress (Exhibit 25) but few have implemented an overarching corporate approach to asset management. There are specific areas where good progress has been achieved, for example in relation to schools.

123. A new SPI requires councils to report on the condition and suitability of their operational accommodation (including schools but excluding housing stock) to determine the proportion of floor area that is at least 'satisfactory' and the proportion of

buildings that are suitable for their current use. This shows that, overall, 63.6 per cent of floor space is at least 'satisfactory' with ranges across councils from 27 per cent to 97.2 per cent. The proportion of operational buildings that are suitable for current use overall is 69.8 per cent, ranging from 24.9 per cent to 90.6 per cent.

124. We are currently preparing to undertake a study into local authority asset management which we plan to report early in 2009. This will evaluate how well councils manage their assets, the extent to which they use them to contribute to high-quality service provision and whether they achieve value for money.

125. Asset management remains an important aspect of the management of resources, underpinning the effective delivery of services and is an area which can contribute to efficiency gains. More focus is required on a corporate approach to asset management, taking account of all assets held by the council, including those held through the common good arrangements. This will assist councils to identify economies of scale and opportunities for sharing services, including professional expertise.

Part 4. Performance

Councils need to ensure that performance management, including robust and balanced public performance reporting, can support the moves towards an outcome-based approach.

Key messages

- A more systematic and consistent approach is needed for understanding users' views on services and their complaints with better coordination, monitoring and reporting back to service users and service managers.

- There is some progress in performance management, but councils need to do more to promote a culture of challenge and continuous improvement. The absence of planned outcome measures makes it difficult to evaluate the impact of policies and resources invested.

- There is an urgent need to ensure that performance management, including robust and balanced public performance reporting, can support the moves towards an outcome-based approach.

- Councils still have a long way to go in producing good quality management information to inform decision-making. The lack of consistent and robust performance information limits an in-depth analysis of service performance in councils.

- There was general improvement in most services covered by the Statutory Performance Indicators (SPIs).

Customers and citizens

126. Best Value requires councils to respond to the needs of their communities, citizens, customers, employees and other stakeholders by understanding these needs and translating that understanding into plans, priorities and actions.

Exhibit 26
Engaging with communities at City of Edinburgh

The council employs many mechanisms for community engagement:

- referendum on congestion charging
- ballot on housing stock transfer
- household survey – carried out twice yearly with over 1,000 residents in face-to-face interviews
- citizens' panel – with around 2,000 members
- local development committees – which include an open 'question time'
- consultation on the review of secondary schools catchment areas
- customer surveys – including 'exit surveys' on housing management
- suggestions boxes and comments books at service delivery points
- user groups – for libraries and the Craighall Centre User Group for adults with physical disabilities
- a tenant participation policy – which works with individuals tenants and tenant groups
- housing area boards
- equalities forums
- the business assembly and the Capital Review quarterly economic bulletin
- Edinburgh Youth Council
- Edinburgh Compact with the Voluntary Sector.

Source: *Audit of Best Value and Community Planning – City of Edinburgh Council*, Audit Scotland, February 2007

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127. Our Best Value audits indicate that councils engage service users in a variety of ways through, for example, citizens' panels, area forums and community councils (Exhibit 26). Councils also use independent market research organisations to gauge users' views and to monitor customer satisfaction at the point of service delivery. However, there is a need for a more systematic and consistent approach to getting users' views, with better coordination, monitoring and reporting back to service users on the results.

128. Councils provide a wide range of services to diverse communities and are responsible for promoting equality and equal opportunities. The Best Value audits indicate high-level commitment to equalities in most councils but there is limited evidence to show how these policy commitments are translated into improved outcomes for service users. The Best Value work also suggests the need for better and more consistent monitoring of equalities issues to inform service planning. We are currently undertaking a national study of how councils meet their race equality duties when planning services.

129. A recent research paper published by the Improvement Service[17] brought together the available evidence on public attitudes towards local government and gives an indication of those issues that matter most to the public. Among other things, it found that high-visibility services such as street cleaning are

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17   *Public attitudes to Local Government in Scotland: A literature review*, Lesley Stevenson for the Improvement Service, August 2007.

particularly important in determining public satisfaction with the local area and the council. Residents' perceptions of quality of services and value for money can be enhanced by better direct communication from the council, as well as by more positive media coverage. The report also found that surveys often show strong support for public consultation and highlights the importance of explaining how the views of residents have been taken into account.

130. Our Best Value audits show that councils have complaints processes in place but that more work is needed to monitor complaints about services and to ensure that they inform service improvement (Exhibit 27).

131. The Scottish Public Services Ombudsman's (SPSO) annual report for 2006/07,[18] which reflects the outcome of the 1,029 complaints concluded in the year (2005/06: 672), emphasises the need for councils to ensure that their complaints processes are accessible, easily understood and operate with clarity and transparency. The SPSO also states that councils need to demonstrate that complaints are welcomed and can bring about positive improvement. Council staff should be trained in dealing with complaints and be empowered and supported to do so.

Performance management

132. An effective corporate performance management system is essential to enable elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils also need to know how their services are performing before they can demonstrate that they are achieving Best Value through continuous improvement.

Exhibit 27
Customer care at Clackmannanshire

The council has a number of initiatives to improve customer care and responsiveness. Many are relatively new and implementation is variable across its services. The council's highly rated website is customer focused, allowing for online transactions, and is accessible and well used. The council needs to use customer feedback and complaints more effectively to identify service improvements and help it to assess customer views.

Source: *Audit of Best Value and Community Planning – Clackmannanshire Council*, Audit Scotland, September 2007

Exhibit 28
Developing performance management at North Lanarkshire

The council has developed a structured approach to performance management. New performance management arrangements were introduced in 2006/07, which supplemented existing Statutory Performance Indicators (SPIs) with a range of additional performance measures designed to measure financial performance, risk, quality, customer satisfaction and progress against planned improvement actions from Service Improvement Plans (SIPs).

In 2006/07, performance monitoring arrangements involved quarterly exception reporting to service committees with services expected to report on performance against targets and significant variances. Performance information was also reported regularly to senior management and to the Scrutiny Panel.

Following the introduction of the council's Service and People First change programme, in the final quarter of 2006/07 a new Service Improvement Team has been established. The auditors were informed that it will work with services to support the development of appropriate performance measures at both strategic and operational levels that develop closer integration between performance information, service improvement plans and financial planning.

Performance management reporting for 2007/08 is expected to further focus on exception reporting at committee level, although departments will still be expected to maintain records of performance against all targets. The council also plans to undertake work towards the introduction of a council-wide performance management IT system, which is expected to improve timeliness, consistency and quality of the performance reporting.

Source: Annual audit report on North Lanarkshire Council, PricewaterhouseCoopers

133. Our Best Value work shows that performance management is a high priority for councils with most continuing to develop their performance frameworks. Key features of better performing councils are a systematic approach, with regular consideration of performance reports by senior council officers, and where performance and trends are tracked over time (Exhibit 28). In contrast, performance management is less effective where there is no consistency of approach across the council, no measures of customer satisfaction, a lack of comparative information and an over-reliance on the Statutory Performance Indicators (SPIs).

134. The information available to monitor performance is variable in quality and volume across councils and services and there is scope for more use of local measures, targets and comparative information. Overall, councils need to develop a culture where options for improvement are identified and openly discussed; where self-assessment of service performance is used to get a clear understanding of strengths and weaknesses; and where performance is constructively challenged.

135. Information for the public about the services currently available is generally good but there is a need for more balanced reports on performance which include areas in need of improvement as well as successes. Best Value audits indicate that public performance reporting needs to be more accessible, user-friendly and tailored to the needs of local communities. There also needs to be less reliance on SPIs; these contribute to the overall picture of performance across Scotland but councils need to set their own performance targets in line with local priorities.

136. Significant changes in performance management are under way, including the move towards an outcome-based approach. This will require rigorous and robust performance management which provides evidence of achievement on which all stakeholders can rely. There remains a duty on councils under the Local Government in Scotland Act 2003 to have in place arrangements to achieve continuous improvement in all local authority functions and activities.

137. Along with COSLA, SOLACE, the Improvement Service and the government, we have been working to improve performance management by local authorities through the Local Authorities Performance Management Framework Project. The aim of the project was to establish a performance system that would meet the objectives of local authorities to deliver services to the highest quality, be responsive to citizens and service users, use resources efficiently and improve their performance results on a continuous basis.

138. As proposals for outcome agreements have arisen as part of the concordat, the emphasis of the project has shifted to support those issues. While the new relationship outlined in the concordat seeks to reduce bureaucracy, it makes clear that requirements on councils arising from current statutory duties remain. These include the duties of Best Value, community planning and public performance reporting, all of which need to be supported by effective performance management systems. Councils need to demonstrate improving performance across all of their activities and to report publicly on their achievements in accordance with the guidance issued.

Performance management in police

139. In March 2007, the Scottish Policing Performance Framework was launched. This is designed to improve accountability at local and national levels, through the publication of consistent and transparent performance information, and to assist managers throughout the police service to provide more effective policing within Scottish communities. The framework was agreed by a multi-agency Senior Strategic Steering Group (SSSG) which has overall responsibility for agreeing national performance indicators. Individual forces and police authorities are responsible for developing indicators appropriate to their local circumstances. The framework is being developed incrementally and work is under way to agree the range of performance indicators that should be included at the different levels for future years.

Service performance

140. This section of the report looks at council services based on our audit work. Weaknesses in some local government performance systems and the lack of consistent and robust performance information mean it is still difficult to provide a comprehensive overview of performance across all council services.

Statutory Performance Indicators (SPIs)

141. The council profiles[19] show performance for a wide range of services using information taken from the SPIs. Although they do not provide a comprehensive picture of performance they highlight the comparative performance of councils in 2006/07 and the change in performance over time against 82 measures.

142. Of the 51 measures that allow comparison between 2004/05 and 2006/07, 21 show an overall improvement of at least five per cent and ten show a deterioration of at least five per cent (Exhibit 29, overleaf). Continuous improvement is more difficult where performance is already at a relatively high level.

143. Exhibit 30 (overleaf) compares improvements and deterioration in SPIs over the last five years. Details of the SPIs and what they show about the performance of individual councils, fire and rescue services and police services can be found at www.audit-scotland.gov.uk/performance

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19   Statutory Performance Indicators 2006/07, council by council profiles, www.audit-scotland.gov.uk/performance/profiles

Exhibit 29

Service measures in the 2006/07 council profiles show significant improvement or deterioration across Scotland when compared with 2004/05

Service	Total comparable measures	Number of measures showing improvement of at least 5%	Number of measures showing deterioration of at least 5%
Adult Social Work	11	7	0
Benefits Administration	0	0	0
Corporate Management	10	4	2
Cultural and Community Services	7	3	2
Development Services	2	0	0
Education and Children's Services	3	0	0
Housing	6	4	1
Protective Services	3	1	1
Roads and Lighting	4	1	1
Waste Management	5	1	3
Total 2006/07	51	21	10

Source: Audit Scotland

Exhibit 30

Change in improvement to deterioration ratio over time

Year	Total comparable measures	Number of measures showing improvement of at least 5%	Number of measures showing deterioration of at least 5%
2002/03	54	23	8
2003/04	45	11	8
2004/05	46	16	7
2005/06	50	22	5
2006/07	51	21	10

Source: Audit Scotland

144. Key messages highlighted in the published council SPIs are set out in Exhibit 31 and key messages from the police service and fire and rescue service SPIs are set out in Exhibit 32.

145. The 2006/07 direction included several changed or new SPIs that will show how councils are improving their services over time:

- by making use of the antisocial behaviour and other legislation for handling of domestic noise complaints

- for dealing with abandoned vehicles

- in managing council house rental income, helping tenants to avoid falling into arrears and recovering

arrears from current and former tenants

- for raising the academic achievement of looked after children.

National performance reports

146. The following paragraphs summarise the main findings from the national performance study reports we published in 2007. Copies of the reports are available on our website, www.audit-scotland.gov.uk

A review of service reform in Scottish fire and rescue authorities

147. In March 2007, we published a national report[20] on the progress being made by Scottish fire and rescue authorities (FRAs) in achieving service reform. This pulled together the main messages from extensive performance audit work undertaken in all eight FRAs during 2006, and the resulting local audit reports issued to each FRA in December 2006.

148. The introduction of the Fire (Scotland) Act in 2005 brought changes in how fire and rescue authorities deliver services. Authorities are increasingly involved in working with other organisations like the police and councils to improve the safety of local communities. New procedures to manage hoax calls and respond to automatic fire alarms have delivered efficiency savings and freed up staff for community fire safety activities.

149. The national report concluded that Scottish FRAs are giving more emphasis to fire prevention and community safety. However, while there is some early evidence that home fire safety visits and partnership initiatives have helped to reduce the number of people killed in domestic fires, it is too early to demonstrate a sustained reduction in risks from fire and there is no clear pattern of improvement across Scotland in the first year of change.

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20 *A review of service reform in Scottish fire and rescue authorities*, Audit Scotland, March 2007.

Exhibit 31
Key messages from the 2006/07 council SPIs

The councils SPIs for 2006/07 showed:

- The improving trend in social work homecare for older people (age 65+) continues. Although there has been some decline in the number of people now receiving a service, the proportion receiving personal care, care at weekends and services during the evening or overnight, have all continued to increase.

- The average time taken by councils to assess households presenting themselves as homeless or potentially homeless was 19 weeks, up from 17 weeks last year and 15 weeks the year before. However, the percentage of cases requiring reassessment within 12 months fell slightly from 7.8 per cent to 7.1 per cent indicating some improvement in the effectiveness of the way councils undertake their work with homeless or potentially homeless people.

- The 'local environmental audit and management system' (LEAMS – see note below) developed by Keep Scotland Beautiful (KSB) enables the cleanliness of streets and other relevant land to be compared between councils by use of a cleanliness index scale of zero to 100. The overall index for Scotland is 71, a slight improvement on the index of 70 for the previous two years.

- There is evidence of the increasing use of learning centres and access points in council libraries with rises in both the number of users identified and the number of times the facilities were used. However, the decline in the number of people borrowing books and other items continues.

- Despite longstanding Scottish Government targets for councils processing planning applications within two months there is no evidence of improvement in the service. In 2006/07, the proportion of householder applications processed within two months remained just below 80 per cent (target 90 per cent) and the overall proportion including non-householder applications processed within two months remained at just above 60 per cent (target 80 per cent).

- Over the last three years the proportion of council buildings identified by councils from which services are delivered and with public areas suitable for and accessible to people with disabilities has risen from 37 per cent (2004/05) to just over 51 per cent.

- There is evidence that the percentage of all roads for which maintenance treatment needs to be considered continues to be a significant problem for councils. The survey sample measured in 2006/07 showed a potential problem with just over 47 per cent of council roads, up from 42 per cent in each of the last two years.

- Councils paid about 86 per cent of their bills within 30 days continuing the gradual improvement over several years. They also maintained the high level of trading standard business advice requests dealt with within 14 days at over 95 per cent.

Note: More information on LEAMS is available from Keep Scotland Beautiful at: www.keepscotlandbeautiful.org
Source: Accounts Commission published SPIs

Exhibit 32
Key messages from the 2006/07 police and fire and rescue SPIs

The police services and fire and rescue services SPIs for 2006/07 showed:

- The overall proportion of crime cleared up rose slightly to just over 47 per cent.

- The proportion of police reports submitted to the Children's Reporter within 14 days rose to 86 per cent from 76 per cent two years earlier, and reports to the Procurator fiscal within 14 days rose to 75 per cent from just over 47 per cent two years earlier.

- The number of accidental dwelling fires was down slightly to about 5,470 compared with 5,570 two years earlier.

- The number of incidents resulting in casualties has remained at around 1,000 over the last three years.

Source: Accounts Commission published SPIs

150. The number of deaths through house fires fell from 74 in 2004/05 to 54 in 2005/06. However, the number of incidents attended by fire and rescue services in the same period increased by 3.7 per cent despite targeted safety initiatives. The report concluded that all fire and rescue authorities need to do more to evaluate the impact of their community safety work to ensure they are making best use of their resources.

151. The report also highlighted the need for a more modern attitude within fire and rescue authorities towards their workforce. The lack of diversity in the workforce is an area in need of urgent improvement. Even after targeted recruitment campaigns only

3.9 per cent of firefighters are women and 0.5 per cent of the total workforce from minority ethnic groups.

152. Elected members need to be more involved in the strategic development of their fire and rescue service and in scrutinising performance. The report recommends more specialised training for elected members on fire and rescue boards and committees.

153. We are currently reviewing the progress that fire and rescue authorities have made and will report again on this during 2008.

Dealing with offending by young people
154. We published a performance update report[21] on dealing with offending by young people in August 2007. This looked at progress against recommendations in our previous reports, taking account of recent policy changes such as the 2004 antisocial behaviour legislation and the Scottish Executive's *Getting it right for every child* agenda stemming from the review of the children's hearings system. The report found that:

- The introduction of national standards has provided a valuable focus for service improvement, but comprehensive reporting on performance against the national standards cannot yet take place because of weaknesses in performance management arrangements.

- Antisocial behaviour orders for 12 to 15-year-olds were introduced as a measure to contain antisocial behaviour in the community but this has created tensions with the approach taken to dealing with offending by young people by the children's hearings system.

- The principles underpinning the children's hearings system have been put under pressure by recent increases in referrals.

- Despite a small improvement, the time taken for social work reporting remains unacceptably long.

Managing long-term conditions
155. This report[22] examined services for adults with long-term conditions generally, focusing on two conditions in particular – COPD (Chronic Obstructive Pulmonary Disease, which includes respiratory diseases such as emphysema and chronic bronchitis) and epilepsy. These conditions were selected as there has been little evaluation of these compared with other long-term conditions such as diabetes or asthma.

156. *Managing long-term conditions* recognised that councils, through social work services and other outlets, will have to play a big part in shifting the balance of care for long-term conditions from hospital care to social care.

157. Our study found some good examples of Community Health Partnerships (CHPs) and social work services working in partnership, with co-location of staff and integrated teams. All areas had joint teams working to prevent admission and support earlier discharge but there are still a number of barriers such as budget constraints and lack of pooled budgets. Different information systems in councils' social service departments and the NHS can prevent good information sharing. More needs to be done to make partnership working more effective and the study found that relations with voluntary organisations are patchy and depend on which organisations happen to be based in the local area.

158. Our study included focus groups with patients. It was clear that participants would have welcomed more information when they were diagnosed, particularly about the long-term implications of their condition and the services available. They felt this would have helped them play a more active part in their own care. In particular, there was little awareness about the availability of social care services and many relied on support from family and friends.

159. It was not possible to quantify the amount of social work input when estimating the cost of COPD and epilepsy. This is because social work and NHS financial systems may not be compatible and social work departments do not record all health conditions their clients may have. The report recommends that local authorities (as well as NHS boards and the Scottish Government) collect better information on activity, cost and quality of long-term conditions to support the development of community services.

Waste management
160. Our report on *Sustainable Waste Management*[23] reviewed the work of councils, Scottish Environment Protection Agency (SEPA) and the Scottish Government in reducing the amount of biodegradable municipal waste (BMW) being sent to landfill. It made a number of recommendations designed to make managing waste more economic, efficient and effective. In particular it recommended that councils and the Scottish Government should:

- undertake a review of kerbside recycling systems to identify the most cost-effective systems to achieve the levels of recycling required to meet the Landfill Directive targets and that councils should work together to standardise the type of containers

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21   *Dealing with offending by young people: performance update*, Audit Scotland, August 2007.
22   *Managing long-term conditions*, Audit Scotland, August 2007.
23   *Sustainable waste management*, Audit Scotland, September 2007.

they use by applying a common colour coding system

- ensure that their current waste management systems offer Best Value by conducting option appraisals before extending their recycling schemes, including market testing as a way of demonstrating Best Value

- work together to reach a decision on the facilities required for treating residual waste to achieve the 2010 and 2013 Landfill Directive targets.

161. The percentage of municipal waste which is recycled and composted had risen significantly from seven per cent in 2001/02 to 25 per cent in 2005/06. But the rate varies considerably between councils. The SPIs show that the rate has risen to 28.4 per cent for 2006/07.

162. Recycling and composting rates vary across councils in Scotland, from 16.8 per cent in Glasgow to 43.6 per cent in Clackmannanshire. Twenty-nine councils recycle and compost more than 20 per cent; and three recycle less than 20 per cent (Exhibit 33). These variations reflect demographic factors, such as the challenges involved in making recycling facilities available in tenement and high-rise properties and in remote areas. They also reflect whether councils have been successful in bidding for finance from the Strategic Waste Fund (SWF).

163. The Landfill Directive targets were introduced to reduce the amount of biodegradable municipal waste (BMW) going to landfill to 1.3 million tonnes by 2010, 0.88 million tonnes by 2013 and 0.62 million tonnes by 2020. Councils exceeding their allowances face substantial fines as the fine per excess tonne increases from £25 per tonne in 2006/07 to £50 in 2007/08 and £150 in 2008/09.

Exhibit 33
Council recycling and composting rates 2006/07
Recycling rates have increased since 2005/06 but there is considerable variation among councils.
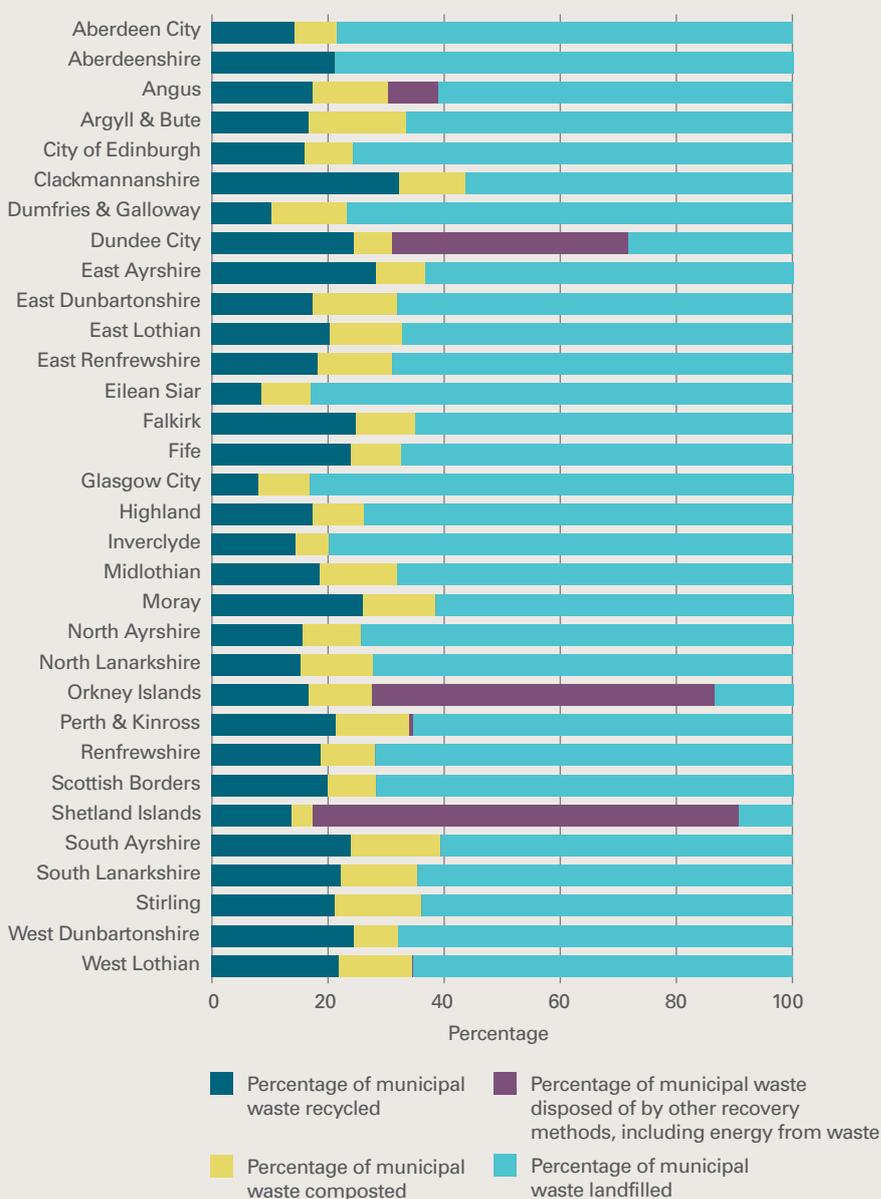
Source: Audit Scotland

164. Currently 1.5 million tonnes of BMW go to landfill sites. In 2006/07, five councils (Aberdeen City, Aberdeenshire, Dumfries & Galloway, Highland and Inverclyde) exceeded their landfill allowances. Scottish ministers have discretion to levy penalties and will notify the councils of their penalties in due course. The councils have made representations to the Scottish Government regarding their excess landfill.

165. As part of the concordat between the Government and COSLA, the SWF will be removed from 1 April 2008 with the fund being absorbed into the main local government settlement. Spending plans include an allocation to a new Zero Waste Fund (ZWF). The proposed expenditure in this area is £41.1 million in 2008/09; £54.4 million in 2009/10 and £58.7 million in 2010/11.

Ministers are still considering exactly how best to target these resources to meet strategic objectives, however, it is envisaged that the resources will be used for some or all of the following:

- waste prevention (in relation to both household waste and commercial waste)

- developing markets for recyclate

- waste awareness and education, including support for litter and fly-tipping campaigns

- support for community recycling

- support for the development of waste infrastructure linked to the diversion of waste from landfill

- advice and research to support local authorities.

Police call management

166. How police manage calls plays a key role in effective crime management, and in ensuring public safety and the best use of police resources. Over the last four years all eight forces in Scotland have centralised their call management functions. Our report, *Police call management: an initial review*,[24] looked at the recent changes in how Scottish police forces manage calls from the public and examined performance, costs, and the experiences of callers.

167. The police received a total of 5.8 million calls from the public during 2006/07, about 15,900 per day, and £45 million was spent managing these calls. The report states that only 13 per cent of calls received by the police are 999's, but up to half of these are not emergencies.

168. Overall, people are satisfied when they call the police, more non-emergency calls are being answered than in the past, and more calls are being resolved without an officer having to visit. However, there was no national strategy when the new call management arrangements were being established, so structures and systems across the forces differ and there is a lack of comparable performance information. This makes it difficult for forces to demonstrate if they are achieving all the intended benefits from centralising their calls, or providing value for money. It also makes it difficult for police authorities and the Scottish Government to scrutinise police performance in managing calls effectively.

169. The report sets out a total of 18 recommendations for the Scottish Government, police authorities and forces themselves. These are intended to improve the effectiveness of police call management in Scotland. The main recommendations are that:

- forces should work with the Scottish Government and the other emergency services to improve the public's awareness of when to use the 999 service and what number to call in non-urgent situations

- the Scottish Government should liaise with the Association of Chief Police Officers Scotland (ACPOS), COSLA, the Scottish Police Authorities Conveners' Forum and other public services to look at options for providing easily accessible numbers for people to call in non-urgent situations

- forces should ensure they have appropriate staffing resources to meet demand, and should assess and meet the training needs of call management staff

- forces should improve the information collected about the full range of calls received to enable them to manage demand more effectively

- the Scottish Government, forces and police authorities should agree a range of relevant performance indicators for police call management

- the Scottish Government, ACPOS and the Scottish Police Authorities Conveners' Forum should agree a national strategic approach for call management in Scotland and ensure effective scrutiny of these functions

- the Scottish Government should clarify which policing decisions require a national strategic approach and how to strengthen accountability for these decisions.

A review of free personal and nursing care

170. We published a report[25] looking at free personal and nursing care (FPNC) in January 2008. The main findings were:

- The financial memorandum set out in the Community Care and Health (Scotland) Act 2002 does not provide a robust and comprehensive assessment of the financial implications and risks of introducing FPNC. This was also raised by the Scottish Parliament's Health and Community Care Committee when it scrutinised the initial Bill.

- Scottish ministers made the decision to introduce FPNC early in 2001. This then set the Scottish Executive challenging timescales for developing the policy but it achieved its deadline. All councils were successful in putting in place systems to implement and deliver the policy from 1 July 2002.

24   *Police call management: an initial review*, Audit Scotland, September 2007.
25   *A review of free personal and nursing care*, Audit Scotland, January 2008.

- FPNC was introduced at a time of other significant changes and developments in health and social care. This, combined with a lack of intended outcome measures, makes it difficult to evaluate the impact of the policy in isolation from other changes.

- Ambiguities in both the legislation and guidance together with an inconsistency between the two around food preparation have led to different interpretations by councils and therefore variation across Scotland in how FPNC has been implemented. Older people are also unclear about what free personal care means in practice.

- The initial cost estimates for the policy were difficult to make because of the limited information available at that time, particularly regarding personal care delivered at home. However, monitoring the financial impact of the policy following implementation has been limited and central government has not updated the longer-term cost projections for FPNC since 2001, although it has carried out short-term projections to support the annual allocations.

- We estimate that the total costs of FPNC for the first four years were £1.8 billion. Councils would have spent around £1.2 billion of this even if the policy had not been introduced.

- Allowing for the limitations of the data available, we estimate that the additional costs for the first four years of FPNC are around £600 million. This has led to a growing shortfall in central funding, and by 2005/06 we estimate this was either £46 million or £63 million depending on the assumptions used.

- It is likely that demand for FPNC will continue to grow with the projected increase in the older population and this will have implications for the future costs of the policy.

- Councils are using a variety of approaches to manage demand for FPNC. Differences in the use of waiting lists and eligibility criteria mean that older people may receive different levels of service depending on where they live.

Part 5. Outlook

The shift to an outcomes approach has the potential to be one of the most significant changes for local government since reorganisation in 1996.

Priorities and risks 2008

171. Local government faces an environment of major change as the new council administrations become more established and the national process of public service reform evolves. Best Value requires continuous improvement in council services while community planning raises significant challenges in relation to joint working across the public sector. The focus in managing service performance is shifting from processes and procedures to outcomes for service users and citizens.

172. With this background, the context will be one of increasing pressures on resources and demands on services which will increase the need to find greater efficiencies. Councils will continue to face difficult choices in deciding which services to provide and at what level. It will be critical that the process of allocating limited resources is integrated with this and that decisions are based on robust intelligence about how much services cost to deliver.

Audit approach

173. Public audit supports the democratic scrutiny of local government and contributes to improvement. Best Value audits have brought a new level of accountability in individual councils and have focused attention on critical areas such as leadership, openness and performance management.

174. We take a risk-based approach to our work based on an annual Priorities and Risks Framework (PRF)[26] which identifies the national risks and priorities facing local government (Exhibit 34, overleaf). Working with local government and stakeholders we identify the key issues facing the sector in the coming year. National issues are linked with local factors to inform the local audit approach.

The PRF also informs our other work and provides a useful summary of the initiatives and priorities in local government and the main risks to their achievement. We will report on progress against the PRF in our next overview report.

175. Best Value audits reach conclusions about councils' corporate performance and how well they are supporting continuous improvement in their performance. During 2008, we will report on Aberdeenshire, City of Aberdeen, Falkirk, Midlothian, North Lanarkshire, Orkney and Perth & Kinross. We will also complete the first round of Best Value audits by starting audits at Dumfries & Galloway, East Dunbartonshire, Fife, South Ayrshire and South Lanarkshire. The Accounts Commission is consulting councils and other stakeholders in preparation for the second round of Best Value audits.

176. Our current national studies programme for the period up to 2008 is set out in Exhibit 35 (page 41). The Commission will be undertaking a wide-ranging consultation on the next programme of national studies during 2008.

177. Every year we publish Statutory Performance Indicator (SPI) information on our website. This shows the performance of councils over time and in comparison with other councils. The SPIs also provide profiles of individual councils. They remain under continuous review and each year any changes are made in consultation with stakeholders.

178. We are represented on the project boards to establish national performance management frameworks for councils and for police services. The Accounts Commission supports the principles and objectives of these projects and has welcomed the developments announced in November to establish

an outcome-based approach to the relationship between central and local government.

179. These developments are at a relatively early stage but it is anticipated that they will strengthen the quality of performance management in Scottish local government. As this develops, we will consider the impact on the SPI arrangements.

180. In 2007, the Accounts Commission agreed to make only very limited changes to the SPIs in order to harmonise them with performance information being collected nationally and change those that are inappropriate for continued use. The changes introduce one new indicator to show progress towards meeting the Scottish Housing Quality Standard, simplify two SPIs and change eight SPIs including:

- a community care SPI reflecting the new framework for partnerships

- two benefits administration SPIs to accord with the information requirements of the Department for Work & Pensions

- a homelessness SPI reflecting developments in policy relating to homelessness services

- a police complaints SPI to report in accordance with amended legislation.

Outcome-based approach
181. The shift to an outcomes approach has the potential to be one of the most significant changes for local government since reorganisation in 1996, by allowing councils and their partners to focus on the ways in which they can best improve the quality of life for the people they serve. The approach should provide a clear understanding between

Exhibit 34
Priorities and risks 2007/08 – summary and examples

		Areas of potential risk	Indications that risks are being addressed
Governance	Political governance	The role and expected competencies of councillors	Councillors are clear about their roles; have access to training and development and have personal development plans.
		Support available to elected members	Information provided to councillors is of sufficient quality to inform decisions. Councillors are supported in multi-member wards.
		Accountability for performance	Performance reporting is balanced and easily understood. Scrutiny arrangements are maintained over periods of change.
	Community planning & partnership working	Governance/accountability	Council provides effective civic leadership and strategic approach, with clear arrangements for governance and accountability. Scrutiny and performance monitoring are properly developed and monitored.
		Achievement of objectives	Improvements in services and community well-being are demonstrated.
		Community engagement	Consultation and engagement with communities and service users are coordinated and effective, with clear public reporting on impact.
Performance	Performance management	Corporate priorities	Priorities and objectives are communicated clearly at corporate and service level. Plans are integrated and provide links with all resources and reflect statutory duties, including equalities.
		Performance indicators	Performance measures cover quality and cost and focus on the outcomes and experiences of service users.
		Monitoring performance	Information and monitoring identify good and poor performance on a timely basis. Performance is monitored over time and against corporate/service targets as well as standards achieved by others.
		Performance reporting	Service users and the public receive balanced and tailored information on performance. Information is provided on targets, actual performance and planned improvements.
Use of resources	Financial planning	Budgets and budgetary control	Revenue and capital budgets reflect prioritisation of services and are linked and monitored effectively.
		National influences	National priorities are addressed through sustainable financial planning.
		Joint working	Financial planning is coordinated with partners and supports joint working.
		Long-term planning	Resource planning is integrated with corporate/service plans and takes account of reserves and related policies.
		Training	There is ongoing training and staff development on financial issues.
	Workforce management	Single status and equal pay	Single status agreement is implemented.
		Workforce management	A comprehensive workforce strategy is in place which is based on good information on current and future service demands.
		Efficient use of resources	Workforce management is linked to the financial strategy and corporate and community plans.
		Absence management	Effective arrangements are in place to tackle absence and there is support for staff returning to work after absence.
	Procuring and managing assets	Strategic planning	Asset management and procurement are viewed as an integral part of strategic management and business planning.
		Information management	There is adequate information on asset condition and suitability.
		Systems and techniques	The value of anticipated benefits from better asset management and procurement are established.
		Procurement	A comprehensive procurement policy is applied across the council, which reflects the recommendations contained in the McClelland report.

Source: Audit Scotland

Exhibit 35
Local government performance study programme

Local government-based studies:

- Equalities
- Leisure services
- Asset management

Cross-cutting studies:

- Improving the school estate
- Civil contingencies planning
- Mental health
- Promoting and improving energy efficiency

Follow-up studies:

- Teachers' agreement
- Road maintenance
- Community equipment and adaptations
- Community planning

Source: Audit Scotland

central government and councils on their contributions to government priorities, and it will free up councils to take local decisions on how best to allocate spending. But the focus on outcomes does not remove the need for good management processes and robust information about the quality, accessibility and value for money of services.

182. Audit Scotland is participating in the group overseeing the development of the outcomes approach to ensure that outcome agreements are underpinned by robust monitoring and performance reporting arrangements. This will help to ensure that people have access to performance information about public services that is transparent and reliable. We are committed to supporting the outcomes approach and doing what we can to ensure that public services continue to improve and are accountable to the people they serve.

Working with other scrutiny bodies
183. We continue to work with other scrutiny organisations including service inspectorates. We draw on their findings to inform our Best Value audits and national studies and auditors contribute significantly to those bodies' inspections of individual services.

184. The Crerar report[27] on the independent review of regulation, audit, inspection and complaints handling of public services in Scotland was published in September 2007. It contained a series of recommendations designed to streamline the scrutiny landscape in Scotland and make it more focused on the needs and concerns of service users.

185. The review concluded that financial probity of public services is critical and requires ongoing independent checks. For that reason no changes were proposed to the existing external financial audit

arrangements of Scottish public bodies. It also concluded that the Best Value regime has been a driver of modernisation and improvement in local government and reported that the Best Value audits are increasingly challenging under-performance as well as identifying success. The review recommended that the Best Value audit process in the local government sector should provide the basis for a single corporate assessment of council performance and should absorb other corporate level inspections and that the Accounts Commission should work with other external scrutiny organisations to take this forward.

186. The review also recommended that an appropriate scrutiny body should be charged with overseeing the effective coordination of all local government scrutiny activity. In relation to performance audit activity, the review recommended that audit work of this kind should be aligned with overarching strategic priorities for scrutiny to be set out by ministers and the Parliament.

27   *Report of the independent review of regulation, audit, inspection and complaints handling of public services in Scotland,* Professor Lorne D Crerar, September 2007.

Appendix 1.

Auditors for 2007/08

The Accounts Commission appoints auditors to local authorities and its policy is to rotate audit appointments at least once every five years. The latest change took effect from 2006/07. The appointed auditors for 2007/08 are set out below.

Audited Body	Auditor
Aberdeen City Council	Henderson Loggie
Aberdeenshire Council	Audit Scotland
Angus Council	Henderson Loggie
Argyll and Bute Council	Grant Thornton UK LLP
City of Edinburgh Council	Audit Scotland
Clackmannanshire Council	Grant Thornton UK LLP
Comhairle nan Eilean Siar (Western Isles Council)	Audit Scotland
Dumfries and Galloway Council	Audit Scotland
Dundee City Council	Audit Scotland
East Ayrshire Council	Audit Scotland
East Dunbartonshire Council	KPMG LLP
East Lothian Council	Audit Scotland
East Renfrewshire Council	Audit Scotland
Falkirk Council	Audit Scotland
Fife Council	Scott-Moncrieff
Glasgow City Council	Audit Scotland
Highland Council	Audit Scotland
Inverclyde Council	Audit Scotland
Midlothian Council	Audit Scotland
Moray Council	Audit Scotland
North Ayrshire Council	Audit Scotland
North Lanarkshire Council	PricewaterhouseCoopers LLP
Orkney Islands Council	Scott-Moncrieff
Perth and Kinross Council	Henderson Loggie
Renfrewshire Council	Audit Scotland
Scottish Borders Council	Audit Scotland
Shetland Islands Council	Audit Scotland
South Ayrshire Council	Audit Scotland
South Lanarkshire Council	PricewaterhouseCoopers LLP
Stirling Council	Audit Scotland
West Dunbartonshire Council	KPMG LLP
West Lothian Council	Audit Scotland
Authorities Buying Consortium	Audit Scotland
Ayrshire Valuation Joint Board	Audit Scotland
Central Scotland Fire Joint Board	Audit Scotland

Central Scotland Police Joint Board	Audit Scotland
Central Scotland Valuation Joint Board	Grant Thornton UK LLP
Clyde Muirshiel Park Authority Joint Committee	Audit Scotland
Dunbartonshire and Argyll and Bute Valuation Joint Board	KPMG LLP
East of Scotland European Consortium	Grant Thornton UK LLP
Forth Estuary Transport Authority	Audit Scotland
Glasgow and Clyde Valley Joint Structure Plan Committee	Audit Scotland
Grampian Fire Joint Board	Audit Scotland
Grampian Police Joint Board	Henderson Loggie
Grampian Valuation Joint Board	Audit Scotland
Highland and Western Isles Valuation Joint Board	Audit Scotland
Highlands and Islands Fire Joint Board	Audit Scotland
Lanarkshire Valuation Joint Board	PricewaterhouseCoopers LLP
Lothian and Borders Fire Joint Board	Audit Scotland
Lothian and Borders Police Joint Board	Audit Scotland
Lothian Valuation Joint Board	Audit Scotland
Mugdock Country Park Joint Committee	KPMG LLP
Northern Police Joint Board	Audit Scotland
Orkney and Shetland Valuation Joint Board	Audit Scotland
Renfrewshire Valuation Joint Board	Audit Scotland
Strathclyde Concessionary Travel Scheme Joint Committee	KPMG LLP
Strathclyde Fire Joint Board	PricewaterhouseCoopers LLP
Strathclyde Partnership for Transport	KPMG LLP
Strathclyde Police Joint Board	PricewaterhouseCoopers LLP
Tay Road Bridge Joint Board	Audit Scotland
Tayside Contracts Joint Committee	Audit Scotland
Tayside Fire Joint Board	Henderson Loggie
Tayside Police Joint Board	Henderson Loggie
Tayside Valuation Joint Board	Audit Scotland
West of Scotland European Consortium	Audit Scotland
HITRANS	Audit Scotland
NESTRANS	Audit Scotland
South West RTP	Audit Scotland
TACTRAN	Henderson Loggie
Shetland RTP	Audit Scotland
SETRAN	Audit Scotland
West of Scotland Archaeology Service Joint Committee	Audit Scotland
WESTRANS	Audit Scotland

Appendix 2.

Glossary of terms

Accounts Commission	The Commission secures the audits of local authorities in Scotland. It reports and makes recommendations to Scottish ministers and to audited bodies. It may also hold hearings and apply sanctions to councillors and officers, where appropriate.
External/arms length organisations	An organisation set up to manage or improve the delivery of public services. Involves the transfer of public funds from the council's direct control to the external organisation.
Asset register	A database of assets with information about the assets such as condition, age and depreciation charge.
Best Value	To provide services in the most economic and efficient way and to promote continuous improvement in performance.
Cash-releasing efficiency gains	Where an efficiency is realised because the organisation or function delivers the same service using less money.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is the leading accountancy body for the public services.
Controller of Audit	The officer appointed by the Accounts Commission under section 97 (4) of the Local Government (Scotland) Act 1973. The Controller of Audit has statutory reporting functions.
COSLA	COSLA, the Convention of Scottish Local Authorities, represents Scottish local government and also acts as the employers' association on behalf of Scottish councils.
EC landfill directive	European requirements on landfill to ensure high standards for disposal of waste and to encourage waste minimisation.
Governance	The framework of accountability to users, stakeholders and the wider community in which organisations take decisions, and lead and control their functions, to achieve their objectives.
McClelland report	A review of public sector procurement in Scotland was carried out by John McClelland at the request of the then Minister for Public Service and Reform. The review was carried out within a distinctive agenda of efficient government. It reports on the status of procurement practices and makes recommendations for improvement.
Multi-member wards	Electoral wards containing typically three or four elected councillors.
National waste strategy (NWS)	The NWS Scotland was formulated to improve the way waste is dealt with in Scotland and to protect the environment.
Options appraisal	Identifying objectives and then obtaining and analysing information to establish the optimum method of achieving these objectives.
Outcome agreements	These documents set out what service improvements are going to be made and the anticipated measurable impacts of these improvements.
Private finance initiative (PFI)	The UK Government's initiative to encourage the development of private finance in the public sector.

Proportional representation	An electoral system which attempts to ensure that the outcome of the election reflects the proportion of support gained by each competing party.
Public private partnership (PPP)	A generic term for projects involving both the public and private sectors. The involvement can be to varying degrees and the partnership can take different forms. PFI is one example of PPP.
Ring-fenced funding	Funding provided for a specific purpose or project.
Shared services	The convergence and streamlining of functions to ensure that they are delivered as effectively and efficiently as possible.
SOLACE (Society of Local Authority Chief Executives and Senior Managers)	The representative body for senior strategic managers working in local government. The society promotes public sector management excellence and provides professional development for its members who come from all areas of the public sector.
Statutory performance indicators (SPIs)	The Accounts Commission has a statutory responsibility to specify information councils must publish about their performance, in the form of statutory performance indicators. The information is collected and published locally by each council. The Commission publishes information about the comparative performance of councils across Scotland.
Time-releasing efficiency gains	Efficiencies which do not release cash but allow frontline savings to deliver more or better services with the same money.

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