

Overview of the local authority audits 2005

Prepared for the Accounts Commission

March 2006



The Accounts Commission

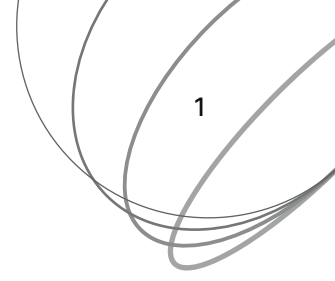
The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- 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 35 joint boards (including police and fire services). Local authorities spend over £14 billion of public funds a year.

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

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Commission's findings



We are pleased that financial stewardship in councils remains generally sound. Councils face major challenges and there are areas in which councils need to improve to meet these challenges.

1. Scottish councils are facing major challenges:

- The Scottish Executive's drive for public sector reform and modernisation and for efficiencies.
- Their ongoing duty to deliver Best Value and to lead Community Planning.
- The potential loss of experienced councillors and chief executives in 2007.
- Developments in services, including the teachers' agreement, modernisation of the school estate, free personal care for older people, growing concerns about child protection and community safety, improving the quality and sustainability of housing stock, and the national waste strategy.

2. To meet these challenges effectively councils must continually strive to work in new ways, setting strategic objectives, clearly identifying priorities and working with partners to deliver them. In this changing environment there will be greater diversity of accountability structures and the Code of Practice on Following the Public Pound will be increasingly relevant.

3. We are pleased that financial stewardship in councils remains generally sound. Council tax collection rates continue to improve and councils have responded well to the Commission's recommendations on providing more information about reserves and what they intend to do with them. We welcome further progress in developing audit committees, although there is still some way to go to fully embed their quasi-independent role. There have been positive developments in service delivery, including improvements in waste recycling.

4. There are areas in which councils need to improve in order to meet these challenges:

- Development of medium and long-term financial strategies that cover all their operations, taking account of significant long-term commitments and, as far as possible, central government funding intentions.
- Further development and implementation of systematic performance management. Limited performance information in councils makes it difficult to assess how well services are being delivered.
- Identification of priorities to meet strategic objectives in the face of limited resources and increasing demands on services.
- Better information and support for elected members to enable them to exercise their scrutiny responsibilities effectively.
- Increased emphasis on asset management plans.
- Better development of risk management arrangements.
- Development of overall human resource strategies setting out how changes in service and service delivery methods will affect the workforce and how these will be addressed.
- Better focus on the needs of service users.

5. Council pension fund liabilities have increased significantly and councils' contributions as employers are likely to rise following the full valuation of the funds. This is an area of continuing concern which will place additional pressure on resources.

6. We welcome the continuing development of the Best Value audit process and the application of the priorities and risks framework. We also welcome the work which Audit Scotland does with inspectorates and other scrutiny agencies to minimise duplication and reduce the burden on audited bodies.

Summary



Introduction

1. This report provides an overview of the main issues arising from local authority audits in 2005. It draws on information from a range of sources, including auditors' reports, Best Value audits, Statutory Performance Indicators (SPIs) and studies of specific services. The report also draws on the work of other inspectorates and regulators such as the education and police inspectorates.

2. Local government revenue expenditure was almost £15 billion in 2004/05, an increase of 6% on the previous year. The major services funded through this expenditure were education (£4.2 billion), housing (£2.7 billion) and social work (£2.6 billion).

3. The Accounts Commission is responsible for securing the audit of Scottish local authorities. The audit comprises:

- the annual audit of finance and governance

- the audit of Best Value and Community Planning
- SPIs
- national performance studies.

4. These strands of work complement one another and are carried out in a joined-up manner, sharing knowledge and avoiding duplication.

5. Auditors also work with other scrutiny bodies. Together they aim to support improvement while minimising the workload they impose on local services. In particular, Best Value audit reports draw together the findings from inspection to provide a rounded picture of how each council performs.

6. This report is organised into five parts:

- **Part 1:** The strategic context for local government in Scotland.
- **Part 2:** Managing resources.
- **Part 3:** Managing performance.

- **Part 4:** Service performance.
- **Part 5:** Looking ahead, setting out how audit is responding to issues highlighted in this report.

Key messages

1 Local authorities are working in an environment of major change as government seeks to reform and modernise public services.

7. The Scottish Executive is pursuing major change through public sector reform and modernisation. Its wide-ranging policies are aimed at improving the lives of the people of Scotland and delivering better public services. Many of these policies will be delivered through councils, requiring them to balance local and national priorities.

8. Best Value and Community Planning involves councils taking new approaches to service delivery and governance which take account of cross-cutting policy issues, such as social inclusion, sustainable development and equalities.

The challenge is to find new ways of working across services and with other organisations to achieve the best results for citizens and service users.

9. Community Planning provides the strategic framework for partnership working to deal with local issues, improve services and share resources. And the drive for efficiency has received fresh impetus through the Scottish Executive's plans for cash and time-releasing efficiencies across the public sector in Scotland.

10. The pace of change is likely to intensify in the period up to and beyond the council elections in 2007. Many experienced councillors are expected to stand down at that time and more than half of current chief executives are likely to retire, suggesting a loss of experienced leaders. The 2007 elections are also likely to alter the political complexion of some councils.

2 Councils face substantial financial pressures, and they need to take a more strategic approach to the management of resources and risks.

11. Councils face cost pressures from past decisions and commitments, such as settling equal pay claims, implementing the single status agreement, increasing pension contributions and above-inflation increases in road and building maintenance and energy costs. And there are growing demands on services, particularly for older people and children.

12. These pressures come at a time when, after a period of steady increase, the rate of growth of central government financial support is levelling off.

13. Overall, the audits point to the need for councils to adopt a more strategic approach to resource management, with medium to long-term plans which match resources to priorities. This means financial and workforce plans that are fully integrated with corporate and service plans, and asset management plans which make the best use of assets.

14. Councils are making steady progress in developing risk management arrangements. But they need to show that they are 'risk aware' and that a risk management culture is embedded across services.

3 Financial stewardship in councils remains generally sound. There were no audit qualifications and councils provided more information about reserves and what they intend to do with them.

15. Accounts and audits were completed on time and none of the accounts of councils or other local authority organisations was qualified.

16. Last year's overview report emphasised the need to have clear and explicit policies on the level of reserves and balances held and how these will be applied. Councils have responded well – most now have policies in place covering the general fund, the reserve most closely associated with council tax levels.

17. Improved disclosure in the accounts means that the amounts held in general funds can now be broken down. Of the total (£449 million) at 31 March 2005, £208 million was earmarked for specific future purposes and £241 million was unallocated. Overall, the unallocated element represents about 2.6% of the £9.3 billion net cost of council services, which seems reasonable in light of the financial pressures councils face.

4 Councils have some way to go to develop and implement systematic performance management of their services. Councillors need better information and support if they are to exercise their scrutiny responsibilities effectively.

18. While some councils have made good progress, the Best Value audits show that performance management is underdeveloped in most councils.

19. Councillors need better information about service performance if they are to exercise their scrutiny responsibilities effectively. This means establishing baselines from which improvement can be measured. At present, councils place too much reliance on the SPLs as the primary tool for measuring performance.

20. Further progress has been achieved in applying audit committee principles but there is still room for improvement. Councillors need training and support to enable them to challenge officers. And councils need to ensure that sufficient time is available for core audit committee business.

5 There was general improvement across the range of services covered by the Commission's SPLs, but this masks significant variation among councils.

21. Of the 46 indicators for which comparisons can be drawn between 2002/03 and 2004/05, 16 show an overall performance improvement of at least 5% and seven show a deterioration of at least 5%. Within the overall figures there is wide variation among councils; detailed information on SPLs is published separately.

22. The SPIs show overall improvement in a range of areas, including:

- **council tax collection**, where the amount collected in-year in 2004/05 increased to 92.7% from 91.7% in the previous year
- **home care**, where increasing service levels and improved flexibility represent a major step forward
- **waste management**, where recycling levels are rising towards the national target.

Part 1. Strategic context



Main message

- Local authorities are working in an environment of major change as government seeks to reform and modernise public services.

Local government in Scotland

23. Local government in Scotland is made up of 32 councils, together with 35 related organisations such as police and fire boards. Councils vary widely in size, with populations ranging from about 19,000 in Orkney to nearly 600,000 in Glasgow. Large, sparsely populated areas such as Argyll & Bute and Highland contrast with relatively small, densely populated areas such as Aberdeen and Edinburgh.

24. Councils are responsible for providing a wide range of public services including education, social work, housing, roads, refuse collection, and leisure services. They also undertake regulatory activities such as planning, building control and environmental health.

25. Police and fire services are governed by joint boards, except in Dumfries & Galloway and Fife where the councils are also the police and fire authorities.

Local and national priorities

26. Councils are independent of central government and are accountable to their local electorate. They consider local circumstances in making decisions which they believe to be in the best interests of the communities they serve.

27. The Local Government in Scotland Act 2003 introduced new duties for councils, requiring new approaches to service delivery and governance which take account of cross-cutting policy issues such as sustainable development and equalities. Systematic performance management systems are required to enable effective scrutiny and to drive up the quality of services.

28. An effective council will:

- work with partners to identify a clear set of priorities that respond to the needs of the local community in the short and longer term
- organise itself to deliver those priorities
- demonstrate that it is meeting the needs of its communities
- operate in a way that drives continuous improvement.

29. The challenge for local government is to find new ways of working across services and with other organisations to achieve the best results for citizens and service users.

30. The Scottish Executive is pursuing major change through public sector reform and modernisation. It has wide-ranging policies aimed at improving the lives of the people of Scotland and delivering better public services.¹

Exhibit 1

Councillors' roles

The Scottish Local Authorities Remuneration Committee has suggested the following key roles for councillors.

Key roles:

- Represent the views and interests of your ward and its individual constituents and deal with their enquiries and representations fairly and without prejudice.
- Contribute actively to the formulation and scrutiny of the council's policies, budgets, strategies and service delivery.
- Champion the best interests of the council and the community as they relate to the improvement of the quality of life, social, economic and environmental well-being of the community and its citizens.
- Work in partnership with others in the council and partnership organisations at council and community level to help to achieve the above.

Source: The Scottish Local Authorities Remuneration Committee, January 2006

31. Many of these policies will be delivered through councils, requiring them to balance local and national priorities. The Executive influences this through guidance, national standards and targets, and financial mechanisms such as specific grants and 'ring-fenced' funding.

32. Efficient use of public resources is central in achieving Best Value. But efficiency has recently been given a higher profile. *Building a Better Scotland*² sets out the Executive's plans for cash and time-releasing efficiencies across the public sector. Local government is expected to deliver annual efficiencies of £325 million by 2007/08.

33. Councils spend close to £15 billion in revenue terms each year; use assets worth about £20 billion; and employ around 258,000 full-time equivalent staff. Central government financial support has increased steadily in recent years, but the rate of growth is levelling off. Councils also face cost pressures such as

equal pay claims and higher pensions contributions. There are also growing demands on services, particularly social work services for children and older people.

34. People have increasing expectations of council services, in line with the flexibility and responsiveness they expect in other aspects of their lives. And the demands on council services are changing. Key developments include:

- the teachers' agreement affecting pay and working practices
- modernisation of the school estate
- increasing demand for services for older people, reflecting the ageing population
- the policy of free personal care for older people
- growing concerns about child protection and community safety

- improving the quality and sustainability of housing stock
- the national waste strategy, which requires councils to move to more sustainable waste management and to meet targets for increased recycling and reduced landfill.

35. Finance, assets and workforce are considered in [Part 2](#) of this report. [Part 3](#) looks at performance management and [Part 4](#) considers aspects of local authority service performance. [Part 5](#) shows how audit is responding to the issues highlighted in this report.

Roles and responsibilities

36. As elected representatives, councillors are democratically accountable to their communities for the overall performance of the council. Their role is complex and evolving, but includes setting strategic direction and scrutinising performance.

Exhibit 2

Leadership examples

East Renfrewshire

Councillors and senior managers provide strong leadership for the Council and for the wider community of East Renfrewshire. There are good relations between the various political groupings and with officers, encouraging an emphasis on corporate working and a culture of continuous improvement in the standard of services being delivered.

Source: *East Renfrewshire Council – The Audit of Best Value and Community Planning*, Audit Scotland, October 2005

West Lothian

West Lothian Council's organisational culture is a major reason for its success. It has strong and effective political leadership setting clear priorities and organisational values. These provide a clear framework for everything the Council does. This clarity of focus contributes to the Council being able to deliver successfully on its key objectives.

Source: *West Lothian Council – The Audit of Best Value and Community Planning*, Audit Scotland, June 2005

37. The Scottish Local Authorities Remuneration Committee has recently recommended that role descriptions should be in place for all councillors, tailored to local circumstances ([Exhibit 1](#)). This acknowledges the contribution councillors make in formulating policy, holding officers to account for policy implementation, and their wider role as community leaders – including where they represent their councils' interests in joint working partnerships.

38. The Best Value audits demonstrate that strong leadership is a key characteristic of those councils that have been most effective in setting a clear strategic direction and driving continuous improvement in services ([Exhibit 2](#)).

39. Many experienced councillors are expected to stand down at the next council elections in 2007, and more than half of current chief executives are also likely to retire. This suggests a loss of experienced leaders and

the need for focused leadership development programmes over the next two to three years.

40. Audit Scotland recently published a report on leadership development.³ This identified the need for a more strategic approach, identifying and developing potential leaders across organisation and sector boundaries.

Setting strategic direction

41. Councils are large, complex organisations and need clear strategic direction to focus the efforts of staff, and ensure that finance and assets are applied to meet the needs of citizens and local communities.

42. With limited resources and increasing demands on services, councils need to identify priorities to determine how resources will be allocated to meet strategic objectives.

43. To set priorities effectively, councils must have a good understanding of:

- the economic and social issues in their areas
- what local people want and need from services
- how well they have addressed equalities in the provision of services.

44. Best Value audits show that councils have a good understanding of the needs and issues in their local areas, but this is not always translated into clear priorities and action plans.

45. Consultation with communities on what the council's priorities should be varies, but there is evidence that councils and their partners recognise the need for improvement.

Exhibit 3

Planning to deliver

West Lothian has a clear planning hierarchy.



Source: West Lothian Council

Community Planning

46. Since 2003, councils have also been required to initiate and facilitate Community Planning with their partners, including health boards, the enterprise network, police and fire services, and transport authorities.

47. Community Planning provides the strategic framework for partnership working. This involves partners working together to deal with local issues, improve services and share resources. The wide-ranging national policy initiatives and funding and structural differences make this complex and challenging for councils.

48. Audit Scotland's forthcoming report on Community Planning will identify actions required to move Community Planning forward. It will also highlight the need for councils and their partners to demonstrate how their Community Planning activities are improving services and benefiting their communities.

Planning to deliver

49. Best Value audits show that the councils that have been most successful in delivering improvements for local people are those that have a hierarchy of plans and strategies in place which provide clear direction throughout the organisation and link with partners through the Community Planning process.

50. Priorities should flow from the overarching community plan, through the corporate plan to individual service and employee development plans. [Exhibit 3](#) shows the planning hierarchy used effectively at West Lothian.

Part 2. Managing resources



Main messages

- Expenditure levels have increased, but councils face significant cost pressures and the rate of growth of central government financial support is levelling off.
- There is a need for better long-term financial planning.
- Council tax collection rates continued to improve, rising to 92.7% in 2004/05.
- Councils have responded well to the Commission's recommendations by providing more information about reserves and what they intend to do with them.
- Councils have made some progress in developing asset management plans but significantly more needs to be done.
- Councils need to adopt a more strategic approach to workforce management.

- Risk management arrangements are underdeveloped and more needs to be done.
- Financial stewardship in councils remains generally sound. There were no audit qualifications on councils' 2004/05 accounts.
- Councils are taking different approaches to trading accounts, and some trading activities are unlikely to achieve the rolling three-year break-even target.
- The National Fraud Initiative has generated savings in excess of £8 million.

Financial management

51. Total local government revenue expenditure on services in 2004/05 was £14.6 billion. The major services funded through this expenditure were education (£4.2 billion), housing (£2.7 billion) and social work (£2.6 billion).

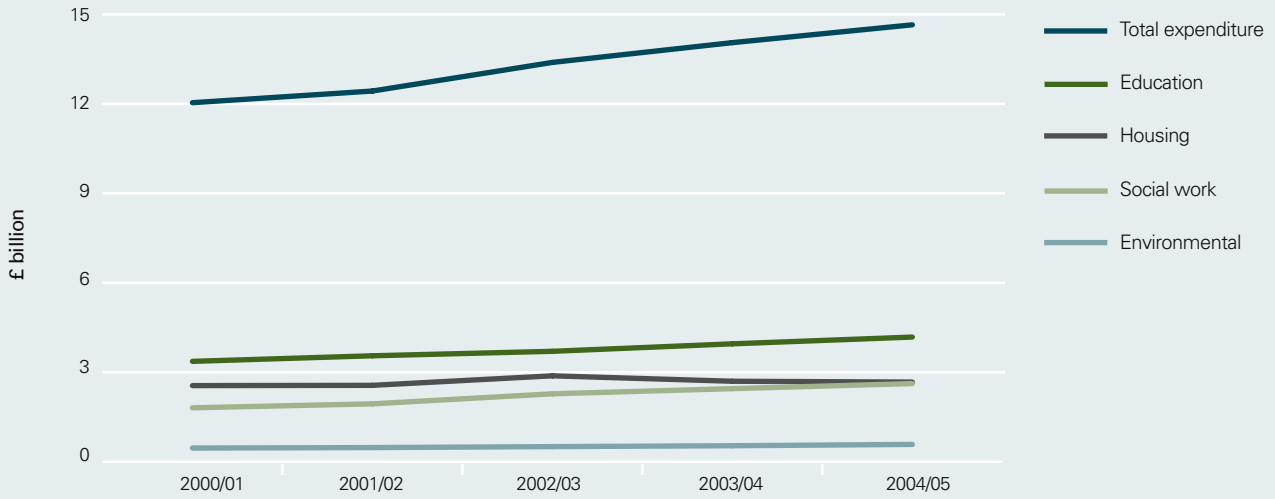
52. This represents an overall increase of 6% on the previous year, continuing the trend of steady growth in local authority expenditure in recent years. In the past five years, expenditure on services has increased by 20%. The largest increases are in education (24%), social work (45%) and environmental services (26%), reflecting local and national priorities and increasing demand (*Exhibit 4, overleaf*).

53. Of the £14.6 billion total, £10.1 billion was financed by central government in the form of revenue support grant (RSG) of £5.3 billion, redistributed non-domestic rate income (NDRI) of £2 billion, and grants of about £2.8 billion (which includes housing benefit subsidy). The balance was financed by council tax of £2 billion, housing rents of £0.9 billion, and income from sales, fees and charges of about £1.6 billion (which includes income from residential and home care services and from leisure facilities).

54. Central government financial support through RSG, NDRI and specific grants is known collectively

Exhibit 4

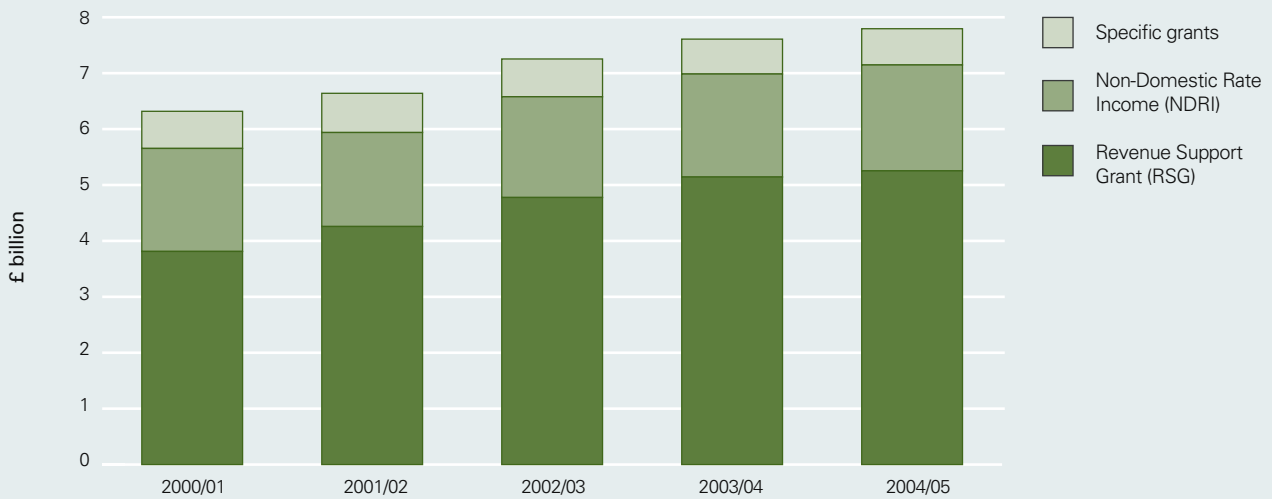
Service expenditure – 2000/01 to 2004/05 (at 2004/05 prices)



Source: Audit Scotland

Exhibit 5

Aggregate External Finance (AEF) 2000/01 to 2004/05 (at 2004/05 prices)



Source: Audit Scotland

as Aggregate External Finance (AEF). After a period of steady increase, the rate of growth is levelling off (Exhibit 5). Recent Scottish Executive figures show that AEF will increase by 3.9% in 2006/07 and by 2.9% in 2007/08.

55. Councils face significant financial pressures in coming years. The Convention of Scottish Local Authorities (COSLA) indicates that the overall cost to settle equal pay claims could be as much as £560 million.⁴ COSLA also identifies a range of other pressures⁴ that will affect councils in 2006/07 and 2007/08. These include the cost of implementing the single status agreement (which will remove differentials between certain groups of workers), increasing employer-related pension costs and above inflation increases in building and road maintenance and energy costs.

56. Councils also face financial pressures from growing demand for services, particularly social work services for children and for older people.

Financial strategy

57. To achieve the priorities for their areas, councils need a flexible budget process, aligned to the planning cycle, to enable them to direct resources to where they are most needed. But the Best Value audits show that few councils use the priorities identified in their corporate plan as a basis for setting budgets.

58. Most take a traditional approach to setting budgets, based on previous years' expenditure adjusted for activity levels and inflation. This limits the ability to make significant changes to the way services are delivered.

59. Councils have started to model the long-term financial effect of major projects, such as the renewal of schools through public private partnerships (PPP) and housing modernisation. But, overall, they have yet to develop medium and long-term financial strategies that cover all their operations, taking account of significant long-term commitments and, as far as possible, central government funding intentions.

Pensions

60. Eleven councils administer pension funds under the Local Government Pension Scheme in Scotland. The remaining councils, and many other public bodies, are admitted members of the schemes. Employee contribution rates are set in regulations, and employers' rates are determined by actuarial assessments every three years.

61. In common with all pension schemes, greater life expectancy means that pensions are paid over longer periods. This increases councils' pension liabilities.

62. This year, the value of the net liabilities in council pension funds also increased significantly because of the way in which liabilities are calculated for accounting purposes. The total net liability of council pension funds shown in accounts was £4.5 billion at 31 March 2005, compared to £1.9 billion in the previous year.

63. Typically, councils' contributions as employers have increased from 220% of employees' contributions in 2002/03 to 250% in 2005/06. A full valuation of each of the funds is expected to be reported in March 2006. This is likely to result in further increases in contributions, which councils will have to fund.

64. Police and firefighters' schemes are unfunded 'pay as you go' schemes – pension payments are met from revenue as they fall due. Across Scotland, the pension liabilities disclosed in police and fire authority accounts increased by around 31% in 2004/05, to £6.1 billion for the police and £1.6 billion for fire authorities.

65. Audit Scotland will produce a paper covering the public sector pension schemes in Scotland later this year.

Income collection

66. SPIs for 2004/05 show that councils are collecting more of the council tax, NDRI and housing rents due to them year-on-year.

67. Overall, council tax collection rates increased to 92.7% for 2004/05 from 91.7% the previous year. Collection levels were maintained or increased in all councils, with the exception of Orkney Islands which reported a small reduction (while maintaining the highest collection level in Scotland). The SPI reflects amounts collected during the financial year; much of the uncollected tax will be recovered in later years.

68. For non-domestic rates, 96.2% of the amount due for 2004/05 was collected within the financial year, compared with 95.6% in 2003/04. Just over half of councils increased their collection levels.

69. Better income collection is also reflected in the SPI for housing rent arrears. This shows an overall reduction in the level of arrears as a percentage of net rent due, from 7.9% in 2003/04 to 7.4% in 2004/05. But 12 councils reported increases.

Exhibit 6

Reserves – policies and strategies

North Lanarkshire

The level of financial reserve to be established and maintained was first approved by the Council in March 2000 and was set at the time to reflect 2% of general fund expenditure. Since 2000/01, the level of the reserve is reviewed during the annual budget-setting process as part of which elected members receive clear information on reserves held by the Council. The annual financial statements provide adequate detail to allow readers to distinguish between non-cash, earmarked and free reserves.

West Lothian

In accordance with good practice:

- The purpose of reserves is clearly specified.
- The financial statements clearly identify whether reserves are non-cash, earmarked or free reserves.
- The Policy, Partnership and Resources Committee reviews a statement on general fund balance and other reserves annually as part of the budget-setting process. This report contains information on the proposed utilisation of the general fund and other reserve balances in line with approved reserve strategies.

Source: Auditors' annual audit reports

70. Full SPI information for each council is available at www.audit-scotland.gov.uk/performance

Capital

71. New arrangements for controlling capital expenditure, based on affordability and prudent capital planning, were introduced in 2004/05. The old system of capital control was based on consent for specific levels of capital expenditure given by central government.

72. Total capital expenditure for general services was £1.2 billion in 2004/05 (up from £881 million in 2003/04), funded mainly from borrowing. Housing capital expenditure was £361 million (£322 million in 2003/04). Overall, capital expenditure increased by about 30% in 2004/05 under the new regime.

73. Councils, guided by CIPFA's Prudential Code,⁵ used prudential indicators to monitor capital expenditure during 2004/05, although

auditors highlighted cases where councils were slow in reporting performance to elected members.

74. Not all police and fire boards had set prudential indicators at the time of reporting the 2004/05 audits. All local authorities need to demonstrate prudent capital planning through the indicators required by the Prudential Code.

75. A recurring feature in audit reports is slippage against capital programmes; expenditure on general fund service capital was about 5% below budget. The reasons given by councils include land acquisition deals taking longer than expected to complete, delays in the tendering of contracts, and poor performance by contractors.

76. The increase in capital expenditure is likely to continue in 2005/06. Capital budgets are set, taking account of affordability and sustainability. Overall, the budget

is about £2 billion, a 25% increase compared with 2004/05. The associated increase in capital charges will add to the financial pressures on service budgets.

77. As with revenue, there are likely to be pressures on capital budgets in future years. For example, COSLA has indicated that the costs to councils of ensuring that their buildings comply with the minimum accessible standard specified in the Disability Discrimination Act could be about £200 million over the next two years.⁶

78. Better information from robust asset management (see paragraph 89) would assist councils' decisions on capital investment.

Reserves and balances

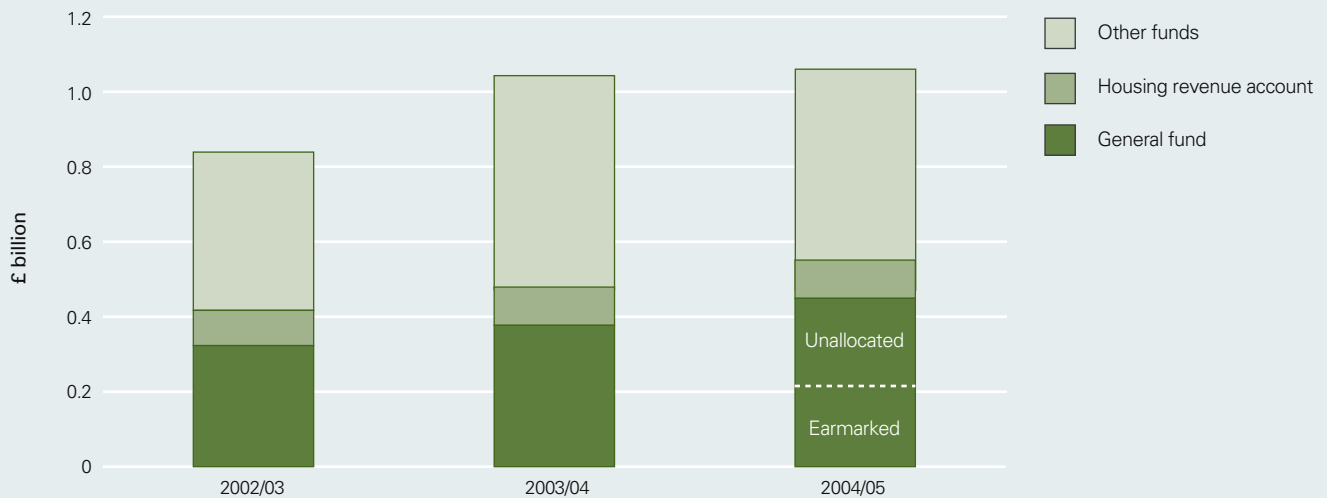
79. Reserves provide a working balance to help deal with the effect of uneven cash flows, a contingency for unforeseen expenditure, and a means of building up funds for known or predicted costs.

⁵ Prudential Code for Capital Finance in Local Authorities, CIPFA, 2003.

⁶ Submission to the Finance Committee of the Scottish Parliament, COSLA, January 2006.

Exhibit 7

Councils' total reserves



Source: Audit Scotland

80. Local authority legislation sets out the reserves which councils are permitted to have; individual councils determine the type and level of reserves they hold as part of prudent financial management, taking account of local circumstances. Last year's overview report emphasised the need for councils to ensure that they have clear and explicit policies on the overall level of reserves and balances and how these will be applied.

81. In 2004/05, 28 councils had policies in place. Falkirk, Glasgow City, North Ayrshire and South Ayrshire did not have a policy although, in each case, the auditors noted that the reserves position was considered as part of financial monitoring. Glasgow City approved a policy in February 2006 and Falkirk, North Ayrshire and South Ayrshire will do so later this year.

82. Only half of policies cover all reserves and balances, although all cover the general fund (which is most closely related to revenue expenditure and council tax levels) and the housing revenue account.

Councils should develop their policies to include other reserves, such as capital funds and repair and renewal funds; this will further improve transparency and accountability. [Exhibit 6](#) sets out examples of good practice identified by auditors.

83. Total reserves were £1.05 billion as at 31 March 2005 (31 March 2004: £1 billion). This figure is made up of: general funds (£449 million); housing revenue account balances (£102 million); and other reserves set up for specific purposes (£498 million) ([Exhibit 7](#)).

84. The overall figures exclude the substantial funds held by Orkney Islands and Shetland Islands (£198 million and £336 million respectively) arising mainly from harbour and oil-related activities.

85. At 31 March 2005, councils' general funds totalled £449 million, compared with £377 million at the end of the previous year. Improved disclosure in the accounts means that this total can be broken down for the first time. Figures available

from the accounts show that, at the end of the 2004/05 financial year, £208 million (46%) was earmarked for specific future purposes, while £241 million (54%) was unallocated.

86. Overall, unallocated reserves represent about 2.6% of the £9.3 billion net cost of services, with the levels for individual councils ranging from less than 1% to around 6% ([Exhibit 8 overleaf](#)). These amounts appear reasonable in light of the financial pressures councils face.

87. The most significant element within the £498 million total for other reserves is capital funds, which was £235 million. This includes £122 million at Glasgow City held for major roads projects, refurbishment of museums and galleries, and area regeneration schemes.

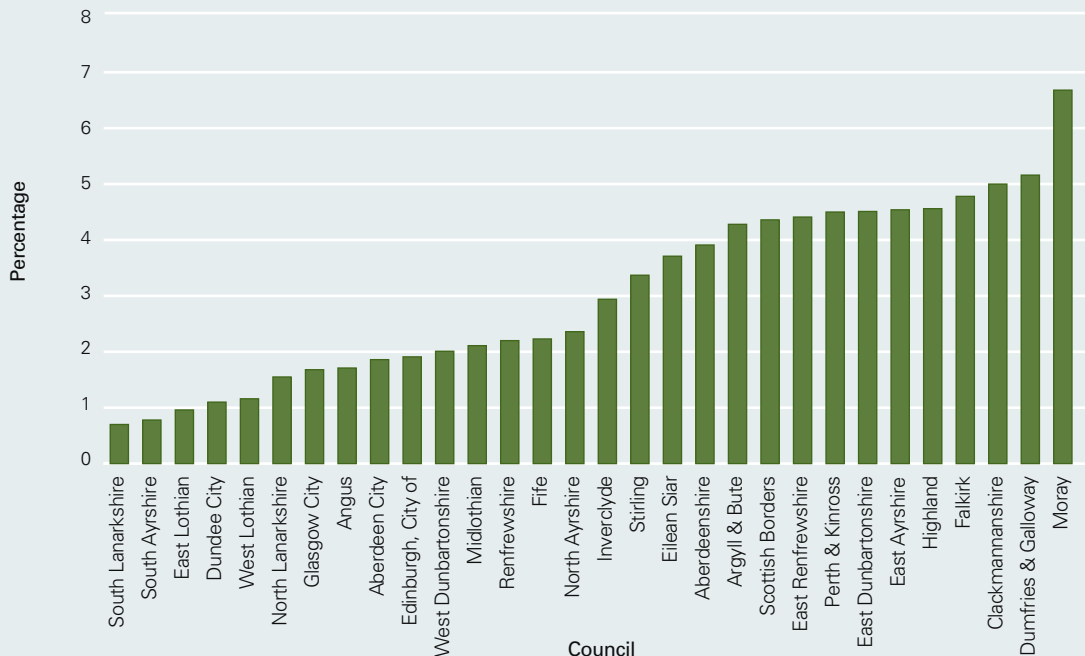
Asset management

88. The total value of assets held by councils at 31 March 2005 was about £20 billion. This includes schools and other buildings, roads, parks and leisure facilities. During

Exhibit 8

General fund unallocated balance as a percentage of net cost of services

Unallocated reserves for individual councils range from less than 1% to around 6% of net cost of services, and seem reasonable in light of the financial pressures councils face.



Note: Moray has indicated that part of the unallocated amount is to be used in flood alleviation schemes.

Source: Audit Scotland

Exhibit 9

Asset management planning

West Lothian

The corporate approach to asset management is being refined, with the aim of ensuring that assets are fully used for the benefit of the Council as a whole. Following work done on the schools estate, good progress is being made in relation to other assets. Information from the asset management plan is now playing a role in capital spending decisions. As an example, the school estate management plan was used to focus effort where it was most needed, to clear an identified backlog of maintenance work in schools.

The Council is developing key performance indicators to measure and monitor the use of assets. Examples of indicators being introduced include revenue running costs per square metre of internal floor space, and the value of reactive against planned, preventative spend for each building.

Source: *West Lothian Council – The Audit of Best Value and Community Planning*, Audit Scotland, June 2005

2004/05, £1.5 billion was spent constructing or acquiring new assets or enhancing existing assets.

Asset management plans

89. Asset management has been given new impetus by Best Value, which requires councils to demonstrate sound management of resources, and the prudential regime for control over capital expenditure. Councils are also required to submit school estate management plans to the Scottish Executive, and to deliver the Scottish Housing Quality Standard⁷ by 2015.

90. Some progress has been made in developing asset management plans, but there is still significant work to be done. Many councils are still compiling basic information about their assets, by establishing comprehensive asset registers and undertaking condition surveys.

91. Councils recognise the need for action, with a quarter referring to asset management plans in statements on internal financial control and other disclosures in their accounts.

92. There is wide variation across councils in the development of asset management plans. In particular, councils need to take a more strategic approach, viewing assets as a corporate resource to support new ways of providing services, including partnership working. [Exhibit 9](#) sets out an example of good practice identified by the auditor of West Lothian.

93. Best Value audits show that councils need to develop performance information to measure the value for money of their investment in property, taking

account of occupancy and usage statistics, and repairs and other running costs.

94. Better use of options appraisal and performance information will also help councils make strategic decisions about how buildings should be used, and whether they should be retained or sold.

95. A new SPI for 2006/07 will indicate the proportion of operational property that is in a satisfactory condition and the proportion that is suitable for its current use. Councils will need to develop comprehensive asset management processes to report this indicator.

Accounting for assets

96. Auditors continue to refer to capital accounting problems and, in particular, to cases where councils wrongly capitalised expenditure which was of a revenue nature. This often relates to expenditure on routine repairs which neither increase the expected life of an asset nor increase its value and should therefore be treated as revenue and charged as service expenditure in the year in which it is incurred.

97. At South Ayrshire, discussions about the treatment of expenditure delayed the completion of the audit. As a result, £1.9 million of expenditure was reclassified as revenue. The adjustments allowed the auditors to give an unqualified opinion on the accounts.

98. Councils need clear policies which ensure consistent and correct treatment of revenue and capital, to satisfy the Accounting Code of Practice⁸ and to provide accurate financial information for capital decision-making.

PPP and schools

99. Local government accounts for some 44% (or £1.5 billion) of the £3.4 billion capital value of PPP deals concluded in the Scottish public sector. A further £1.8 billion of local government projects are in the pipeline.

100. Most of these have been school modernisation and renewal projects but, while demand for PPP for schools continues, several high-value waste management schemes are also in development.

101. Auditors indicate that contractual agreements are taking longer than envisaged to complete. And, due to the growth in the number and value of schemes, there is pressure on market and management capacity, and competition.

102. Later this year, Audit Scotland will be following-up the Commission's June 2002⁹ report on private finance initiatives (PFI) in schools. This will look at progress on the recommendations made in the 2002 report as well as wider issues, such as the effect of recent investment on the quality of the school estate.

Workforce management

103. The number of staff employed in local government at March 2005 was 258,390 (full-time equivalent). This translates to total costs of £6 billion, or 40% of overall revenue expenditure.

104. Workforce-related issues are at the forefront of local government business, as councils strive to deal with equal pay claims, implement the single status agreement and

7 *Scottish Housing Quality Standard*, Scottish Executive, February 2004.

8 *Code of Practice on Local Authority Accounting in the UK; A Statement of Recommended Practice*, CIPFA.

9 *Taking the Initiative – Using PFI contracts to renew council schools*, Audit Scotland, June 2002.

consider the implications of proposed changes to the local government pension scheme. These affect employer/employee relations and the financial implications for councils are significant.

105. Councils have made advances in staff development through increasing use of staff appraisal systems. But there has been less progress in preparing overall HR strategies which set out how changes in services and service delivery methods will affect the workforce and how these will be addressed.

106. Job evaluation and the implementation of the single status agreement provide an opportunity to review existing policies and employment arrangements with the overall aim of providing more efficient working practices and services.

Recruitment and retention

107. In recent years, councils have had difficulty in recruiting and retaining social work staff. Councils are actively encouraging recruitment into this area through in-house training, flexible working arrangements and developing close links with local colleges, although it is too early to assess the impact.

108. There is evidence of wider recruitment problems in the more remote areas of Scotland. Shetland Islands, for example, has policies and actions in place to tackle this.

Sickness absence

109. The Efficient Government initiative requires public sector organisations to have effective strategies for managing sickness absence. Information on performance is available from the SPIs.

110. The proportion of working time lost to sickness absence was 3.7% for teachers and 5.5% for other local government employees for 2004/05.

111. Although teachers' sickness absence has declined slightly over the last five years, approximately a third of councils reported a slight increase in 2004/05. In anticipation of single status, the SPI for other local government employees was changed. As a result, direct comparison with previous years is not possible.

112. Sickness absence levels for police officers and police support staff fell to 4.4% and 5.2% respectively in 2004/05. Only Fife reported a rise in the level for police officers (due to changes in shift patterns); three of the eight police authorities (Dumfries & Galloway, Northern and Strathclyde) reported a rise in the sickness absence rate for support staff.

113. The rate for firefighters went up from 7% to 7.4%, but three fire and rescue authorities (Dumfries & Galloway, Lothian & Borders and Strathclyde) reported improvement. For fire support staff, the rate increased from 5.9% to 6.6%.

Related matters

114. The following matters relating to the management of resources were also reported by auditors.

Risk management

115. Risk management is the systematic identification and management of risks affecting the organisation, highlighting where action is required and where performance needs to improve.

116. Councils are making steady progress in developing risk management systems, but more work is required. They acknowledge this, with half noting the need for improvement in published governance statements.

117. Generally, councils now have risk strategies and corporate risk registers in place, but more needs to be done to ensure that the risk management culture is embedded across services.

Accounts and audit

118. All 32 councils and 32 of the 35 other local authority bodies submitted their 2004/05 accounts for audit by the statutory deadline of 30 June 2005. The accounts for Orkney and Shetland Valuation Board were submitted soon after. East of Scotland European Consortium and West of Scotland European Consortium are small organisations, and changes in financial administration has delayed the submission of their accounts.

119. In about half of councils, auditors reported that significant changes were required to the accounts as a result of the audit. Most of these were changes to meet the disclosure requirements set out in the Accounting Code of Practice¹⁰ and did not affect the general fund surplus or deficit for the year.

120. The Accounting Code's requirement for group accounts represents a significant challenge for councils in preparing accounts for the financial year 2005/06.

121. The Accounts Commission required auditors to complete the 2004/05 audits by 30 September 2005. This is an important part of public reporting and accountability.

All but one of the council audits and all but two of the other local authority bodies were signed off by this date.

122. The accounts for South Ayrshire were not signed off until November 2005. This was due to discussions between the auditors and the Council regarding allocations between revenue and capital of expenditure material to the financial statements (paragraph 97). The delay in the submission of the accounts for East of Scotland European Consortium and West of Scotland European Consortium has had a knock-on effect on the audit timetable.

123. There was further improvement in the time between completion of the audit and the publication of the audited accounts. The majority of councils published their 2004/05 audited accounts by the end of November 2005.

124. There was also further and significant improvement in the time taken by auditors to produce their reports on the audit. For 2005/06, the deadline for audit reports has been moved forward by a month, to October. Performance in 2004/05 indicates that this should be possible in most cases.

Audit opinions

125. There were no qualifications on councils' accounts in 2004/05, for only the second time since local government reorganisation in 1996.

Trading operations

126. Under Best Value, councils are required to account for trading activities in an open and transparent manner. This involves maintaining and disclosing trading accounts for significant trading operations and for them to break-even over a rolling three-year period.

127. However, 20% of trading activities are based on contracts or service level agreements agreed in 1996 or earlier, under the former Compulsory Competitive Tendering (CCT) regime. About a quarter of councils are affected. This suggests that councils are treating the production of trading accounts as a compliance exercise rather than using them to demonstrate that service delivery meets the requirements of Best Value.

128. The total number of trading operations in 2004/05 was 162 (163 in 2003/04). The number varies considerably among councils; Dundee, Fife, Scottish Borders and West Lothian had one trading account, while other councils disclosed up to eleven separate trading activities.

129. The financial results for 2004/05 show an overall surplus across all trading operations of £29 million (£48 million in 2003/04).

130. Sixteen trading operations had cumulative deficits totalling £2.4 million at the end of the first two years. Of these, five had cumulative deficits in excess of £100,000: Edinburgh City (Blindcraft), Eilean Siar (bus operations), Stirling (refuse collection), Dumfries & Galloway (cleansing & grounds maintenance) and East Dunbartonshire (leisure services). Stirling has since decided to tender its refuse collection service.

131. It is clear from audit reports that there will be trading operations that are unable to achieve the break-even target in the first three-year period ending on 31 March 2006. Auditors will highlight these cases and the underlying reasons when they report on the 2005/06 audits later this year.

132. The flexible and locally-determined nature of trading, as well as restructuring within the first three years of operation, means that trading accounts cannot be used to provide a comprehensive picture of performance on a comparable basis.

Following the Public Pound

133. The Audit Scotland report *Following the Public Pound*¹¹ identified that councils provide about £220 million to 14,000 external organisations, including companies, trusts and voluntary organisations, to provide services on their behalf. Funding arrangements reflect the wide range of activities in which councils are involved.

134. The report concluded that councils need better information about their support for these organisations, the intended benefits and what is obtained for the money provided. It also called for councils to take both a systematic, risk-based approach and steps to comply with the *Following the Public Pound* code.¹²

National Fraud Initiative

135. In 2004/05, councils and police and fire boards took part in the National Fraud Initiative (NFI) in Scotland. The NFI brings together and matches data from local authorities and other public agencies to help identify fraud and error in the public sector.

136. The types of fraud and error detected typically involved housing benefits, occupational pensions and payroll frauds. Examples of the matches carried out and what they may reveal are shown in [Exhibit 10 \(overleaf\)](#).

11 *Following the Public Pound – A follow-up report*, Audit Scotland, December 2005.

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

Exhibit 10

National Fraud Initiative – potential data matches and fraud or error

Type of data match	Potential fraud or error
Housing benefit claimants to students	Improper claims for benefit. There are only limited circumstances in which students can claim housing benefit.
Housing benefit claimants to employees	Employees may have claimed benefit without declaring their income or have under-declared the level of their income.
Housing benefit claimants to occupational pensions	Occupational pensioners may have claimed benefit but understated or not declared their pension.
Pensions payroll to deceased persons records held by the Department for Work and Pensions	The pensioner's death may not have been reported to the pension authority. The pension continues to be paid to a bank account or may be being collected by a relative of the deceased.
Occupational pensions to employees	Employees may have retired but returned to work. In such cases, the individual's pension may need to be abated. If the pensioner has not declared re-employment, he/she may be receiving too high a pension.

Source: Audit Scotland

137. To date, the total overpayments and savings identified or expected by local authorities from NFI 2004/05 have reached £8.3 million. Of this total, £4.3 million relates to pensions and another £3.6 million to housing benefit fraud and error.

138. Future NFI developments are planned and will include additional data matches in areas such as creditor payments; serial insurance claims against councils; and matches of disabled parking permit-holders to records of deceased persons.

139. Audit Scotland will issue a detailed report on the NFI exercise in the summer.

Part 3. Managing performance



Main messages

- Councils have some way to go to develop and implement systematic performance management.
- Councils continue to rely too much on SPIs as the main means for monitoring performance.
- Elected members need better information and support if they are to exercise their scrutiny responsibilities effectively.
- There has been further progress in applying audit committee principles.

Performance management systems

140. 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 the areas of activity.

141. Performance management is underdeveloped in most councils. Some, such as Glasgow and East Renfrewshire have started to make good progress ([Exhibit 11 overleaf](#)).

142. To achieve Best Value, the system needs to be able to measure the cost and quality of services and whether there is improvement over time. Councils need to establish key performance indicators for the range of services they provide and to establish baseline data from which improvement can be measured.

143. Councils continue to place too much reliance on SPIs as the primary means for monitoring performance. The SPIs are useful for comparing some aspects of council performance but, by their nature, only provide limited information. They cannot reflect the priorities of individual councils and they do

not provide full coverage of the key aspects of all services. Better performance information is central to effective scrutiny and to public performance reporting.

144. The audit view on performance management is reflected in reports by service inspectorates ([see paragraphs 187 and 203](#)).

Scrutiny

145. Effective scrutiny of performance is a key part of the role of elected members. It is central to good governance and accountability to citizens and communities. The Best Value audits suggest that more needs to be done to train and support them in this role.

146. Councils have arrangements in place to scrutinise performance, through scrutiny panels or performance review committees. But their effectiveness depends on better performance management systems.

Exhibit 11

Examples of performance management arrangements where good progress is being made

Glasgow City

The Council has a systematic and well-developed performance management framework, though it recognises that it can be improved further. The corporate framework is based around:

- Quarterly reporting of a suite of corporate local performance indicators – Measures of Improved Performance (MIPs) – to the Corporate Management Team.
- Quarterly milestone reporting of progress against agreed strategic priorities drawn from the Council Plan and emerging issues to the Corporate Management Team.
- Comparisons of SPI performance against comparable councils each year.
- Annual performance reporting of Council Plan commitments, operational performance and priorities for the coming year, by each service, to individual service committees.
- A Council Annual Performance Report agreed by the Policy and Resources Committee and published in October.

Quarterly reports are produced which evaluate whether the Council is on course to meet targets by the end of the year. Measures are flagged by a red, orange, or green classification, allowing clear indication of which aspects are most in need of attention.

Source: *Glasgow City Council – The Audit of Best Value and Community Planning*, Audit Scotland, January 2006

East Renfrewshire

A core aspect of the Council's corporate performance management system is the regular production of Performance Profiles by each Service. These follow a standard format, which provides a structured and meaningful report on performance. Each Performance Profile consists of seven main sections, covering:

- Quarterly updates on national Statutory Performance Indicators.
- Performance 'highs' and 'lows', generally covering progress with various projects.
- Areas where Services Standards are not being met.
- Progress in implementing the relevant actions from the Policy and Financial Plan.
- Progress in completing the planned programme of Best Value reviews.
- High-level summary of current and capital budget expenditure.
- Staff absence and turnover figures.

The system is also flexible enough to include progress statements on current corporate priorities. At present, for example, each service reports its progress in developing its approach to risk management.

Source: *East Renfrewshire Council – The Audit of Best Value and Community Planning*, Audit Scotland, October 2005

147. The Audit Scotland report *Following the Public Pound*¹³ also highlighted that, where good information is lacking, elected members cannot exercise their scrutiny responsibilities effectively.

Audit committees

148. All councils have audit committees, but the structure and status of the committee varies according to local circumstances.

149. Where audit committees work well, they make an impact. Auditors identified good practice at East Renfrewshire and Aberdeenshire. And the auditors of Scottish Borders found that the audit committee is making a real difference to governance ([Exhibit 12 overleaf](#)).

150. Overall, further improvements are required. In particular, councils must ensure that elected members are able to challenge officers effectively, and have the right information to do so. Audit committee members need training and support to enable them to do this well.

151. A core function of the audit committee is to monitor the implementation of improvement action plans, which by their nature highlight risk areas for the council. More emphasis is required on this in about a third of councils.

152. CIPFA guidance¹⁴ states that the scrutiny function should be separate from that of the audit committee, but in about three-quarters of councils, the audit committee also carries out an element of scrutiny. Councils need to ensure that sufficient time is available for core audit committee business.

Performance reporting

153. Best Value legislation requires local authorities to report to their communities on how they are performing.

154. Last year's overview report stated that significant improvement was required in public performance reporting. Since then, the Scottish Executive has consulted a range of stakeholders, including councils, on draft regulations.

155. The audit continues to highlight common areas for improvement:

- Councils need to report to the public in a more balanced way, covering areas requiring improvement as well as successes.
- Councils should also report performance against targets and demonstrate outcomes for customers.

156. In some councils, performance reporting is based almost exclusively on national SPIs, rather than on issues of specific importance to local communities.

13 *Following the Public Pound – A follow-up report*, Audit Scotland, December 2005.

14 *Audit Committees – Practical Guidance for Local Authorities*, CIPFA, 2005.

Exhibit 12

Scottish Borders audit committee

The external auditors of Scottish Borders reported that the audit committee has had a positive impact on the Council's overall corporate governance framework. In particular, the audit committee has demonstrated the following key strengths:

- The audit committee is comprised of five experienced elected members and two non-elected members who were specifically selected for their financial skills and audit committee/corporate governance experience. All elected and non-elected members appear to work together effectively to allow the Council's audit committee to provide a robust forum for audit scrutiny and review.
- The elected members are able to put their political views to one side and view the reports of auditors and council officials in an objective manner.
- The chief executive provides regular presentations to the audit committee on key issues such as structural change and strategic direction, which provides audit committee members with useful contextual information to aid their consideration of internal and external audit recommendations.
- The audit committee has developed good working relations with Council officials and auditors. This has allowed the audit committee to become fully engaged with auditors and officials in discussing issues arising from both internal and external audit reports.
- The audit committee has demonstrated a real interest in following through progress made by the Council in addressing audit recommendations. An example of this is the audit committee's continual monitoring of the Council's progress in developing its risk management arrangements which has been the subject of audit concern over the last three years.
- The audit committee has raised the profile of internal audit amongst senior officials within the Council.
- The audit committee has received presentations from Council officials on financial and risk management issues. The Council also secured the services of Sir Robert Smith, the author of the Smith Report, to present on best practice audit committee arrangements.

Source: Auditors' annual audit report

Part 4. Service performance



Main messages

- There is general improvement across the range of service activities covered by the SPIs.
- Educational attainment overall is improving but more needs to be done to address the gap between the lowest and highest-performing pupils.
- Increasing service levels and improved flexibility represent major steps forward in home care provision.
- Councils face real pressures in reducing the amount of biodegradable waste sent to landfill, but recycling levels are rising.

157. This section of the report brings together information about aspects of local authority service performance.

Overall performance

158. There is general improvement across the range of services covered by the SPIs. Of the 46 indicators for which comparisons can be drawn between 2002/03 and 2004/05, 16 show an overall performance improvement of at least 5% and seven show a deterioration of at least 5% (*Exhibit 13 overleaf*). Adult social work and housing show the biggest improvement, and culture and community services and development services most deterioration.

159. The levels of variation in the previous two years are shown in *Exhibit 14 (overleaf)*.

160. Full details of the Commission's SPIs and what they show about individual councils' performance in recent years can be found at: www.audit-scotland.gov.uk/performance

Education

161. Education is by far the largest area of council expenditure in Scotland, accounting for £4.2 billion

in 2004/05, or around 30% of all council expenditure.

162. Scottish council schools educated 398,000 primary pupils and 318,000 secondary pupils in 2004/05, an overall drop of nearly 4% in the last five years.

163. There is evidence of improvements in educational attainment over the period 1999-2004. Her Majesty's Inspectorate of Education (HMIE) has found that:

- Pupils' attainment in both primary and secondary (S1/S2) schools has improved in reading, writing and mathematics. Almost all P3 pupils attain national standards and more are doing so earlier.
- The percentage of pupils gaining five Standard Grade awards at Credit level (or equivalent) by the end of S6, increased from 38% in 1999 to 47% in 2004.

164. There was a mixed picture at Highers level. This shows a slight increase in the proportion of pupils achieving five or more awards.

Exhibit 13

Service indicators in the 2004/05 Council Profiles that show significant improvement or deterioration across Scotland when compared with 2002/03

Service	Number of indicators	Number of indicators showing improvement of at least 5%	Number of indicators showing deterioration of at least 5%
Adult social work	7	3	0
Benefits administration	3	1	0
Corporate management	3	1	0
Cultural & Community services	9	4	4
Development services	6	0	3
Education & Children's services	5	1	0
Housing	5	4	0
Protective services	5	0	0
Roads & Lighting	2	1	0
Waste management	1	1	0
Total 2004/05	46	16	7

Source: Audit Scotland

Exhibit 14

Change in improvement to deterioration ratio over time

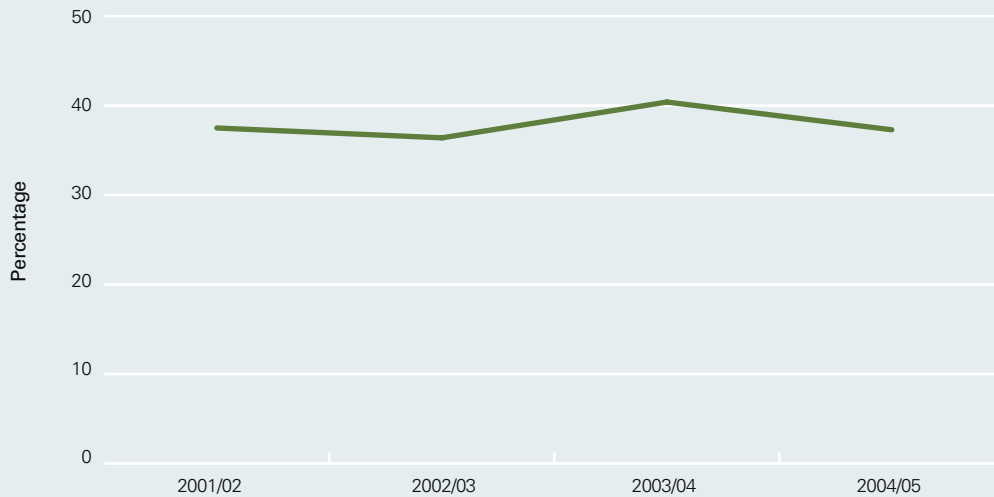
Year	Total comparable indicators	Number of indicators showing improvement of at least 5%	Number of indicators showing deterioration of at least 5%
2004/05	46	16	7
2003/04	45	11	8
2002/03	54	23	8

Source: Audit Scotland

Exhibit 15

Percentage of 16 or 17-year-olds leaving council care attaining Standard Grade English and maths

Educational attainment of looked after children shows no sign of improvement over the last four years.



Note: Figures are for those looked after away from home.

Source: Audit Scotland

However, the number of pupils attaining one or more and three or more awards at Highers level has not increased.

165. Of particular concern is the gap between the highest and lowest-performing pupils which is getting wider despite government initiatives. Addressing the opportunity gap of the lowest-performing 20% of S4 pupils has been variable across Scotland.

166. Preparing young people leaving care for their future adult life remains a significant challenge for Scottish councils. Among the general school population, about 90% attain Standard Grade level maths and English by the time they leave school. However, for those young people leaving council care after being looked after away from home, the proportion is around 40% (Exhibit 15), with about 50% achieving at least one Standard Grade or its equivalent in any subject.

School occupancy

167. One of the major challenges facing many councils is school rationalisation. Falling school rolls, changes in the age profile of communities and overcapacity in schools, combined with a school estate in poor condition, present many councils with problems.

168. SPIs reflect under-occupancy of schools (Exhibits 16 and 17 overleaf). Nearly 730 of Scotland's 2,220 primary schools have no more than 60% occupancy.

169. The number of pupils is declining. In 1990 there were 745,100 pupils in Scotland. By September 2004 this figure was 723,554 and it is projected to fall to 622,900 by 2014.

170. Schools play a central role in community life, and Best Value judgements have to be made about the additional cost of investing in unoccupied places, the impact on the quality of education available, and the wider value that the school brings to the community that it serves.

Social work

171. Services for older people account for most (45%) of the £2.6 billion expenditure on social work services in 2004/05. Services for children account for over 20% of all expenditure, followed by services for adults with learning disabilities at 17% (Exhibit 18, page 29).

172. There have been significant changes in the policy landscape and regulatory framework for social care and the pace of change looks set to continue in the foreseeable future.

173. Forming judgements about performance of social work services in Scotland is hampered by the limited cost and performance data, and the lack, until recently, of systematic independent regulation. Performance audit studies and the SPIs suggest some key trends in aspects of social work performance.

174. Increasing the flexibility of home care services is a key policy objective for both central and local government, to ensure that people

Exhibit 16

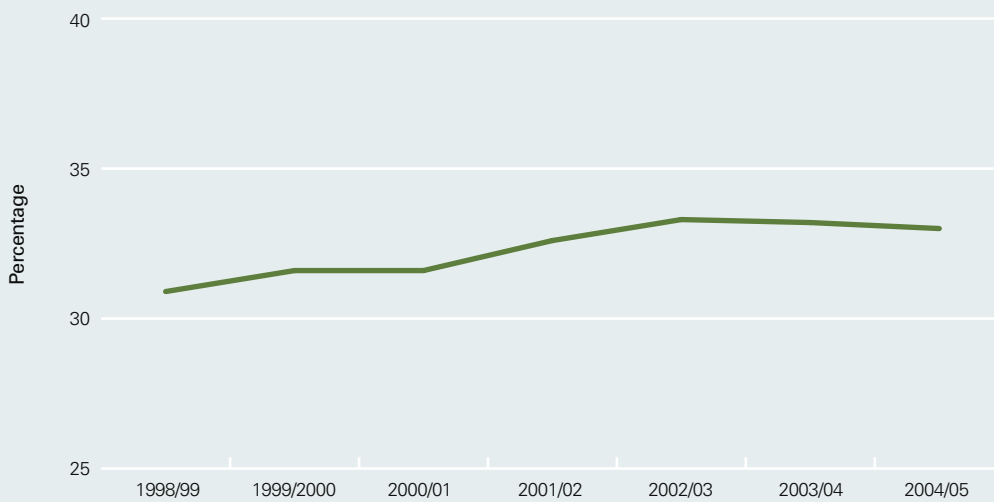
Percentage of secondary schools with occupancy levels of 0-60%



Source: Audit Scotland

Exhibit 17

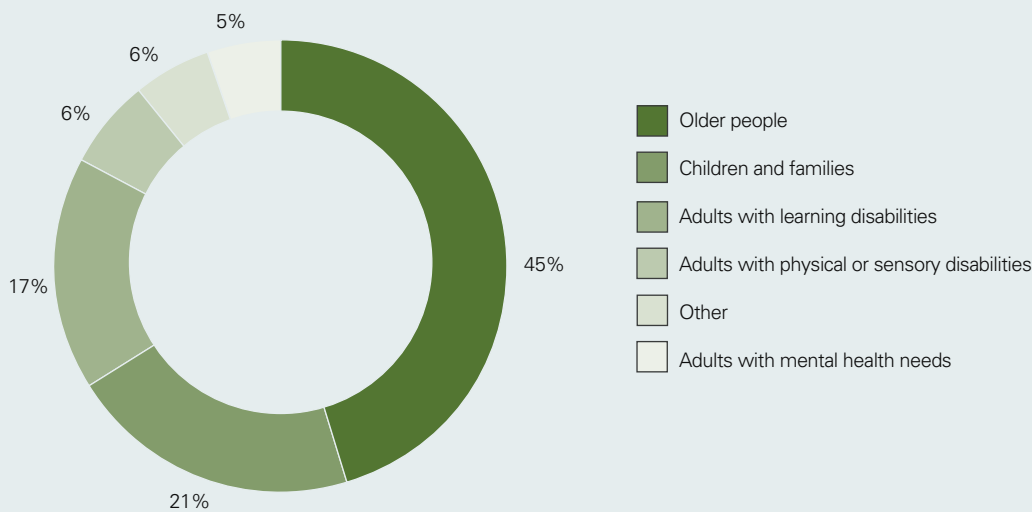
Percentage of primary schools with occupancy levels of 0-60%



Source: Audit Scotland

Exhibit 18

Analysis of expenditure on individual aspects of social work



Note: 'Other' includes service strategy, children's panel, adults with addictions/substance abuse, HIV/AIDS, service to asylum seekers, and refugees and criminal justice social work services.

Source: Audit Scotland

receive the type of assistance they need, when they need it. The SPIs show continuing improvement across Scotland between 2000/01 and 2004/05 ([Exhibit 19 overleaf](#)):

- 63% of clients now receive personal care services (such as help with washing and dressing).
- 27% of clients receive services in the evening or overnight.
- 54% of clients receive services over the weekend.

175. There are, however, wide variations in the level of service provided by individual councils.

176. The steady increase in service levels and the greater flexibility of the service, represent major steps forward in home care provision and demonstrate responsiveness to the needs and wishes of service users. But the growing number of older people means that sustaining these improved standards will

require either increased resources or significant efficiency improvements.

177. Some councils are facing problems in sustaining residential care services for older people due to the closure of care homes provided by the independent sector. In March 2005, there were 980 care homes for older people compared with 1,060 in March 2000, a reduction of 80 homes. Most of this reduction (57) was in the private sector.

178. At March 2005, over 28,000 older people were being looked after in care home places commissioned by Scotland's councils. An SPI of the quality of care homes shows that about 84% of older people in care homes were in single rooms and 66% were in rooms with en-suite facilities.

179. The Audit Scotland report *Moving on?*¹⁵ reviewed delayed discharges and showed a 40% reduction in the number of people delayed unnecessarily in hospital

between September 2000 and January 2005, from 3,021 to 1,786. The length of time patients wait to be discharged once they are fit to leave has also fallen, from a median of 79 days in January 2001 to 57 days in January 2005. This reflects the improved joint working between social care and health in recent years.

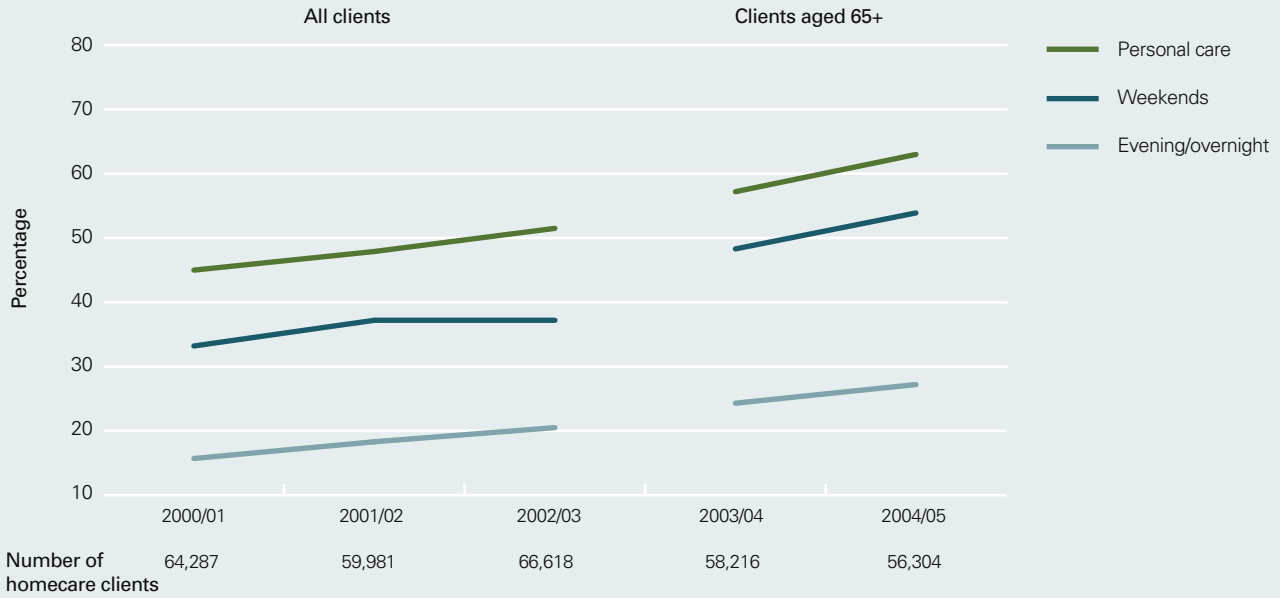
180. The report also highlighted the need for councils and the NHS to work together to get a better understanding of their local care market and jointly develop models of service delivery aimed at ensuring an appropriate balance of care for their older population. Independent providers of care services should be involved, where appropriate, since capacity planning must be concerned with what services can be provided across the full spectrum of providers – public, private and voluntary.

181. The SPIs for children's social work services show that nearly 24,500 social background reports were submitted by councils to the

Exhibit 19

Proportion of home care clients receiving care

The proportion of home care clients receiving personal care, evening/overnight care and care at weekends has increased significantly since 2000/01.

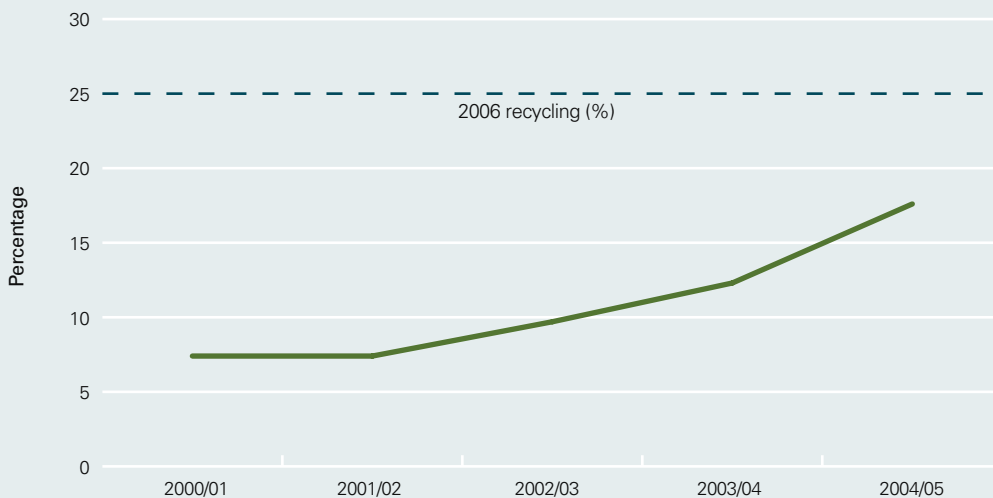


Source: Audit Scotland

Exhibit 20

Percentage of municipal waste recycled

Across Scotland, the proportion of municipal waste being recycled continues to increase.



Source: Audit Scotland

Children's Reporter during the year. Of these, some 43% were submitted within the national target time of 20 days, a significant increase from less than 38% in the previous year.

Housing

182. Councils provide about 364,000 homes, allocated on the basis of need. Overall, this is half the number they owned ten years ago, mainly because of housing stock transfers and right-to-buy sales.

183. Of the 11,200 council houses sold to tenants, just over 72% were sold within the 26-week target time. This is the highest proportion in the last five years.

184. During the year, nearly 40,000 households were assessed by Scotland's councils as being homeless or potentially homeless. In nearly one in eight cases, the household returned for reassessment within 12 months, raising questions about the effectiveness of the council's response.

185. Audit Scotland has recently published a report on council housing transfers.¹⁶ The report examined how well the transfer policy has been implemented and whether transfers have provided good value for money. It found that: the management of transfers is improving; new landlords are delivering higher investment and rent increases within the guaranteed limits; and, tenants consider that service is better. The report also concluded that transfers have promoted greater tenant control (although more needs to be done).

186. Looking ahead, the report says that the Scottish Executive should consider better, clearer measures to help increase impact and value

for money from transfers. Councils retaining housing must assess how much they spend to achieve the Scottish Housing Quality Standard by 2015, and how the necessary investment can be made while maintaining good service and affordable rents for their tenants.

187. Communities Scotland's report *Performance management in local authority housing services – An empirical view*¹⁷ found that the development, awareness and use of performance management varies across local authorities, and while many authorities are only at the early stages of creating such systems, a small number are considerably more advanced.

Waste management

188. The Scottish Executive's National Waste Strategy identifies interim waste management targets for 2006 which require councils to achieve:

- a reduction in the amount of biodegradable municipal waste being sent to landfill, to 1.5 million tonnes
- an increase in the proportion of all municipal waste that is recycled or composted, to 25%.

189. The Executive is helping councils to meet these targets by providing finance through the Strategic Waste Fund. Since 2000/01, about £144 million has been provided through the Fund and a further £111.7 million is due to be invested in 2005/06.

190. Additional funding is planned for future years to help councils meet increasingly challenging targets.

191. The Commission's SPLs show that, in 2004/05, Scottish councils:

- collected 3.3 million tonnes of municipal waste, up from an estimated three million tonnes in 2003/04 and 2.9 million tonnes in 2002/03
- recycled 17.6% of municipal waste, up from 12.3% in 2003/04 and 9.6% in 2002/03 (Exhibit 20).

192. Strategic Waste Fund support to individual councils has been phased and, therefore, some councils' recycling activities are further advanced than others. Eight councils have already reached the 2006 recycling target and a further 12 recycled more than 15% of waste.

193. The Scottish Environmental Protection Agency has calculated that the amount of biodegradable municipal waste sent to landfill in 2004/05 was over 1.7 million tonnes, some way above the target of 1.5 million tonnes. Estimated figures for the previous years were 1.8 million tonnes in 2003/04 and 1.9 million tonnes in 2002/03.

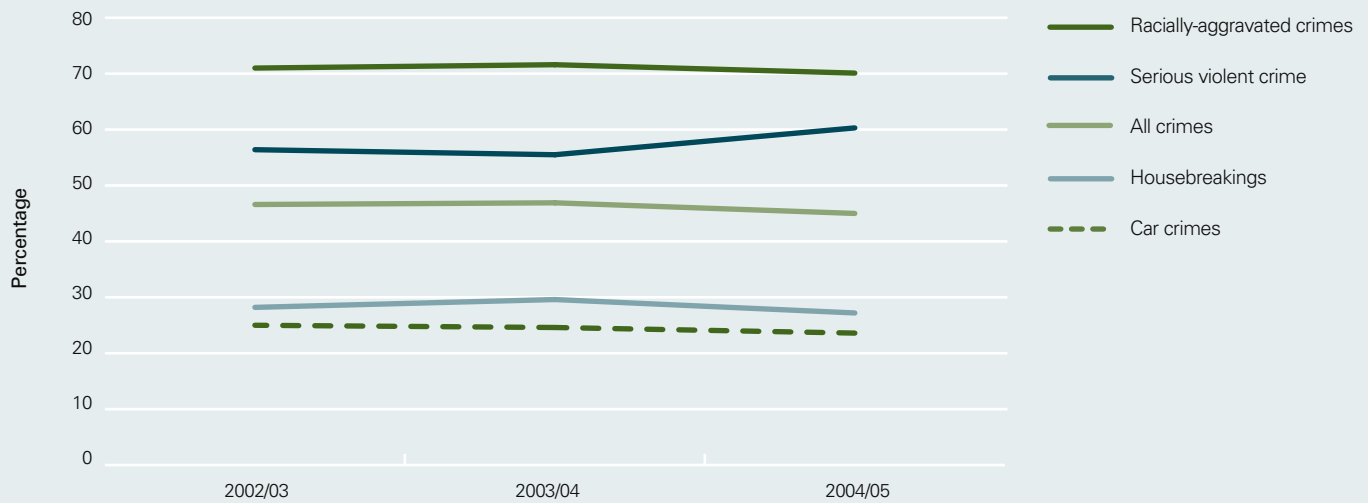
194. In view of the increasing amount of municipal waste being collected, councils face a significant challenge if they are to reduce the amount of biodegradable waste going to landfill to 1.5 million tonnes by December 2006. However, the improvement in recycling levels is encouraging and the 2006 recycling target of 25% should be achieved if the rate of improvement shown in recent years is maintained.

¹⁶ *Council housing transfers*, Audit Scotland, March 2006.

¹⁷ *Performance management in local authority housing services – An empirical view*, Research Report 54, Communities Scotland, October 2004.

Exhibit 21

Crime clear-up rates



Source: Audit Scotland

Roads

195. *Maintaining Scotland's roads*¹⁸ found that there is a large maintenance backlog. At that time, councils estimated this to be about £1.5 billion. The report concluded that significant investment was required in roads and recommended that councils publicly report the condition of their road network and use asset management systems to improve the management of road maintenance.

196. The SPIs show that, overall, the percentage of the road network that should be considered for maintenance has decreased from 44.8% in 2003/04 to 41.9% in 2004/05. But, at about a quarter of councils, the percentage of the road network that should be considered for maintenance increased in the year.

Police

197. Responsibility for policing in Scotland is shared among the police authority, the chief constable and First Minister. About £1 billion is spent by Scotland's eight police forces each year. The Scottish Executive funds 51% of policing costs directly through Police Grant, and the remaining expenditure is met by local authority funding.

198. There are a number of national performance measures in place for police, including SPIs and measures set by the Scottish Executive and Association of Chief Police Officers (ACPOS), but none of these encompass performance measurement across the full range of policing activity.

199. In 2004/05, the SPIs for police covered clear-up rates for crimes, answering times for emergency calls, sickness absence, complaints against the police, racially-motivated

incidents, drug offences, road safety, and timing of police reports to the Children's Reporter or Procurator Fiscal. Full performance information against these indicators for all eight forces in Scotland is available on the Audit Scotland website www.audit-scotland.gov.uk/performance

Clearing up crime

200. There were around 438,000 crimes recorded in 2004/05 by Scottish police forces, an increase of 6% on the previous year. Much of this increase is due to a rise in the number of fire-raising, vandalism and low-level dishonesty crimes recorded, and may be ascribed to the introduction of the new Scottish Crime Recording Standard.

201. The overall percentage of crimes cleared up has remained relatively stable over the past five years, at around 45%. The clear-up rate for different types of crimes varies; serious violent crimes have higher clear-up rates

than housebreaking and car crime. Racially-aggravated crime also has a higher clear-up rate, with 70% of these crimes cleared up in 2004/05 (Exhibit 21).

202. There is wide variation between forces in clear-up rates, ranging from 35.7% in Grampian to 62.5% in Central Scotland for all recorded crime in 2004/05.

203. In autumn 2005 Her Majesty's Inspectorate of Constabulary (HMIC) published a report¹⁹ on performance management in Scottish police forces. This identified a need for a more strategic approach to setting national priorities, reflecting the wide range of policing activity in Scotland, and a more consistent performance management framework to track progress against these priorities.

Fire and rescue

204. Fire and rescue authorities are undergoing an extensive programme of modernisation following the National Joint Council agreement on pay and conditions in 2003, and new legislation in the Fire (Scotland) Act 2005. This programme of change reflects a more targeted and risk-based approach to prevention, protection and emergency response.

205. Audit Scotland will be undertaking a performance audit study of fire and rescue authorities in Scotland during 2006, which will focus on the extent to which authorities are addressing the shift to risk management and fire prevention.

206. The Commission's SPIs show that during 2004/05 the number of fire incidents resulting in casualties fell by nearly 90, from 1,116 in the previous year to 1,030, and the number of accidental dwelling fires also fell from 6,149 to 5,571.

Customer contact

207. As well as providing individual services, councils deal with the public in more general ways such as providing and collecting information, receiving payments and taking comments and complaints. Audit Scotland's report *Improving customer service through better customer contact*²⁰ examined councils' performance at these forms of customer contact.

208. The study found that council spending on customer service and contact is at least £40 million a year. Councils deal with 35 to 40 million enquiries from customers every year and are taking initiatives to improve customer contact eg, surveys of customer satisfaction, setting up contact centres and one-stop shops, and analysing the nature of calls from the public.

209. The study concluded that these approaches should be spread to more councils to improve responsiveness, consistency and quality of service for customers.

Part 5. Looking ahead



Developing issues

210. Local government is facing major change and this will intensify in the period up to and beyond the council elections in 2007.

211. Challenges include Best Value and the focus on achieving greater efficiency in the use of resources. Community Planning will lead to new ways of providing services, involving partnership working across the public sector. And the 2007 elections are expected to result in changes in council leadership and in the political complexion in some councils.

212. All of this is taking place against a backdrop of increasing financial pressures.

The audit approach

213. Audit Scotland is developing its approach to audit – ensuring that it focuses on the right issues, meets the needs of the organisations subject to audit and stakeholders, and makes best use of audit resources.

214. In doing so, auditors work closely with other scrutiny organisations, including the service inspectorates, to minimise demands on local authority services.

Priorities and risks framework

215. The priorities and risks framework (PRF) is a new approach to audit planning which helps ensure that audit work is properly focused and takes account of national priorities and risks. Audit work is also undertaken to identify issues and risks that are unique to the local situation.

216. Audit Scotland works with local government, inspectorates and the Scottish Executive to identify the key issues facing the sector in the coming year. The PRF focuses primarily on delivering a quality and value-added audit, but there are wider benefits, such as helping to inform our programme of national performance audit studies. Information obtained during Best Value audits and from the work of inspectorates and other scrutiny agencies informs the PRF, and vice versa.

217. The key national priorities and risks for auditors to consider in 2006 are:

- role and development of elected members
- working together for communities and users
- efficient government
- performance management and improvement
- financial strategy
- workforce management
- strategic planning in social services
- strategy for housing.

218. These reflect the main issues in this report and show, in part, how audit is responding.

219. Other key issues likely to feature in auditors' 2005/06 reports include commentary on councils'

Exhibit 22

Studies programme

Service	Study	Accounts Commission (AC)/ Joint with Auditor General (Joint)
Education	Using PPP/PFI to improve the school estate	Joint
	A teaching profession for the 21 st century	Joint
Social Work	Youth justice follow-up	Joint
	Managing people with long-term medical conditions	Joint
Environment	Waste management	Joint
Fire	Fire and rescue services modernisation	AC
Police	Police call management	Joint
Cross-cutting	Review of Community Planning Partnerships	Joint
	Equalities	AC

Source: Audit Scotland

response to the requirement to prepare group accounts, and the performance of trading activities in achieving break-even in the first three years of operation.

Best Value

220. To the end of March 2006, eleven Best Value audits had been reported. This is part of a three-year programme of Best Value reports on all 32 councils. In 2006, reports on Glasgow City, Argyll & Bute and Moray have been published. During the remainder of 2006, reports are planned for the following councils: Highland, West Dunbartonshire, Eilean Siar, East Ayrshire, Renfrewshire, Edinburgh, Clackmannanshire, Scottish Borders and Orkney.

221. During 2006, the Best Value audit is being developed for police authorities and will be piloted in Central Scotland Joint Police Board.

Studies programme

222. The performance audit studies programme for 2006 (Exhibit 22) takes account of the priorities and risks framework and wider issues in local government. Later in 2006, Audit Scotland will be undertaking wide-ranging consultation on the future programme of study work.

Statutory Performance Indicators

223. The SPIs are reviewed to ensure they reflect current priorities, including Best Value. Accordingly, a number have been changed since 2004/05 and new indicators have been introduced on:

- the time taken to provide community care services
- the condition and suitability of council buildings
- the handling of domestic noise complaints
- the removal of abandoned vehicles.

224. A review of SPIs in 2005 confirmed that they are valued as an important source of information about local authority performance. But there is scope for improvement and Audit Scotland is undertaking work to:

- reduce the number of SPIs
- identify more SPIs related to national priorities, standards and targets
- develop indicators of users' satisfaction with services.

225. Discussions are also under way with the Scottish Executive and local authorities to develop a more effective framework of performance information for local government.

Appendix 1. Audit appointments 2004/05 and 2005/06

Aberdeen City Council	Henderson Loggie
Aberdeenshire Council	Audit Scotland
Angus Council	Audit Scotland
Argyll & Bute Council	Audit Scotland
Clackmannanshire Council	KPMG LLP
Comhairle nan Eilean Siar (Western Isles Council)	Audit Scotland
Dumfries & Galloway Council	Audit Scotland
Dundee City Council	Audit Scotland
East Ayrshire Council	PricewaterhouseCoopers LLP
East Dunbartonshire Council	Audit Scotland
East Lothian Council	Audit Scotland
East Renfrewshire Council	KPMG LLP
City of Edinburgh Council	Audit Scotland
Falkirk Council	PricewaterhouseCoopers LLP
Fife Council	Henderson Loggie
Glasgow City Council	Audit Scotland
Highland Council	Audit Scotland
Inverclyde Council	Audit Scotland
Midlothian Council	Audit Scotland
Moray Council	Tenon Audit Ltd
North Ayrshire Council	PricewaterhouseCoopers LLP
North Lanarkshire Council	Audit Scotland
Orkney Islands Council	Audit Scotland
Perth & Kinross Council	Audit Scotland
Renfrewshire Council	Audit Scotland
Scottish Borders Council	Scott-Moncrieff
Shetland Islands Council	PricewaterhouseCoopers LLP
South Ayrshire Council	KPMG LLP
South Lanarkshire Council	Audit Scotland
Stirling Council	Scott-Moncrieff
West Dunbartonshire Council	Audit Scotland
West Lothian Council	Audit Scotland
Argyll, Bute and Dunbartonshires Criminal Justice Social Work Partnership Joint Committee	Audit Scotland
Authorities Buying Consortium	Audit Scotland
Ayrshire Valuation Joint Board	KPMG LLP

Central Scotland Fire Board	PricewaterhouseCoopers LLP
Central Scotland Joint Police Board	Scott-Moncrieff
Central Scotland Valuation Joint Board	KPMG LLP
Clyde Muirshiel Park Authority Joint Committee	Audit Scotland
Dunbartonshire and Argyll & Bute Valuation Joint Board	Audit Scotland
East of Scotland European Consortium	KPMG LLP
Forth Estuary Transport Authority	Audit Scotland
Glasgow and Clyde Valley Joint Structure Plan Committee	Audit Scotland
Grampian Fire Board	Audit Scotland
Grampian Joint Police Board	Henderson Loggie
Grampian Valuation Joint Board	Tenon Audit Ltd
Highland & Islands Fire Board	Audit Scotland
Highland & Western Isles Valuation Joint Board	Audit Scotland
Lanarkshire Valuation Joint Board	Audit Scotland
Lothian and Borders Fire Board	Audit Scotland
Lothian and Borders Police Joint Board	Audit Scotland
Lothian Valuation Joint Board	Audit Scotland
Mugdock Country Park Joint Committee	Audit Scotland
Northern Joint Police Board	Audit Scotland
Orkney and Shetland Valuation Joint Board	PricewaterhouseCoopers LLP
Renfrewshire Valuation Joint Board	Audit Scotland
Strathclyde Concessionary Travel Scheme Joint Committee	PricewaterhouseCoopers LLP
Strathclyde Fire Board	Audit Scotland
Strathclyde Joint Police Board	Audit Scotland
Strathclyde Passenger Transport Authority	PricewaterhouseCoopers LLP
Tay Road Bridge Joint Board	Audit Scotland
Tayside Contracts Joint Committee	Audit Scotland
Tayside Fire Board	Audit Scotland
Tayside Police Joint Board	Audit Scotland
Tayside Valuation Joint Board	Audit Scotland
West of Scotland Transport Partnership	Audit Scotland
West of Scotland European Consortium	Audit Scotland

Overview of the local authority audits 2005



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