

Priorities and Risks Framework

2006/07 National Audit Planning Tool for Local Government

November 2006



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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Introduction

By using the PRF in combination with other activity to identify risks which are unique to individual councils, auditors gain a better understanding of the business priorities and risks facing the organisations they audit. This in turn assists auditors in identifying and assessing audit risk and in deciding where to target audit resources.

Context

- 1.1 Local government is working in an environment of major change, and the period up to and beyond the council elections in 2007 will be no exception, as the process of public sector reform and modernisation evolves. For example:
 - the statutory duty of best value requires continuous improvement in council services;
 - there is an ongoing need for local authorities to achieve greater efficiency in the use of public resources;
 - community planning raises significant challenges in relation to joint working across the public sector.
- 1.2 More fundamental change may well be brought about through new approaches to integrated service delivery and governance, and the new electoral arrangements for the local elections in 2007 are expected to alter the political complexion in some councils. Developments in cross cutting policy areas such as sustainable development and equalities will be required, as will improved techniques in managing performance, managing risk and in workforce development and planning.

Overall audit approach

- 1.3 The Accounts Commission is responsible for securing the audit of Scottish local authorities and, through the audit process, holds authorities to account and supports continuous improvement.
- 1.4 Local authority audit comprises the financial and governance audit, the audit of best value and community planning, statutory performance indicators (SPIs), local reviews of performance and a programme of national performance audit studies. Taken together these ensure a strategic and integrated approach to audit and reporting.
- 1.5 We work with other scrutiny organisations to develop a shared understanding of how audit and inspection contributes to improvement and an approach that minimises the workload for local services. In practice, this includes collaboration on performance audit studies and joint work on inspections, and our reports draw on inspectorates' findings to provide a rounded picture of council performance.
- 1.6 An overarching principle of our approach is the recognition of specialist expertise. This means taking account of skills and experience within audit teams to identify who is best placed to do the work. For example, we take steps to ensure that the work of local auditors and best value audit teams complement each other. In the case of cross-cutting areas such as community planning and joint futures, audit activity is co-ordinated with local health auditors to avoid duplication. This principle also extends to our work with inspectorates, acknowledging the distinctive nature of audit, inspection, professional specialisms and our respective public reporting arrangements.

What are the links to Audit Scotland's priorities?

- 1.7 The PRF contributes to Audit Scotland's three priorities of supporting effective democratic scrutiny, maximising the value of the audit and building an effective and efficient organisation by helping auditors to understand the challenges, demands and opportunities facing local government and focus on the issues that really matter to elected members and those they represent.

What is the role of the PRF?

- 1.8 The PRF is an audit planning tool which helps ensure that audit work is properly focused and takes account of local authority national priorities and risks. It is one element of our approach which is designed to meet the requirements of the Code of Audit Practice and International Standards on Auditing which require auditors to obtain an understanding of the client's business and environment. Our understanding of the business is also informed by work undertaken to identify issues and risks which are unique to the local situation.
- 1.9 Working with local government and stakeholders, we identify the key issues facing the sector in the coming year and select the priorities for coverage. For each identified topic, the PRF sets out:
- why the area is important;
 - links to other work which may be underway in the area;
 - the current business risks for councils;
 - the key issues that local auditors need to consider;
 - where more detailed guidance is available.
- 1.10 The PRF is designed primarily to focus the local audit, but also influences the national performance audit study programme and informs sectoral reporting such as the local authority overview report. PRF discussions held at individual bodies provide a useful source of early intelligence about the risks facing the local authority sector as a whole.

How was the PRF developed?

- 1.11 Planning for the 2006/07 PRF started with a workshop involving representatives from Audit Scotland and our partners in the audit firms. This workshop identified a short-list of key initiatives and priorities facing councils in the year ahead, and the main risks to their achievement. The short-list was then discussed at a consultation forum involving senior representatives from councils, COSLA, the Improvement Service, the Public Sector Ombudsman and other interested parties. The aim of this event was to provide a sounding board on the key themes in the short-list.
- 1.12 Criteria for selection of the key issues for inclusion in the PRF are:
- public interest;
 - materiality/significance (nationally) and links to national priorities for councils;
 - links to Accounts Commission priorities.

How will local auditors use the PRF?

- 1.13 The document forms an agenda for discussion with senior management in councils to help auditors complete a risk assessment of their client's arrangements to address the national issues identified in the PRF. These discussions will be supported by our cumulative knowledge and experience of bodies and a review of relevant evidence, including the reports of inspectorates and other scrutiny bodies. When combined with an assessment of local issues, audit activity can then be targeted to areas of greatest audit risk.
- 1.14 **The PRF is principally an audit planning and risk assessment tool and will not result in detailed audit work in each area.** Rather, it is one of the means which auditors will use to decide where to focus detailed audit activity.
- 1.15 In reporting the results of the audit, auditors will be sensitive to the fact that even though arrangements to address the issues in the PRF may be weak, the identified risks may or may not crystallise. The absence of, or deficiencies in, arrangements do not necessarily mean that identified risks are statements of fact. We also recognise that risk exists in all organisations that are committed to continuous improvement. The objective is to be 'risk aware', with sound processes of risk management, rather than 'risk averse'. Indeed, organisations which seek to avoid risk entirely are unlikely to achieve best value.

How does the PRF relate to the BV audit?

- 1.16 All aspects of our audit have due consideration of best value embedded within them. The audit of best value in local government is led by a dedicated Audit Scotland team, with detailed BV audits at every council being carried out over a three year period from 2004. The local auditor is a member of each BV team and has a responsibility to ensure that local knowledge is communicated to the rest of the team.
- 1.17 If a detailed BV audit has already been completed at a council, the BV report and supporting evidence will be used as a source of evidence and assurance in both the assessment of the council's arrangements to address the issues and risks identified in the PRF and in informing the wider audit risk assessment. Similarly, the results of Performance Audit studies and other audit work previously undertaken will be used as a source of evidence and assurance.
- 1.18 If a detailed BV audit has not already been completed, the evidence and assurances obtained through review of the council's arrangements to address the issues in the PRF will be available, alongside other local knowledge, to support the BV audit (or other Performance Audit activity). If a BV audit is imminent, local auditors will consult with the BV team to ensure that a joined-up approach is taken to discussions and evidence gathering.
- 1.19 In cases where local action is insufficient to address key risks, the additional audit activity required could take the form of either local audit studies, planned central Performance Audit studies or future detailed BV audits. The exact approach taken will be tailored to circumstances, will be proportionate and will be dependent on timing.

How does the PRF relate to other scrutiny bodies?

- 1.20 The reports of Inspectorates and other scrutiny bodies, such as HMIE, Communities Scotland, the Social Work Inspection Agency and the Benefits Fraud Inspectorate, will also be used as a source of evidence and assurance in the assessment of the council's arrangements to address the issues and risks identified in the PRF. In many cases, Audit Scotland has a Memorandum of Understanding with other scrutiny bodies and the terms of each agreement will be considered when establishing the most effective means of gaining any additional audit assurances on identified risk areas.
- 1.21 In the case of cross-cutting areas such as community planning and joint futures, audit activity will be co-ordinated with health auditors in the local area to avoid duplication of activity.

What are the key issues?

- 1.22 The key national priorities and risks for auditors to consider in the coming year are:

Governance & performance management	Efficient government & efficient use of resources
Supporting political governance	Financial planning
Community planning & partnership working	Workforce management
Performance management	Procuring & managing assets

- 1.23 The two over-arching themes of governance and performance management and efficient government and efficient use of resources are largely strategic in focus and assist in explaining how the underlying themes inter-relate. Unlike previous years, the 2006/07 PRF does not include any service specific themes (in 2005/06 themes on strategic planning in social services and strategy for housing were included). This year, service specific considerations are integrated into each corporate theme where appropriate. Auditors will also consider the extent to which the PRF themes should be discussed at a service level when undertaking their local planning work.

Cross-cutting themes

- 1.24 A range of cross-cutting themes will be considered by auditors when they are discussing PRF topics with councils. These issues are also specifically highlighted within particular PRF themes:

- **risk management** is specifically considered in the over-arching theme of governance and performance management;
- **equalities** is considered in the themes on supporting political governance, performance management, workforce management and procuring and managing assets;
- **sustainability** is considered in the over-arching theme of efficient government and efficient use of resources, and in performance management and financial planning;

- **customer focus** is considered in the over-arching theme of governance and performance management and in community planning and partnership working and performance management;
- **social inclusion** is considered in supporting political governance and procuring and managing assets;
- **ICT issues** are not specifically covered in any one section but will be considered by auditors as one of the building blocks to support information for decision making.

Governance and performance management

Background

- 2.1 Governance comprises of the systems and processes for the direction and control of local authorities through which they account to, engage with and lead their communities. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation.
- 2.2 In 2001 CIPFA (Chartered Institute of Public Finance and Accountancy) and SOLACE (Society of Local Authority Chief Executives) developed a framework of principles of corporate governance for adoption by local authorities *Corporate Governance in Local Government – A Keystone for Community Governance*. More recently, *The Good Governance Standard for Public Services* has been drawn up by the Independent Commission on Good Governance in Public Services established by CIPFA and the Office for Public Management, in partnership with the Joseph Rowntree Foundation.
- 2.3 The Good Governance Standard is based around six core principles:
- focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the area;
 - members and officers working together to achieve a common purpose, with clearly defined functions and roles;
 - promoting the values of the authority and demonstrating the values of good governance through behaviour;
 - taking informed and transparent decisions which are subject to effective scrutiny and risk management;
 - developing the capacity and capability of members to be effective and ensuring that officers have the capability and capacity to deliver effectively;
 - engaging with local people and other stakeholders to ensure robust local public accountability.
- 2.4 This section of the PRF includes underlying themes on three key aspects of governance: supporting political governance; governance arrangements around community planning and partnership working; and performance management. This overarching theme of governance and performance management focuses on overall arrangements in relation to:

• strategic direction	• roles & responsibilities
• standards of conduct	• legality
• scrutiny	• risk management
• community engagement	

Why is it important?

- 2.5 Effective local government relies on public confidence in elected members and appointed officers. Good governance strengthens credibility and confidence in public services and enables a council to pursue its vision effectively, as well as underpinning achievement of the vision with mechanisms for control and management of risk. Good governance should promote good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. It should also ensure consistency in approach and support high standards in public services.
- 2.6 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 local communities. The demands on councils are considerable and there can never be enough resources to do everything. Councils, therefore, need to set priorities effectively and to do this they must have a good understanding of:
- the economic, environmental and social issues in their area;
 - what local people want and need from services;
 - how well they have addressed equalities in the provision of services;
 - the key factors that deliver high quality in each area of service activity, including professional skills and competencies.
- 2.7 Best value audits show that most councils have a good understanding of the needs and issues in their local areas, but that this is not always translated into clear priorities and action plans or into continuous improvement in standards of service delivery. There is also evidence that councils recognise the need for improvement in consultation with communities.
- 2.8 Effective scrutiny of performance is central to good governance and accountability to citizens and communities. The Controller of Audit's '*Overview of the local authority audits 2005*' highlighted that councils have a variety of arrangements in place to scrutinise performance through scrutiny panels or performance review committees but that their effectiveness depends on the development of better performance information. In some cases an element of scrutiny may be combined with audit committee functions and the overview report stresses the need in these situations to ensure that sufficient time is available for core audit committee business.
- 2.9 Risk management involves the systematic identification and management of risks affecting the organisation, highlighting where action is required and where performance needs to improve. The overview report concluded that while councils are making steady progress in developing risk management systems, with risk strategies and corporate risk registers largely in place, more work is needed to ensure that a risk management culture is embedded across services.

Links to other work

- 2.10 In June 2006 CIPFA and SOLACE published a consultation draft *Good Governance in Local Government: A Framework*. The Framework updates *Corporate Governance in Local Government – A Keystone for Community Governance* and is based around *The Good Governance Standard for Public Services*. The consultation period closed on 11 September, with a view to publication later in 2006.

What are the current operational risks and risk areas?

2.11 These include:

- priorities and objectives may be unspecified, unclear, inconsistent or conflicting, which may lead to ineffective co-ordination between services, lack of evidence that resources are allocated to priority areas or lack of focus on improved outcomes for service users;
- the respective roles and responsibilities of elected members and senior management may be unclear and may result in a lack of focus on strategic issues at member level, a lack of understanding of the role of scrutiny, or a decision making process which is not transparent;
- arrangements to protect the integrity of elected members and officers may be ineffective, or there may be a lack of openness and transparency in the decision making process, which could lead to accusations of prejudice, bias or conflicts of interest;
- legal requirements, particularly in complex areas such as EU tendering or equalities, may not be fully understood throughout the organisation, leading to failures to comply with the law;
- scrutiny arrangements may not operate or may not be fully effective, restricting accountability and failing to contribute to a drive for improved performance;
- key performance and other business risks may not be managed, with the result that objectives are not achieved or only at increased time and cost;
- individuals and groups providing community representation may be ineffective or non-representative, community views may not be used to influence service provision or local communities may identify competing priorities which raise expectations without the resources to deliver.

What are the key issues for local auditors?

2.12 These include:

- the extent to which there is a clearly stated, shared corporate view of priorities which is linked to the political priorities of elected members and forms the basis for corporate and service plans;
- whether there is a clear statement of the respective roles and responsibilities of elected members and senior management, supported by schemes of delegation and reserved powers which are monitored and regularly updated;
- the steps taken to ensure that both elected members and officers uphold high standards of conduct, including formal codes of conduct, developing and maintaining an effective standards committee and arrangements to ensure that members and officers are not influenced by prejudice, bias or conflicts of interest;
- the steps taken to ensure that the council complies with all legal requirements, including the role of the monitoring officer and arrangements to ensure that new requirements are disseminated and understood;

- the extent to which decisions are consistent, transparent and evidenced with a record of the criteria, rationale and considerations on which they are based;
- whether there is an effective scrutiny function which encourages constructive challenge and an audit committee which complies with audit committee principles;
- the steps taken to investigate complaints and ensure the whistle blowing policy is clearly disseminated;
- the extent to which risk management is embedded throughout the organisation, with risks to the achievement of key objectives systematically identified and managed by controlling, transferring or accepting them;
- the extent to which the views of the community are sought and used to improve the planning and delivery of services, with an active and planned approach to dialogue.

Further information

- Corporate Governance in Local Government – A Keystone for Community Governance – CIPFA/SOLACE, available from CIPFA
- Good Governance in Local Government: A Framework, consultation draft, June 2006 – CIPFA/SOLACE, available from CIPFA
- The Good Governance Standard for Public Services - The Independent Commission on Good Governance in Public Services, available from CIPFA

Supporting political governance

Background

- 3.1 Elected members play a vital role in the success of their council in meeting the needs of local citizens and communities, and in the quality of life that they experience. This role is complex and continually evolving, but includes the following key elements:
- political leadership – providing clear political direction for the council through decision making/influencing, including determining strategy and setting budgets, representing the council and developing effective working relationships with partners;
 - community leadership – representing their ward and constituents, enabling and empowering local people and acting as their advocate, advancing the well-being of the area and its communities and shaping services around the needs of the citizen;
 - scrutiny – scrutinising effectively the actions of the council leadership and holding it to account for its performance, challenging the administration and senior officers in relation to the performance of services, the substance of policies and how they fit with the overall objectives of the council, the effectiveness of a policy in terms of implementation and the adequacy of corporate controls.
- 3.2 Councillors exercise their role within the overall political governance framework that they decide is most appropriate to local circumstances. The mechanisms to ensure effective scrutiny, in particular, are not prescribed in statute or in guidance and a number of different approaches are possible. Within the overall framework that is in operation, the council leader and senior councillors have particular responsibilities in areas such as policy formulation and political direction. However, all councillors play an active part in political governance, ensuring that the council is effective in delivering the necessary outcomes for its citizens and communities.
- 3.3 If political governance is to be effective, elected members need high quality support from council officers. This includes access to key information of suitable quality, provision of professional advice and support to develop their knowledge and skills. Members and officers need to establish a good working relationship and identify the specific support required, responding to the continuing and significant developments affecting members' role.
- 3.4 As elected representatives, councillors have a clear legitimacy to be the voice for their area, both individually at ward level and collectively to advance its well-being. Ultimately they are responsible and democratically accountable to the local electorate for the overall performance of the council. In carrying out their role elected members require to balance the interests of their individual wards and the council as a whole. They also have to ensure that the council works effectively with a range of partners at a national and local level. Where councils have established companies or other arms length organisations they must ensure that these organisations are effective and accountable to local citizens and communities.

Why is it important?

- 3.5 Sound political governance arrangements underpin local authority financial and service performance. Effective leadership and scrutiny is central to the successful allocation of scarce resource for maximum public benefit and for ensuring proper accountability to citizens and communities. Elected members play a key role in making choices between competing priorities, setting objectives that reflect the needs and aspirations of their communities and ensuring that these are met through the services that the council provides. They need to ensure that their council fulfils its statutory duty to secure best value, taking decisions on service delivery on the basis of evidence and performance.
- 3.6 As councils seek to ensure that services are more user focussed and to improve performance in their delivery they will need to strengthen accountability arrangements including more balanced public performance reporting. Political leadership and support from officers is essential if councils are to achieve this.
- 3.7 The *Local Governance (Scotland) Act 2004* introduced a range of measures representing the biggest change to local government since the reorganisation of 1996. The Act introduces proportional representation to the 2007 local government elections. These elections have the potential to result in significant changes to council membership, including a number of new members and more hung councils. The creation of multi-member wards in particular has the potential to require new ways of working that will support efficient representation and sharing of workload within each ward.
- 3.8 The Act is designed to widen participation in local democracy and encourage greater diversity amongst elected members. It established the Scottish Local Authority Remuneration Committee which recently made recommendations to ministers about amended remuneration arrangements and severance payments for councillors, including suggestions that all councillors have role descriptions, training needs assessments and personal development plans.
- 3.9 Increasingly councils are working jointly with partners in the public, private and voluntary sectors with the aim of providing better public services and to ensure people and communities are genuinely engaged in the decisions on public services which affect them. Elected members play an important role in community planning, the development of shared services and working with arms length and external organisations.
- 3.10 In June 2006 the Scottish Executive published its consultation paper *Transforming Public Services* which set out its reform agenda for public services in Scotland. This looks at the future of public services in their entirety, consulting on long-term options for an improved framework for central government, local government and various delivery organisations, recognising the elected status of local government. Elected members will play a key role in developing and delivering this agenda in partnership with the Scottish Executive.

Links to other work

- 3.11 The recently established Improvement Service recognises that the quality of elected political leadership is core to the effective governance of communities and is committed to working with councillors, COSLA and other stakeholders to support elected members through this period of change and into the future. The Improvement Service has reported that:
 - there is good practice in terms of member support within Scottish local government but gaps in support remain;

- Scotland is lagging behind England and Wales in offering a structured and coordinated approach to member support and development;
- standards and practices in member support and development vary across Scottish Councils;
- there is little co-ordination and collaboration between councils on member support and development;
- there is not enough strategic planning for elected member development including leadership support and development; induction for new councillors; and future development needs of members are not being fully planned for.

3.12 The Improvement Service is now developing local leadership and member development programmes on issues such as scrutiny, corporate governance, decision-making and public engagement.

What are the current operational risks and risk areas?

3.13 These include:

- there may be an absence of clarity over the roles of individual elected members within the overall political governance framework, community planning activity and membership of arms length organisations;
- elected members may not have access to appropriate training and development tailored to their needs and the competencies they require to be effective in their role. New members in particular may be unable to access high quality induction support that enables them to be effective from the outset;
- the information provided to elected members may not be of sufficient quality to support decisions based on evidence and performance;
- cultural and working practices, excessive time commitment and insufficient practical support may limit access to council membership;
- professional support and advice may not be effective in ensuring that decisions are consistent with existing commitments and are properly founded on evidence and performance;
- professional support and advice may not be effective in ensuring that a shared vision for the council's services and priorities is established, that clear choices are made which are consistent with this vision and these are affordable and sustainable;
- political reluctance to publish a balanced and understandable account of the council's performance may limit the effectiveness of democratic and managerial accountability;
- existing working practices and structures may not be the most efficient or effective to support representatives of multi-member wards;
- the transition between outgoing and incoming administrations may lead to excessive disruption to council business that impacts on the overall performance of its services.

What are the key issues for local auditors?

3.14 These include:

- the extent to which the roles and expected competencies of general councillors, senior councillors and leaders have been defined and whether they are supported by training needs analysis and individual development planning and review;
- whether a programme of induction is available to newly elected members that meets their immediate training and information needs;
- whether information reported to councillors in areas such as performance, outcomes, use of resources and option appraisal is of sufficient quality to convey the necessary understanding of performance against strategic and service objectives and to support evidence based decision making;
- what steps have been taken to review and modernise working practices and practical support provided to members to limit the time commitment required and enable access from all communities of place and interest, and how effective have these been;
- how senior officials manage their relationships with members to ensure that difficult choices are made and decisions are properly founded on evidence and performance;
- what action has been taken to review existing working practices and political management arrangements in response to the introduction of multi-member wards and proportional representation;
- what arrangements have been put in place to manage the transition between administrations and how effective have these been.

Further information

- Local Governance (Scotland) Act 2004 - <http://www.opsi.gov.uk/legislation/scotland/acts2004/20040009.htm>
- Transforming Public Services – The Next Phase of Reform - Scottish Executive - <http://www.scotland.gov.uk/Resource/Doc/130092/0031160.pdf>
- Local Government in Scotland Act 2003 - <http://www.opsi.gov.uk/legislation/scotland/acts2003/20030001.htm>
- Elected Member Leadership in Best Value – Advisory Note - Scottish Executive - <http://www.scotland.gov.uk/Resource/Doc/35596/0028835.pdf>
- Review of Remuneration Arrangements for Local Authority Councillors - Scottish Local Authorities Remuneration Committee - <http://www.scotland.gov.uk/Resource/Doc/90455/0021760.pdf>
- Renewing Local Democracy – Report of the Widening Access to Council Membership Progress Group - <http://www.scotland.gov.uk/Resource/Doc/36496/0024802.pdf>
- The Future Role of Elected Members, APSE, May 2003
- Improvement Service Website - <http://www.improvementservice.org.uk>

- Corporate Governance in Local Government – A Keystone for Community Governance – CIPFA/SOLACE, available from CIPFA
- Improvement and Development Agency (IDEA) website - <http://www.idea.gov.uk/idk/core/page.do?pagelId=1>

Community planning and partnership working

Background

- 4.1 Councils have always planned and delivered many of their services in partnership with other public, private and voluntary organisations. Community planning is intended to provide the strategic framework for partnership working within each council area. This section covers both community planning and other partnership working the council may be involved in.
- 4.2 The Local Government in Scotland Act 2003 provides the statutory basis for community planning. The Act requires councils to initiate and facilitate the process, and places a duty on health boards, the enterprise network, the police and fire services, Strathclyde Passenger Transport Authority and, from 1 April 2006, Regional Passenger Transport Partnerships, to participate. Councils are also required to invite other relevant public, private and community bodies in the area to participate as appropriate.
- 4.3 Audit Scotland has recently completed a baseline study on community planning, *Community planning: an initial review*, published in June 2006. This identifies the challenges facing community planning partnerships (CPPs) and makes recommendations for action by the Scottish Executive and its agencies, partner organisations and CPPs themselves.
- 4.4 The environment in which councils have to discharge their community planning responsibilities is a complex one:
 - partner organisations have different accountabilities, financial arrangements and often have different boundaries – partner organisations which are nationally accountable (eg NHS Boards, LECs) may have to meet national targets which can restrict their flexibility in responding to local needs;
 - councils and CPPs have to accommodate a wide range of existing partnership arrangements for specific service areas, some of which are long-standing. For example, Joint Future arrangements (for planning and delivering community care services), community safety partnerships, drug and alcohol action teams;
 - new statutory partnerships are also being established, requiring participation by councils. In particular:
 - Community Health Partnerships (CHPs) established during 2005 in most cases – boundaries mostly co-terminus with council areas;
 - Regional Transport Partnerships (from April 2006), boundaries larger than council areas;
 - Community Justice Authorities (from April 2007), most with boundaries larger than council areas.
- 4.5 While all councils have established multi-agency CPPs and have formalised community plans setting out an overall vision for the local area, there is wide variation in local community planning arrangements.

4.6 In summary, community planning and other partnership working is about how councils work with public, private, business and voluntary organisations, and with their local communities, to identify and solve local problems, improve local services and share resources. This section of the PRF focuses on the risks which councils need to manage in relation to their involvement with community planning, rather than the risks that CPPs need to manage.

Why is it important?

- 4.7 Within a tightening fiscal environment, radical improvements in service delivery cannot be achieved in isolation. The increasing expectations (at both local and national levels) that services should be planned and delivered around the needs of communities and service-users can only be met through effective partnership working.
- 4.8 Considerable staff time is spent in activities connected with partnership working – and councils need to be able to demonstrate the benefits of this staff investment through improvements in services.
- 4.9 Areas covered by partnership working can also involve significant amounts of money, both from partner organisations' core funding and from Scottish Executive funding for specific policy initiatives. We estimated that in 2005/06 the Scottish Executive provided around £685 million through 42 different funding streams that was intended to be spent through partnership working (outwith core funding of partner organisations).
- 4.10 From 2005/06 the most significant source of funding for CPPs is the Community Regeneration Fund (CRF). Around £318 million over three years will be distributed (via councils) to bring improvements to Scotland's most deprived areas and help individuals and families escape poverty. CPPs have agreed Regeneration Outcome Agreements (all now approved by the Minister) which set out how they intend to use the funding, alongside their own resources, to deliver specific regeneration outcomes.

What are the current operational risks and risk areas?

4.11 These include:

- partnerships in which the council is involved may not deliver the intended improvements in services or community wellbeing;
- the council may not be providing effective civic leadership or facilitating agreement between partners on the strategic priorities for the area, leading to national priorities dominating local needs and local partnerships reacting to national initiatives in an unmanaged and uncoordinated way;
- the council may not have developed a strategic approach to its partnership activity, leading to partnership 'overload', ineffective use of staff time, partnership activity not contributing to the council's strategic priorities, and gaps and duplication in partnership arrangements;
- the council may not have fully incorporated relevant community planning priorities and plans into its own service planning and budget setting processes, and community planning objectives may not be achieved;

- consultation and engagement with local communities and service-users may be poorly co-ordinated between different partners and ineffective; the council may not be maximising the use of information from community engagement to improve its own services, inform community planning activity and, in the context of best value guidance, demonstrate responsiveness to the needs of its communities and citizens;
- governance, scrutiny and performance monitoring arrangements for the CPP and related partnerships may not be properly developed, and the council is unable to demonstrate that resources allocated to partnerships are being used efficiently and effectively.

What are the key issues for local auditors?

4.12 These include:

- how the council is taking forward the recommendations in Audit Scotland's national report on community planning. The council should be considering both those recommendations directed at them as an individual partner, and encouraging the CPP to follow up the recommendations directed at partnerships;
- whether the council has taken steps to encourage the CPP to use the evaluation framework (from the national report) to help improve the effectiveness of the CPP including: the extent to which improvements have been agreed; and whether the council has encouraged the use of other improvement tools (for example, from the Improvement Service) to improve the effectiveness of the partnerships in which it participates;
- whether the action plans agreed by CPPs and other partnerships in which the council participates are fully reflected in the council's own service plans and budgets;
- whether the council has established robust monitoring and reporting arrangements to ensure that money provided to partnerships, including the Community Regeneration Fund, is being spent as planned, with proper controls in place, and is achieving agreed outcomes;
- whether the council has reviewed its participation in partnerships and can demonstrate how its partnership activity is contributing to its strategic objectives.

Further information

- Audit Scotland community planning report – Community planning: an initial review - <http://www.audit-scotland.gov.uk/publications/pubs2006.htm#commplan>
- The Local Government in Scotland Act 2003 - Statutory guidance on community planning - Scottish Executive - <http://www.scotland.gov.uk/Resource/Doc/47237/0028845.pdf>
- Community Planning website – <http://www.improvementservice.org.uk/commplan>
- Audit Commission report “*Governing partnerships: bridging the accountability gap*” – <http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=1CDA0FEF-E610-463c-B3F3-220F607B1A2C&fromREPORTSANDDATA=NATIONAL-REPORT>

- Improvement Service website has links to a large number of documents aimed to improving partnership effectiveness – <http://www.improvementservice.org.uk/>
- Communities Scotland website for information on the Community Regeneration Fund – http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/cs_008070.hcsp#TopOfPage and National Standards for Community Engagement – http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/cs_010771.hcsp#TopOfPage
- Community Health Partnerships – <http://www.show.scot.nhs.uk/sehd/chp>
- Regional Transport Partnerships – <http://www.scotland.gov.uk/Topics/Transport/regional-partnerships>
- Community Justice Authorities – <http://www.scotland.gov.uk/Topics/Justice/criminal/19556/commjusticeauth>
- Joint Future Unit – <http://www.scotland.gov.uk/about/HD/CCD2/00017673/Home.aspx>
- Community care: A Joint Future - Joint Future Group – <http://www.scotland.gov.uk/library3/social/rifg-00.asp>
- For Scotland's children: Better integrated services for children - Scottish Executive – <http://www.scotland.gov.uk/library3/education/fcsr-00.asp>
- Community Safety website – <http://www.saferscotland.org.uk>

Performance management

Background

- 5.1 Good governance and the achievement of best value rely on having good information on which to base decisions about allocating resources to competing demands, improving service delivery and managing performance. 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 need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.
- 5.2 The Controller of Audit's '*Overview of the local authority audits 2005*' concluded that:
- councils have some way to go to develop and implement systematic performance management of their services. While some councils have made good progress, the best value audits show that performance management is underdeveloped in most councils;
 - elected members need better information about service performance if they are to exercise their scrutiny responsibilities effectively;
 - councils continue to place too much reliance on the statutory performance indicators as the primary tool for measuring 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.

Why is it important?

- 5.3 Performance management is a core issue facing local government, of key importance in achieving national and local policy objectives and providing quality services. Best Value also requires councils to demonstrate continuous improvement in services and to address equality and sustainability duties.
- 5.4 The management of performance needs to be founded on policy and service objectives, to operate systematically and to generate appropriate information to allow improvement to be pursued. An effective performance management system should demonstrate whether or not objectives have been achieved, monitor standards, highlight areas for action and act as a driver for service improvement.
- 5.5 Good quality performance information is essential for informed decision making and allows elected members to scrutinise performance and hold management to account on service delivery. Councils also require accurate performance information to report regularly to the public on all aspects of their activity. To allow the public to hold councils to account, this reporting requires to be accessible, user friendly and, importantly, it should be accurate, honest and balanced.

Links to other work

- 5.6 The Scottish Executive, in association with COSLA, SOLACE, the Improvement Service and Audit Scotland, has launched a project to review and develop performance information and performance management in local authorities. Phase 1 of the project intends to:
- map the landscape by identifying the information collected at present and any gaps at national or local level;
 - identify what performance information councils, the Scottish Executive and other relevant stakeholders need about local government;
 - review good practice elsewhere, particularly developments in England and Wales, and make links to other public service reform projects.
- 5.7 Phase 2 of the project involves analysing the material and identifying options for performance management systems for national and local use, and engaging with the Accounts Commission in relation to how these developments would impact on the future of SPIs. The project is expected to continue into 2007.
- 5.8 The Improvement Service is a major contributor to this project and its current workplan includes:
- developing improved performance information, including developing a framework of service standards and targets to be agreed between national and local government; linking with outcome agreements; developing training and other support to improve capacity in councils; and providing toolkits on various tools and techniques;
 - developing a corporate approach to performance management within councils, including mapping current approaches; developing toolkits to support robust performance management systems; supporting councils to utilise appropriate software packages; developing training; and developing a standard template for a corporate performance management framework for local application.
- 5.9 These strands of work link closely to a related project, again involving the Improvement Service, to develop an efficient government monitoring framework which includes corporate and service level efficiency and productivity measures.

What are the current operational risks and risk areas?

- 5.10 These include:
- priorities and objectives may not be clearly articulated at corporate or service level or may lack specific and measurable outcome targets. As a consequence, resources may not be targeted effectively at priority areas and there is a risk that the council may not achieve what it intends;
 - statutory duties, such as those associated with equalities issues on race, gender and disability, or the need to consider sustainable development, may not be addressed throughout the organisation to a minimum standard;

- performance management may be ineffective. Deficiencies in information or monitoring may mean that the causes of poor performance are not properly identified to allow appropriate remedial action, or that successful performance may not be identified and used for organisational learning;
- the right things may not be measured, meaning that the council may be unable to demonstrate the quality, effectiveness or cost of its services overall. There may be an over-reliance on SPIs to the exclusion of local performance measures which may result in a failure to monitor the achievement of local priorities and skew improvement activities to areas covered by SPIs;
- baseline performance data may not have been established so that performance can be compared over time. The council may be unable to demonstrate it is meeting its statutory duty of best value, which requires continuous improvement in services;
- minimum service standards may not have been established or published, with the result that the public are unaware of the quality of service they are entitled to expect or how the standard of service compares with other councils;
- service users and the wider public may not received balanced information about performance. As a result, statutory duties may not be met, democratic accountability may be ineffective and the expectations of residents and customers may not be properly managed.

What are the key issues for local auditors?

5.11 These include:

- the extent to which corporate priorities are clearly identified in a hierarchy of plans ranging from the community plan, through corporate and service level plans, and the extent to which these plans contain measurable performance targets;
- whether corporate and service plans integrate with and provide linkages between resources (budgets, workforce and asset management plans) and performance to demonstrate whether outputs and outcomes have been maintained, improved or have deteriorated;
- the steps which have been taken to ensure that compliance with statutory duties on equalities and sustainable development are embedded in corporate and service planning and are addressed to a minimum standard throughout the organisation;
- the extent to which an effective performance management framework is in place and operates throughout the organisation. This includes effective monitoring of performance over time, against corporate and service targets and against 'absolute' standards or that achieved by others;
- whether performance measures assess cost and quality for each area of activity and focus on the outcomes and experience of users;
- what steps have been taken to ensure that performance information is produced on a timely basis and is quality controlled to ensure it is robust;

- the extent to which performance information results in clear remedial action to address any poor performance and whether the effectiveness of remedial action is monitored;
- whether there is a clear corporate framework for public performance reporting that outlines what is expected of services, the extent to which appropriate information is provided to the public on targets, actual performance and planned improvements and whether this provides a balanced view of performance and covers core service delivery as well as initiatives and new projects.

Further information

- The Local Government in Scotland Act 2003 - Statutory guidance on Best Value – Scottish Executive www.scotland.gov.uk/Resource/Doc/47237/0028846.pdf
- Choosing the right Fabric - A framework for Performance Information - Audit Commission, Cabinet Office, National Statistics, NAO, HM Treasury www.hm-treasury.gov.uk/media/EDE/5E/229.pdf
- The Improvement Service has a useful sight for performance management resources in a Scottish context. There are a number of useful documents on its website <http://www.improvementservice.org.uk>
http://www.improvementservice.org.uk/index.php?option=com_docman&task=cat_view&gid=19&Itemid=43
- The Improvement and Development Agency has a useful website with a number of resources on performance management <http://www.idea-knowledge.gov.uk/idk/core/page.do?pagelId=76209>
- Review of performance improvement models and tools - IDEA 2006 www.idea-knowledge.gov.uk/idk/aio/1551334;
- A managers Guide to Performance Management - IDEA and Audit Commission www.idea-knowledge.gov.uk/idk/aio/4810918
- A councillor's Guide to Performance Management - IDEA and Audit Commission, www.idea-knowledge.gov.uk/idk/aio/4810912

Efficient government and efficient use of resources

Background

- 6.1 Efficient use of public resources, keeping a balance between cost, quality and price, is central in achieving best value. The profile of efficiency has also been raised through the introduction of the efficient government initiative, which has the primary objective of delivering the same services with less money or enabling frontline services to deliver more or better services with the same money. A key feature of the initiative is that it focuses on the public sector as a whole, rather than individual organisations, with the intention of realising efficiencies through joining up.
- 6.2 The Controller of Audit's *'Overview of the local authority audits 2005'* highlighted that 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. As a result, this section of the PRF includes underlying themes on financial planning, workforce management and procuring and managing assets. This overarching theme of efficient government and efficient use of resources concentrates on the main building blocks of efficiency such as service review, option appraisal and competitiveness, in addition to the efficient government initiative itself.
- 6.3 Based on information supplied by councils in spring 2006, the picture across Scotland in relation to the efficient government initiative was that:
- few councils had a system in place to properly monitor, measure and report efficiency gains which covered the whole council and that significant effort was still required to ensure that appropriate guidance is issued to staff to clarify what constitutes an efficiency;
 - the level of projected efficiencies varied significantly between councils;
 - the majority of planned efficiencies at that time arose from areas and projects other than the Scottish Executive's five key workstreams of procurement, asset management, absence management, streamlining bureaucracy and shared support services;
 - plans for projects that will create time releasing efficiencies were not well-developed and little in the way of efficiencies was expected to be generated by 2007/08 through shared support services. In both cases this is probably indicative of the time required to develop plans for fundamental service redesign.

Why is it important?

- 6.4 People have increasing expectations of council services, in line with the flexibility and responsiveness they expect in other aspects of their lives. Demographic changes, and policy initiatives such as improving the quality of housing stock and the national waste strategy, are likely to increase demands on some services. Meanwhile the level of growth in central government financial support to councils is levelling off. In this climate, the importance of using available resources in the most efficient manner is heightened.

- 6.5 It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings by 2007/08 towards the overall targets set out in the Efficient Government Plan. Although this is a relatively small sum compared to councils' annual spend, it needs to be considered alongside other financial pressures. The majority of the assumed efficiency savings have already been incorporated into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressure and may impact adversely on the quality of services provided.
- 6.6 All council activities and services should be explored to identify scope for efficiencies, including testing of competitiveness where appropriate and the application of rigorous option appraisal. Underpinning the review process is a need for good baseline information on costs and service outputs and outcomes. In order to claim an efficiency councils need to demonstrate that service outcomes have been maintained or improved, presenting a real challenge to evidence the link between resources and performance measurement. There is a possibility that councils may be required in the future to produce efficient government statements and, if so, will need clear evidence to support claims made.
- 6.7 Councils' drive for efficiency also needs to be viewed in the context of the challenges outlined in *Transforming Public Services*, published by the Scottish Executive in June 2006, and the consultation paper on a national strategy for shared services, *A Shared Approach to Building a Better Scotland*, published in May 2006. *Transforming Public Services* highlights the need to look at public services in their entirety and consider long-term options to deliver an improved framework which makes a real difference to users and communities. *A Shared Approach to Building a Better Scotland* highlights the aim to develop shared business support functions and common business processes that are more independent of the traditional structures and boundaries that exist within the public sector.

Links to other work

- 6.8 The Auditor General for Scotland intends to publish a report around the end of 2006 to summarise the position across the Scottish public sector on the efficient government initiative. Auditors should consider the findings and any recommendations included in this report when reviewing the position at individual councils.
- 6.9 An Efficient Government Monitoring group, comprising of representatives from COSLA, SOLACE, the Improvement Service, the Scottish Executive and the CIPFA Directors of Finance Section, has been set up to explore how efficiency gains can be measured. Consultants have been identified to lead the project and it is anticipated that:
- there will be a menu of measures for a variety of services. Councils will then be able to choose the measures which most suit their efficiency programme;
 - the project will link closely with the Audit Scotland review of statutory performance indicators to avoid duplication;
 - any framework will not require the purchase of specific performance management software. Councils which have already purchased a separate performance management system can continue to use their own systems.

What are the current operational risks and risk areas?

6.10 These include:

- an absence of a culture of, and clear leadership for, efficiency may result in a lack of buy-in at all levels throughout the council. Failure to achieve sustainable efficiencies may result in increased financial pressures or impact adversely on the quality of services provided;
- a focus on limiting increases to council tax and balancing the books could result in a concentration on top-slicing budgets and short-term wins rather than sustainable efficiencies which take more time and resources to develop and implement;
- service review may not be comprehensive, or may not involve robust option appraisal which considers all alternative methods of delivery, meaning that opportunities for efficiencies may be lost;
- there may be insufficient consideration of competition as an element in achieving best value from trading activities. Activities previously provided under the compulsory competitive tendering (CCT) regime may still operate in accordance with outdated contracts;
- an absence of a comprehensive performance management system linking resources and outputs and outcomes, and based on clear guidelines for defining and measuring efficiencies, could inhibit the ability to demonstrate that claimed efficiencies are genuine and do not represent reductions in service provision. This may preclude the provision of a statement or other form of verification on efficiency claims made;
- there may be a failure to work effectively with partners which could inhibit the ability to generate efficiency savings through shared service support and could limit the response to the expectations outlined in *A Shared Approach to Building a Better Scotland*;
- a lack of management capacity, skills, information or other resources could result in a failure to deliver change projects or only deliver them at increased time and cost.

What are the key issues for local auditors?

6.11 These include:

- the extent to which there is a clear commitment to efficiency and the efficient government agenda, with corporate leadership and scrutiny by elected members and senior management, and whether a culture of efficiency is evident throughout the organisation (through, for example, the use of staff suggestion schemes);
- the extent to which there is a systematic review process which covers the five key efficient government workstreams, and all other activities and services, to identify scope for efficiencies and service improvements in both the short and long-term;

- whether reviews include robust option appraisal, including consideration of the scope of services provided, possible partners and alternative methods of delivery such as out-sourcing;
- whether the council has taken a structured approach to the identification of areas where a 'trading' approach may contribute to the achievement of best value, covering the full range of activity rather than simply the former CCT activities, and the steps which have been taken to assess the competitiveness of trading activities (including market testing);
- whether the council has identified 'spend to save' opportunities in addition to relying on external funding such as the Efficient Government Fund, and the extent to which a medium to long-term view has been taken rather an approach which focuses on budgets and council tax levels in the short term;
- the extent to which there is a change programme which includes SMART targets and is supported by sound project management arrangements and comprehensive monitoring and reporting to elected members and senior management;
- the steps which have been taken to ensure good communication and joint working with other public sector organisations to identify and deliver efficiencies through shared service support;
- whether clear guidance has been disseminated on how to classify and calculate proposed efficiency gains and the steps which have been taken to ensure evidence is available to support claims made under the efficient government initiative;
- the steps being taken in conjunction with the Improvement Service to develop a robust performance management system, which confirms no loss of service quality and can track savings to ensure deployment to frontline services, to underpin efficiency claims.

Further information

- Transforming Public Services – The Next Phase of Reform - Scottish Executive - <http://www.scotland.gov.uk/Resource/Doc/130092/0031160.pdf>
- A Shared Approach to Building a Better Scotland – A consultation paper on a national strategy for shared services – Scottish Executive - <http://www.scotland.gov.uk/Resource/Doc/115423/0028606.pdf>
- Building a Better Scotland – Spending Proposals 2005/08: Enterprise, Opportunity, Fairness - Scottish Executive – <http://www.scotland.gov.uk/Resource/Doc/25725/0027982.pdf>
- Building a Better Scotland – Efficient Government: Securing Efficiency, Effectiveness and Productivity - Scottish Executive – <http://www.scotland.gov.uk/Resource/Doc/26800/0025698.pdf>
- Scottish Executive Efficient Government website - <http://www.scotland.gov.uk/Topics/Government/Open-scotland/efficientgovernment/intro>
- Efficient Government – revised technical notes – <http://www.scotland.gov.uk/Resource/Doc/1067/0028661.pdf>

- Improvement Service Website - <http://www.improvementservice.org.uk>

Financial planning

Background

- 7.1 Councils administer large sums of public money within a complex financial and policy environment, often as key partners in delivering central government and local policy objectives. Financial planning is critical to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities.
- 7.2 Annual revenue expenditure on local authority services is in the region of £15 billion and is financed from government grants and redistributed income of £11 billion, rents and other income of £2 billion and council tax of £2 billion.
- 7.3 The Controller of Audit's '*Overview of the local authority audits 2005*' reported that although expenditure levels have increased by 6%, councils face significant cost pressures and that the rate of growth of central government financial support is levelling off. The report also concluded that financial stewardship within councils is generally sound, but that there is a need for better long-term financial planning.

Why is this important?

- 7.4 Within challenging constraints on resources, councils must make increasingly difficult decisions in balancing demands for improvements in both the volume of services delivered and in the performance of those services. Central government financial support through Aggregate External Finance increased by 3.9% in 2006/07 and will increase by 2.9% in 2007/08 and there is pressure to limit council tax rises over the same period. In tandem, local government is expected to deliver efficiency savings over the three year period ending 2007/08 as part of the efficient government initiative.
- 7.5 Councils face significant financial pressures in 2006/07 and beyond, including:
 - equal pay (addressing disparity between male and female pay and conditions);
 - single status (the cost implications of merging the pay and working arrangements for APT&C and manual employees);
 - pension costs (incorporating where relevant future increases in the rates for employers' contributions);
 - National Waste Strategy (the cost implications of the Executive's policy to move to a more sustainable waste management system and to meet targets set for increasing the levels of waste being recycled or composted);
 - increasing energy costs and above inflation increases in building and road maintenance costs;
 - increasing costs associated with the policy of free personal care;
 - compliance with the requirements of the Disability Discrimination Act.

- 7.6 To achieve the priorities for their communities, councils need a flexible budget process, aligned to the planning cycle, to enable them to direct resources to where they are most needed. The best value audits show that few councils use the priorities identified in their corporate plan as a basis for setting budgets.
- 7.7 Funding and investment decisions have an impact on the future availability of resources and, therefore, on the delivery of services over the longer term. For example, councils have made long-term financial commitments to PFI projects with a combined capital value in excess of £3 billion. In addition, local authority debt totals some £9 billion and will require to be financed from existing resources. Employing new staff also has a significant whole life cost for a council beyond the traditional annual establishment budget, such as future pension costs. The overview report highlighted that councils have started to model the long-term financial effect of major projects. Overall, however, 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.

Links to other work

- 7.8 The CIPFA Directors of Finance Section has recently published *Capital Planning and Option Appraisal – A Best Practice Guide for Councils*. The Guide aims to provide a framework for establishing an option appraisal process in a council and covers the prudential code, asset management planning, capital planning and financial strategy and a general overview of option appraisal. Auditors may wish to consider how councils are taking forward the issues raised in the Guide.

What are the current operational risks and risk areas?

- 7.9 These include:
- budgets may be incremental and set corporately to meet overall spending plans. These may not reflect a prioritisation of individual service need, may not receive the necessary commitment from service officers and could result in disproportionate budgetary pressure on different parts of the council leading to a reduction in service delivery or over-spending;
 - the challenging financial environment, with forthcoming elections in 2007 and pressure to keep council tax increases low, may result in non-optimal, or unaffordable, decisions on investment and/or quick win but not sustainable savings initiatives;
 - as financial pressures crystallise, budgets may not be reviewed to reflect the changes or may be subject to top-slicing without a review of overall priorities, resulting in potential over-spends or poor use of resources;
 - the budgetary control system may not ensure that overspends are identified in time to take effective remedial action or that underspends are identified early enough to allow resources to be diverted to other priority areas;

- financial strategies and plans may not cover the medium to long-term and may fail to reflect the implications of identified local and national cost pressures. The lack of a strategic framework for the current council, and to inform any new administration following the 2007 elections, may lead to service reductions, further pressure on reserves or politically unacceptable increases in future borrowing and local taxation;
- there may be a failure to integrate financial planning with corporate/service planning and performance management processes that could result in resources not being targeted to priorities;
- there may be poor capital planning and monitoring which leads to delays in the completion of projects and policy objectives may not be achieved. Budget overspends or slippage in spending plans may result;
- there may be an absence of a corporate strategy for managing reserves which could result in funds being accumulated unnecessarily or an inadequate cushion held to deal with emergencies. With reserves being used to meet pressures such as equal pay, they may fall below any policy levels and increase the risk to financial stability;
- ring fenced, initiative or non-recurring monies may be relied upon to fund recurring expenditure. Poor planning, or receipt late in the year, may result in inefficient use of the funding or failure to achieve funding objectives;
- the approach to financial planning may not support effective joint working, restricting the ability to achieve community planning objectives. Financial information systems may not be sufficiently integrated or flexible to enable strategic planning with partners.

What are the key issues for local auditors?

7.10 These include:

- whether there is a system to prioritise budgetary demands and the extent to which this is applied consistently throughout the year and is supported by an underlying costing mechanism that can provide comparable data across the council's activities;
- the extent to which there is a clear link between the financial plan and corporate/service plans to transparently match resources to priorities and whether there is a focus on 'whole spend' rather than only additional funding or new activities;
- the steps which have been taken to 'horizon scan' and actively monitor and assess the ongoing impact of significant financial pressures, and the extent to which the financial plan covers the medium to long-term taking into account existing commitments and projections;
- whether there is a sustainable, robust and affordable approach to capital planning that is clearly linked to corporate priorities, is based on comprehensive asset management plans, and involves a sound system of capital prioritisation and option appraisal;

- the extent to which capital projects are effectively managed to avoid slippage, whether arrangements are in place to identify slippage as it occurs and take appropriate corrective action and the steps taken to ensure capital funds are not obtained in advance of need;
- the extent to which reserves and balances are held for a clear purpose and applied to support the overall financial strategy;
- whether plans are in place for the use of ring-fenced funding, with monitoring and reporting procedures to demonstrate how funds have been used, and whether exit strategies are in place for the end of the funding stream;
- the extent to which financial planning and decision making is effectively co-ordinated with partners and financial information systems support joint working;
- whether a sound budgetary control system is in place which includes formal accountability and internal control arrangements for budget holders, finance staff and elected members;
- whether sufficient financial expertise is available within the council to deliver effective financial management, supported by a continuing and well-structured programme of staff development and training on financial issues.

Further information

- The Local Government in Scotland Act 2003 - Asset Management under Best Value Advisory Note – Scottish Executive - <http://www.scotland.gov.uk/Resource/Doc/35596/0028836.pdf>
- SEPA - National Waste Strategy - <http://www.sepa.org.uk/pdf/publications/nws/nationalwastestrategy.pdf>
- Single Status Agreement between Scottish Local Government Employers and the Trade Unions – Unison - <http://www.unison-scotland.org.uk/localgovt/sstatus.doc>
- COSLA submission to the Spending Review 2004 - COSLA - <http://www.cosla.gov.uk/attachments/publications/spendingreview2004.pdf>
- Scottish Local Government Financial Statistics 2004-05 - Scottish Executive National Statistics Publication - <http://www.scotland.gov.uk/Resource/Doc/88852/0021191.pdf>
- Overview of the local authority audits 2005 - Audit Scotland - <http://www.audit-scotland.gov.uk/publications/pdf/2005/05pf14ac.pdf>
- Building a Better Scotland – Spending Proposals 2005/08: Enterprise, Opportunity, Fairness - Scottish Executive – <http://www.scotland.gov.uk/Resource/Doc/25725/0027982.pdf>
- Building a Better Scotland – Efficient Government: Securing Efficiency, Effectiveness and Productivity - Scottish Executive – <http://www.scotland.gov.uk/Resource/Doc/26800/0025698.pdf>

- Capital Planning and Option Appraisal – A Best Practice Guide for Councils
CIPFA Directors of Finance Group

Workforce management

Background

- 8.1 Councils decide their corporate priorities and how to deliver services. The successful delivery of these services, whether directly by council staff or by others and monitored by council staff, depends on the capacity, capability and competency of the workforce.
- 8.2 In March 2006 the number of staff employed in local government was 262,600¹ (full time equivalent). In expenditure terms, this is the largest element of spend with annual staff costs exceeding £6 billion or 40% of overall revenue budgets. So it is vital that the workforce is planned and managed well.

Why is it important?

- 8.3 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 consider proposed changes to the local government pension scheme. These affect employer/employee relations and the financial implications are significant. At the same time councils need to look ahead, to anticipate the effect of possible changes at senior manager level around the time of the elections in 2007 and, more generally, the effect that changes in demands for services and the way in which services are delivered is likely to have on staff numbers and skills.
- 8.4 The single status agreement between local government employers and trade unions has been in place since 1999 and involves merging the pay and working arrangements for APT&C and manual employees. While the agreement stipulates that local parties should endeavour to minimise costs, local negotiating strategies have been significantly affected by the cost of harmonising the standard working week. The agreement gives councils the opportunity to review existing policies and employment arrangements to bring to an end outdated working practices, while complying with equal pay requirements. At the same time there may be an effect on staff morale and employee relations generally. Councils that have not completed the review of pay and grading structures to comply with equal status could face additional equal pay claims.
- 8.5 The Local Governance (Scotland) Act 2004 introduced a range of measures representing the biggest change to Local Government since re-organisation in 1996. It is generally accepted that, in part due to the age profile of the current senior management post holders within local government, including head teachers, that many will take the opportunity to retire or otherwise leave local government service. This presents challenges to ensure that effective succession planning is in place in what will be a period of significant change up to and beyond the 2007 local government elections.

¹ Scottish Executive: Public Sector Employment in Scotland: Statistics for 1st Quarter 2006

- 8.6 As part of its drive for efficiency, the Scottish Executive promotes good workforce management and encourages shared services as a way of releasing efficiency savings and driving up service quality and consistency. *A Shared Approach to Building a Better Scotland* (a Consultation Paper on a National Strategy for Shared Services) sets out the Executive's proposals for taking forward shared services across Scotland. These proposals are likely to have a significant impact on workforce needs and workforce planning in the future.
- 8.7 The 2005/06 PRF work indicated that councils continue to experience difficulties in recruiting and retaining experienced staff, notably in social work (particularly in rural areas) and in education. The 2005/06 work also concluded that there appeared to be little in the way of systematic planning for the corporate impact of demographic changes and the skills required to meet future service needs.

Links to other work

- 8.8 Audit Scotland has identified workforce planning as a potential future cross cutting study within the public sector in Scotland. In addition, over the next year the Local Government Improvement Service is undertaking pilot work in councils on absence management.

What are the current operational risks and risk areas?

- 8.9 These include:
- delays in settling equal pay claims and implementing the single status agreement may affect employer/employee relations and, in turn, service delivery and the achievement of corporate objectives and performance improvements. There may be ongoing and further financial implications (see financial planning section of PRF);
 - in implementing the single status agreement, the opportunity to review and redesign services or modernise working practices may not be taken;
 - workforce management may not be sufficiently linked to the financial strategy, leading to problems in meeting employee related costs, including pensions, in the longer term;
 - information on staffing capacity and skills may not be available to support decisions on workforce management and planning;
 - information on current and future service demand and capacity may not be sufficiently robust or accurate to inform decisions to support workforce management, planning, recruitment and development;
 - information on the age profile and career intentions of current senior management, and other key staff groups where there are recruitment difficulties, may not be available to inform succession planning up to and after the 2007 local government elections;
 - reluctance to consider organisational restructuring or the opportunities for shared services may limit best use of capacity and/or available skills across the organisation and between potential partners;

- arrangements for managing absence may not be effective in tackling abuse and work-related causes of ill-health and in supporting staff so that they can return to work.

What are the key issues for local auditors?

8.10 These include:

- the extent to which equal pay audits have been completed to ensure that pay and reward systems meet legislative requirements under the Equal Pay Act and that any areas of discriminatory practice have been addressed;
- whether the single status agreement has been/is being implemented and whether the opportunity has been taken in implementing the single status agreement to review, redesign and modernise working practices;
- whether the authority has a workforce strategy in place which identifies risks in relation to workforce matters, covering issues as health and safety, equalities, business continuity and succession planning (with explicit reference to the challenges likely to be presented in the period up to and beyond the 2007 election);
- the extent to which workforce plans and strategies are linked to corporate and community plans and financial plans;
- whether skills audits are used to identify the skills currently available, comparing these to current and future requirements;
- the extent to which workforce requirements in terms of both numbers and skills of staff in the short, medium and longer term are being quantified and whether this takes account of service redesign from best value reviews and other changes in working practices, training, service delivery and resources;
- whether the performance of all staff is regularly assessed and they are actively supported in improving, with links to training, reskilling and development strategies;
- whether steps have been taken to survey staff to establish staff attitudes and to determine whether the workforce feels valued and that their skills and knowledge are used effectively and to the full;
- whether employment and recruitment policies are fully in line with the council's commitment and legislative requirements and are applied in a consistent manner across the council.

Further information

- Scottish Parliament - Finance Committee Report on the financial implications of the Single Status Agreement - <http://www.scottish.parliament.uk/business/committees/finance/reports-06/fir06-04-01.htm#Report>
- Single Status Agreement between Scottish Local Government Employers and the Trade Unions – Unison - <http://www.unison-scotland.org.uk/localgovt/sstatus.doc>

- Scottish Executive - Public Sector Employment in Scotland: Statistics for 1st Quarter 2006
<http://www.scotland.gov.uk/Resource/Doc/933/0031774.pdf>
- Scottish Local Government Financial Statistics 2004-05 - Scottish Executive National Statistics Publication -
<http://www.scotland.gov.uk/Resource/Doc/88852/0021191.pdf>
- A Shared Approach to Building a Better Scotland – A consultation paper on a national strategy for shared services – Scottish Executive -
<http://www.scotland.gov.uk/Resource/Doc/115423/0028606.pdf>
- Guidance by the Best Value Task Force on S1(1): The Duty to Make Arrangements to Secure Best Value, Scottish Executive -
<http://www.scotland.gov.uk/Publications/2004/04/19166/35252>

Procuring and managing assets

Background

- 9.1 Best value requires councils to demonstrate the sound use of the resources in their control, covering physical assets as well as financial resources and human resources. Definitions of assets vary, with the focus traditionally being on capital assets such as infrastructure, land and buildings, but the principles of good asset management also extend to other assets such as stock and facilities.
- 9.2 Scotland's councils control and manage a substantial portfolio of assets in delivering public services. The total value of capital assets alone is in the order of £20 billion and includes schools and other buildings, roads, parks and leisure facilities as well as plant, vehicles and equipment. The Controller of Audit's *'Overview of the local authority audits 2005'* indicated that councils spend around £1.5 billion annually in acquiring new assets or enhancing existing assets and the annual running costs associated with managing and financing assets constitute the second highest element of revenue budgets after employee costs.
- 9.3 Asset management involves full life cycle management of assets in order to maximise their advantage. It covers acquisition and disposal, replacement and improvements and the maintenance of capital assets. Councils require to take a strategic approach to asset management, viewing assets as a corporate resource to support new ways of working, including partnership working. Best value also requires councils to find a balance between quality and cost in decisions relating to the procurement and use of assets, and requires a sustainable long-term approach to asset management.
- 9.4 At the same time there is a greater focus on public sector procurement, particularly since publication of the McClelland report in March 2006. This report highlighted that there is considerable scope for improvement across the Scottish public sector in terms of procurement practices and organisation and the skills and resources devoted to the function. Procurement is a strategic issue which has long-term consequences for the financial position of councils and the overall management of assets.
- 9.5 Asset management and procurement are two of the five efficient government workstreams. This section of the PRF focuses on the strategic and operational management of assets, including the procurement and use of assets.

Why is it important?

- 9.6 The appropriate use of assets in the right location can make the difference between good and poor service delivery. Good asset management helps to ensure that frontline services are delivered in the most effective and efficient way. Effective asset management can release resources, generate both revenue and capital, and improve value for money in service delivery. There can be a considerable 'opportunity cost' in holding assets, such as tying up resources in retaining property not in use or holding excessive stock.
- 9.7 Based on information supplied by councils in spring 2006 in relation to the efficient government initiative:

- recently there has been progress in asset management planning, with only a small minority of councils that do not either have a corporate plan in place or are actively developing one;
- at 31 March 2005 councils held £364 million of assets declared as surplus to requirements, with a number of councils planning to dispose of these assets;
- most councils have yet to develop a policy for sharing accommodation with others.

9.8 A new Statutory Performance Indicator on the proportion of operational accommodation that is suitable for current use, *condition and suitability*, has been introduced in 2006/07, reflecting the increased recognition of the importance of asset management. Councils will need comprehensive asset information to report this indicator.

9.9 The Local Government in Scotland Act 2003 reduced central control over local authority capital expenditure and replaced it with a prudential regime which enables councils to invest as long as their capital spending plans are affordable, prudent and sustainable. Capital investment decisions need to be underpinned by a robust asset management planning process which ensures all options are considered and that decisions represent the best fit to corporate objectives.

9.10 Although there is a growing awareness of the value of good procurement, the McClelland report highlighted that there is still an insufficient level of practical priority given to it. The Efficient Government Plan also claims that there are major gains to be made from better procurement procedures and working practices and recommends that efficiencies should be made through the use of electronic procurement and public services joining together to maximise purchasing power through collaborative buying.

9.11 Based on information supplied by councils in spring 2006 in relation to the efficient government initiative:

- most councils have a procurement policy either in place or in draft;
- the position on centralised procurement is mixed, with a substantial minority of councils taking a decentralised approach;
- less than half of councils have implemented an e-procurement system to any extent.

Links to other work

9.12 Audit Scotland is undertaking a national study to review how effective recent investments in the Scottish school estate have been (including both PFI contracts and projects funded through other routes). The work is expected to start in October 2006, with a report being published in mid-2007. The Scottish Executive is also in the process of undertaking a series of visits to councils to discuss their School Estate Management Plans.

What are the current operational risks and risk areas?

9.13 These include:

- asset management and procurement may not be viewed as an integral part of the strategic and business planning process, with the result that business planning may not be supported by the most appropriate asset base or the financial consequences of acquiring, holding and maintaining assets may not be recognised in financial planning;
- information on assets held, including the condition of those assets, may not be available to support effective asset management, inform financial and service plans, or support progress in ensuring buildings are accessible to disabled people in accordance with the Disability Discrimination Act;
- information on current and future service demands and capacity may not be sufficiently robust, or may not be used, to inform planning and other decisions on asset acquisition, disposal and maintenance;
- asset performance information, including consideration of occupancy, usage, repairs and running costs, may not be available to support investment decisions and option appraisal;
- the opportunity cost of holding assets not in use, or holding excessive stocks, may not be considered as part of the overall approach to asset management, with the result that resources may be tied up which could be redirected to frontline services;
- a corporate approach to asset management and utilisation may not be taken, which could result in a failure to take advantage of economies of scale or opportunities to share. Opportunities for sharing property or other assets with other organisations for the benefit of the community as a whole may not have been considered;
- a comprehensive procurement policy which is applied across the council and reflects professional best practice may not be in place;
- a central procurement function which takes advantage of the scope for efficiencies through a more joined up approach across the council and with other organisations, and allows the development of a professional approach to procurement, may not be in place.

What are the key issues for local auditors?

9.14 These include:

- the extent to which there is a clear commitment to both asset management and professional procurement practice throughout the council, with elected member and officer roles clearly set out and supported by training;
- whether there are clear links between the corporate business planning process and asset management strategies/plans and the extent to which asset management strategies/plans are regularly reviewed and updated to reflect current objectives;

- whether a comprehensive survey of assets and their condition has been carried out, and the extent to which this is reflected in up to date and accurate asset registers which inform financial and service plans;
- the extent to which the council has made progress in ensuring its buildings are accessible to disabled people;
- whether comprehensive systems are in place for measuring asset management performance, and the extent to which this information influences financial plans, investment decisions and option appraisal;
- whether the concept of opportunity cost is an integral element of the asset management approach, with these costs identified, reported and used to inform the decision making process;
- the extent to which there is a corporate approach to both asset management and procurement within the council to take advantage of economies of scale, opportunities for sharing and scope for the development of greater professional expertise;
- whether there is good communication and joint working with other public sector organisations to identify efficiencies through collaborative buying, greater sharing and strategic use of public sector assets;
- the extent to which the recommendations on procurement contained in the McClelland report have been considered and applied and whether the benefits from applying good procurement practice have been identified and applied;
- whether there is a comprehensive policy on procurement which is applied across the council and involves the use of e-procurement to generate savings through more efficient processes, improved management information and co-ordinated purchasing.

Further information

- The Local Government in Scotland Act 2003 - Asset Management under Best Value Advisory Note – Scottish Executive - <http://www.scotland.gov.uk/Resource/Doc/35596/0028836.pdf>
- Towards Better Management of Public Sector Assets – A Report to the Chancellor of the Exchequer - Sir Michael Lyons - http://www.hm-treasury.gov.uk/media/8ED/DB/pbr04_lyonspsas_complete_205.pdf
- Asset Management – Beacon Theme Guide 2005/06 - Improvement and Development Agency (IDEA) - <http://www.idea-knowledge.gov.uk/idk/aio/828997>
- Overview of the local authority audits 2005 - Audit Scotland - <http://www.audit-scotland.gov.uk/publications/pdf/2005/05pf14ac.pdf>
- Hot Property – Getting the Best from Local Authority Assets - Audit Commission - <http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=910C1FD0-F8D4-486C-8EBD-0C680929E154>

- RICS & ODPM Guidance on Asset Management 2005 - <http://www.local.odpm.gov.uk/finance/capital/data/ricguid.pdf>
- Review of Public Procurement in Scotland Report & Recommendations - John McClelland - <http://www.scotland.gov.uk/Resource/Doc/96269/0023302.pdf>
- Scottish Executive Scottish Procurement Directorate - <http://www.scotland.gov.uk/Topics/Government/Procurement>
- Scottish Executive electronic Procurement Scotland - www.eprocurementscotland.com

Priorities and Risks Framework

2006/07 National Audit Planning Tool for Local Government



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