The Audit of Best Value and Community Planning

The City of Edinburgh Council

Best Value audit 2016

ACCOUNTS COMMISSION

Report from the Controller of Audit
February 2016

The Accounts Commission

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

Our work includes:

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

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Contents

Commission findings	4
Summary	5
Audit assessment	7
Conclusions	14
Appendix	15

Commission findings

1 The Commission accepts the Controller of Audit's report, which was required as part of the Commission's findings on the Council in December 2014.

2 The Commission is encouraged with the progress being made in those areas on which we expressed particular concern in our previous findings, namely that:

- substantial progress has been made in meeting savings targets and identifying and planning further savings within a four-year budget framework
- a high-level workforce strategy is now in place
- various improvement activities have been consolidated in the council's ambitious Transformation Programme, some aspects of which have seen good progress made.

3 We underline, however, that uncertainties around future funding and service demands – faced by all councils – mean there will be continuing risks around progress and delivery of plans and improvement.

4 Clear leadership by members and officers, and a shared understanding between them of the challenges faced by the council, have been the basis of accelerated change. This is against a backdrop of continuing substantial change in the corporate leadership team.

5 We note the risks inherent in the Transformation Programme: many components remain in progress and it is largely too soon to see its effects on the delivery of services and on outcomes for communities. For example, effective management of ongoing organisational reviews, and their implications for staffing levels, is vital. It is essential that the council manages the risks by ensuring it has the necessary skills and management capacity to secure Best Value through successfully implementing the programme.

6 We will therefore maintain our interest in the council's progress, with the Controller of Audit monitoring progress through the annual audit process.

Summary

1. Over the past two years, the Accounts Commission has raised significant concerns about the City of Edinburgh Council, particularly over its increasingly challenging financial position and the action needed to address this. The council has made considerable progress in addressing these concerns. While it still faces significant challenges, the council now has a clear strategy for changing the way it delivers services, reducing its workforce, and achieving substantial financial savings. There is growing evidence that these savings are being achieved.

2. Elected members and senior managers now have a shared understanding of the challenges facing the council and the action that needs to be taken. Members have tried to set priorities that will help protect front-line services but, where necessary, they have shown a willingness to make difficult decisions and reduce services. There have been widespread changes at senior manager level. The council appointed a new CEO in July 2015 and none of the directors of the council's 2013 Corporate Leadership Team (CLT) is still in post. Despite these changes, there has been continuity in the council's approach to reshaping its services and making the necessary savings. If anything, the pace of change has quickened in recent months.

3. The council's various improvement projects have been consolidated into a single transformation programme. The individual projects are at different stages of completion, but there is evidence that they are now being used to redesign services and change the way the council operates:

- A new ICT contract has been signed, with projected savings of £45 million over the next seven years.
- As a result of the Channel Shift project, increasing numbers of customer transactions are being made available online.
- In line with the council's transformation programme, the council has created four localities and is using these to restructure and integrate much of its operational decision-making.

4. The council now has a workforce strategy, supported by more detailed plans, setting out the size and shape of its future workforce needs. Implementation of these plans is under way, with a reduction of around 4.6 per cent of the total workforce, worth around £25.8 million per year, due to be completed by March 2016. Plans are now well developed for the next phase of workforce reductions.

5. As a result of these initiatives, the council has made considerable progress in planning and delivering financial savings. It has now agreed a four-year budget framework and business plan. This sets out a balanced budget for 2016/17 and each of the two following financial years, with £15.3 million of savings still to be identified for 2019/20. This is in sharp contrast to the unidentified savings gap of £67 million that was reported in 2014. There is now evidence that these planned savings are being achieved. The council met its savings target of £39 million in 2014/15, mostly from planned savings projects, and is on target to meet most of its planned savings of £49 million for the current financial year.

6. In line with other local authorities, the council continues to face uncertainties about future funding levels and service demands. It is now in a stronger position to meet these challenges.

Audit assessment

Background

The Accounts Commission has highlighted growing concerns in recent years about the council's financial position and its capacity to implement the changes required to achieve substantial reductions in its spending

7. Since 2013, the Accounts Commission has expressed significant continuing concerns about the arrangements in place at the City of Edinburgh Council to secure Best Value. These concerns have particularly focused on the council's financial position and the increasingly pressing need for it to deliver significant savings.

8. In May 2013, in response to my report, the Accounts Commission expressed concern about the need for the council to achieve recurring annual savings of £107 million by 2017/18, with plans for £17 million of these still to be identified. Significant concerns were also raised about the need for the council to develop a workforce strategy, and improve its use of information and communications technology (ICT), risk management, and scrutiny. The Commission asked me to report again by the end of 2014.

9. In December 2014, the Accounts Commission considered my follow-up report. This provided some assurance that the council had made good progress in a number of areas, such as risk management and scrutiny. However, the Commission expressed growing concern over the council's financial position, with an increase in the recurring annual savings that were needed from £107 million to £138 million, and in unidentified savings from £17 million to £67 million. It recognised that the council was developing a transformation programme in order to help generate the savings required. But this initiative was still in an initial phase and it was too early to assess its likely success.

10. The Commission requested a further report on progress over the next year. In responding to that request, this audit looked at:

- the capacity of the council to continue to meet the challenges it faces in future years
- the continued development of the council's transformation programme and savings plans
- the development of a workforce strategy
- the extent to which savings will now be achieved.

11. My conclusions are based on detailed audit work carried out between August 2015 and January 2016, which included the following:

- reviewing key reports prepared for council and committee meetings
- observing council and committee meetings
- interviewing a range of elected members and senior officers.

12. The audit work also took into account the ongoing work of the council's local external auditors, summarised in the annual audit report submitted to me in September 2015.

Leadership

Elected members and officers have continued to develop a shared vision for the council and the city it serves, despite continuing changes at senior manager level

13. There is evidence that members and officers have a shared vision for the City of Edinburgh and for the council. Over the past year or so, they have developed a better understanding of the pressures facing the council, with an expectation that resources will continue to fall while demands on services continue to increase. Through a series of strategic documents, such as Organise to Deliver and Better Outcomes through Leaner Delivery (BOLD), they have set out how the council will need to reshape its services to meet these challenges.

14. Over the past year, at a time of significant financial pressures, elected members have shown clear leadership. They have increasingly been involved in setting the broad direction of savings plans and have shown a willingness to make difficult decisions, including reductions in staffing levels and services. Members are provided with regular progress reports and updates on the various strands of the council's transformation programme and savings plans, and show a readiness to ask questions and challenge officers. The introduction of regular performance 'dashboard' reports, for example, is a step forward in summarising complex issues, such as workforce reductions and savings plans, and highlighting areas of concern.

15. Senior managers have also continued to provide strong leadership, despite a high turnover in personnel. In addition to a new CEO being appointed in July 2015, there has been a series of changes at director level. As a result, none of the directors of the council's Corporate Leadership Team (CLT) in post during 2013, remains. This disruption in continuity brings some risks for the council's management capacity, but there is good awareness of these. So far, the new CEO and CLT have brought a renewed energy to the council's transformation programme, with the pace of change noticeably quickening in recent months, particularly over savings plans and workforce reductions.

16. There is also evidence to suggest that service directors are working in a consistent, coordinated manner. All savings proposals are discussed and agreed at CLT meetings before being presented to members for their approval. In addition, directors are working to support one another. During 2015/16, with a forecast overspend of around £16 million in health and social care, other services generated additional savings of £9.8 million which, alongside actions taken within the service, helped offset this pressure on these important community services.

17. There is some ongoing risk relating to management capacity. A new structure for executive directors was approved in December 2015. This rearranges some responsibilities, with areas such as ICT, Strategy & Insight, and Communications now reporting directly to the CEO, and the deputy CEO post now replaced by an Executive Director of Resources. With the council's recruitment contract currently being re-tendered, it is expected that it will take between six and nine months before all CLT posts are permanently filled. In addition, the council is currently reducing the number of senior and middle-management posts. This wider restructuring is being carried out as part of the council's transformation programme, with planned changes in the way the council provides many services. But, again, it will be some time before the effect of the changes on management capacity can be properly assessed.

Financial position

While it continues to face growing financial pressures and uncertainty, the council has made substantial progress in planning and delivering financial savings

18. In recent years, the council's financial position has been of particular concern to the Accounts Commission. With growing demands on its services and reducing resources, the council has needed to make substantial savings. In 2013, it estimated that it needed to make savings of £107 million by 2017/18, around 11 per cent of its annual net expenditure, with savings proposals of £17 million still to be identified. By 2014, the required savings had increased to £138 million, with unidentified savings of £67 million.

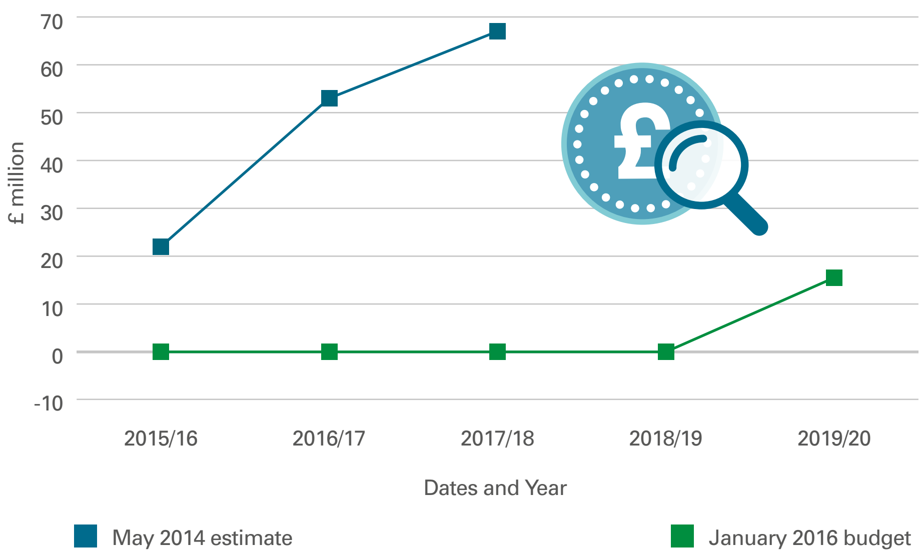
19. There is now clear evidence that the council has made considerable progress in its financial performance. In 2014/15, the last complete financial year, it achieved its savings target of £39 million, largely through planned savings projects, and maintained its level of unallocated reserves. There is also evidence that it should achieve most of its planned savings of £49 million for 2015/16. The latest monitoring reports, submitted to the Finance & Resources Committee in January, show that it is still on track to deliver a balanced budget. This is despite needing to deal with a forecast overspend of £16 million in health and social care earlier in the year (this was addressed through a range of measures, including reducing staff numbers, changes to eligibility criteria, and closure of one care home and two day centres).

20. The council has made substantial progress in developing its longer-term savings plans. This is partly due to the continuing development of its transformation programme. But it is also due to an increase in the pace of change, with workforce reductions being accelerated in order to generate earlier savings. During 2015, a series of detailed proposals have been developed by senior managers, reflecting these internal changes to the way the council delivers its services. In addition, however, the savings plans have also set out reductions in the level of some services being delivered. A consultation and engagement exercise was carried out between October and early December, seeking the views of the public on these proposed changes.

21. In developing its savings plans, the council has also had to respond to growing external financial pressures and uncertainties. As a result of the Local Government Financial Settlement, announced by the Scottish Government in December, the council has estimated its resources will fall by a further £16.7 million for 2016/17. It has planned to cover this shortfall with a range of measures, including a further acceleration of its transformation programme and a reduction in the options members have for not taking forward some savings proposals.

22. As a result, the council approved a four-year budget framework and business plan on 21 January. This sets out how it proposes to deliver a balanced budget for each of the financial years 2016/17, 2017/18 and 2018/19. While savings of £15.3 million remain unidentified for 2019/20, this shows a marked improvement in the council's financial planning since 2014 (Exhibit 1).

Exhibit 1
Unidentified savings requirements



Source: *Council transformation programme and improvement plan*, F&R Committee, May 2015; and *Revenue and capital budget framework*, F&R Committee, January 2016

23. This four-year budget framework, and its supporting savings proposals, are subject to a series of significant risks and uncertainties. The council has some flexibility, through plans to maintain uncommitted reserves at £13 million over the coming financial year. It also has a contingency of £2.5 million in 2016/17, subsequently rising to £5 million per year, to provide for savings options that are not taken forward. But, as mentioned above, the level of these contingencies is substantially less than initially planned.

24. However, the council has identified the key risks, external and internal, to its financial plans. These were reported to the Finance & Resources Committee in January 2016 and includes assumptions about a wide-ranging set of issues, including:

- the level of future Local Government Financial Settlements
- the ending of the council tax freeze, with the budget framework assuming an increase of three per cent from 2017/18

- inflation
- health and social care integration
- the impact of the national minimum wage.

25. In line with other local authorities, the council faces significant uncertainties about future funding levels and demands on its resources. At this stage, however, the assumptions and risks underpinning its four-year budget framework look to be reasonable and realistic.

26. In previous years, audit reports have raised concerns about the council's statutory repairs service, with delays in billing for work completed and uncertainties about the money that it will be able to recover. The council has made steady progress in addressing these issues, with elected members receiving monthly updates at the council's Finance & Resources Committee. Bills have now been issued for all work completed. By the end of December 2015, the last report available, £10.6 million had been received, with a further £1.3 million secured in payment plans and inhibitions. So far, £11.2 million of debts have been approved for write-off, with the council's accounts containing a provision for an expected total of £17.9 million to be written off.

Transformation programme

The council's various improvement projects have been consolidated into a single transformation programme. This has still to be fully implemented, but it is now starting to reshape the council's services and deliver savings

27. At the time of the last audit of Best Value in 2014, the council was developing a range of improvement projects which were designed to reshape the council and change the way it delivers services in the future. These included Better Outcomes through Leaner Delivery (BOLD), Organise to Deliver and Channel Shift. There were links and overlaps between these various projects and they have now been consolidated into a single transformation programme to help avoid the double-counting of planned savings and to present clearer choices for elected members.

28. During 2015, significant progress has been made on all of the key elements of this overall transformation programme:

- ICT contract – A new ICT contract was signed with CGI in August 2015. The council projects that this will deliver savings of at least £45 million over the next seven years. These projections look to be achievable, given the terms and flexibility of the new contract.
- Channel Shift – The council is currently redesigning many of its customer care services, simplifying them and, where possible, moving to online transactions. This is planned to deliver annual savings of £5.9 million, through reducing the number of support staff. There are early signs that this initiative is making an impact, with 40 transactions already available online and savings of £355,000 over the past year. The council now aims to roll out a further 153 new digital transactions types in 2016/17.

- Corporate Property – In September 2015, the council agreed to rationalise its estate and its property investment portfolio, with the aim of reducing its costs by around £4 million per year. Members rejected proposals to outsource support staff, which officers estimated would save around £6 million per year. Instead they supported an alternative proposal to re-model an in-house service, which is estimated will save around £2.7 million per year. Officers are currently developing the details for this re-shaped in-house model. However, given the decision to proceed with an in-house model was based on the coalition's presumption against outsourcing council services, it will be important for the council to demonstrate that future arrangements do represent Best Value.

- Organise to Deliver – The council has created four localities which for the first time mean that all local public services in the Edinburgh area will share common administrative boundaries. This is planned to help delegate operational decision-making and integrate the delivery of local services. This initiative forms part of the drive to reduce staffing levels and costs. These detailed plans are still being developed and it will be some time before they can be seen to deliver the predicted savings of £20 million per year. However, the Locality Transformation Plan was approved by the Communities and Neighbourhoods Committee in November 2015. The council is currently engaging with its city partners to finalise membership of the four Locality Leadership Groups. The new locality model is then expected to be piloted in March, with a full roll-out in April 2016.

Workforce management

The council now has a workforce strategy, supported by more detailed plans, setting out the size and shape of its future workforce needs. It is now starting to achieve the reductions set out in these plans

29. The council approved a workforce strategy in March 2015. The absence of such a strategy was highlighted by the Accounts Commission in 2013 and 2014 and was seen as a key gap in its efforts to address its growing financial challenges.

30. *An engaged and empowered workforce: workforce strategy 2015-2020* sets out a broad vision for the council's future workforce, linking it to its broader transformation programme and highlighting the need for reductions in staffing levels. Over the following months, as the council's financial plans and transformation programme continued to be developed, this has been supplemented by more detailed workforce plans. In broad terms, the council is seeking to reduce its workforce by around 2,000 full-time equivalents (FTEs) by 2017. Initially, it is seeking to achieve quick reductions through a new Voluntary Early Release Arrangement (VERA). Following a series of service reviews and a reshaped staffing structure, this will be followed by a programme of voluntary redundancies. As a last resort, if these measures do not achieve the required staffing reductions, members have also indicated a willingness to reconsider using compulsory redundancies.

31. There is evidence to show that the council is now making progress in implementing these plans. By mid-January, 1,475 FTE had applied for a VERA; 110 staff, with annual pay costs of £4.3 million, accepted final offers and left the council in December. A further 569 notes of interest, with annual pay costs of £21.1 million are under consideration and progress is being reported monthly to the council's Finance & Resources Committee. The numbers accepted, or currently being considered, for a VERA represent around 4.6 per cent of the council's workforce. In addition, 43 staff, with annual pay costs of £1.7 million, have been redeployed to other jobs.

32. The council is also making progress with a series of organisational reviews, linking its planned restructuring through Organise to Deliver to its future workforce needs. It is due to complete a programme of 28 reviews by May 2016, with those for Tier 3 managers, ICT, Communications and Human Resources now completed. These will then be used to determine the staffing levels and structures needed to deliver council services in future years.

Conclusions

33. The council has made considerable progress in addressing the concerns highlighted by the Accounts Commission in its findings on the Statutory Report in December 2014. In particular, it has:

- agreed a new four-year budget framework and business plan, which is supported by a range of savings proposals which identify how a balanced budget will be achieved for each of the next three financial years
- achieved savings of £39 million in 2014/15, and is on track to deliver further savings of up to £49 million in the current financial year
- approved a workforce strategy, with more detailed supporting plans, and is now beginning to implement these proposals with, for example, a forecast reduction of 4.6 per cent in the size of its workforce during 2015/16 from VERA
- made good progress in developing and implementing its key improvement plans, now the council's transformation programme, to change the way it delivers services
- signed a new ICT contract, with projected savings of £45 million over the next seven years.

34. The council has managed to achieve all this, despite a high turnover in its senior managers. It will need to ensure that it now has a period of stability in its CLT over the next few years. It has also shown that it is prepared to make difficult decisions, with reductions in its workforce and the services it provides. But, it will need to monitor the success of these changes and be able to demonstrate that decisions, such as retaining in-house estates services, represent Best Value.

35. It is important that elected members and senior managers continue to provide good leadership of the council, and that its transformation programme is fully implemented and delivers the planned savings. The council will continue to face significant challenges and uncertainties in the coming years. But it is now in a stronger position to meet these future challenges.

Appendix

Accounts Commission's 2014 findings

The Commission accepts this report by the Controller of Audit which it required as part of its findings on the council in 2013.

In its findings in 2013, in light of the risks and uncertainties in relation to the council's planned savings between 2014 and 2018 the Commission "urged the council to give absolute priority to ensuring the savings identified are both achievable and delivered". We note that in some instances savings have not been achieved or, in the case of procurement, have been scaled back. We have growing concern about the increased level of savings required by the council: our previous findings stated that the council needs to make recurring annual savings of £107 million by 2017/18; now it is £138 million.

In 2013, the council reported that the gap between the savings required by 2017/18 and those already identified in council financial plans was £17 million; now it is £67 million. The means of closing the savings gap have yet to be fully identified. While the council has developed a transformation programme, this is still in its initial phase and it is too early to say that it will deliver its objective. Nor is it clear what alternative strategy, if any, the council would follow if the programme failed to deliver the necessary level of savings. The financial implications associated with the statutory repairs service also remain a substantial risk to the council.

In our last findings we highlighted the need for the council to develop a workforce strategy. This is not yet in place and represents a significant strategic failure by the council. A workforce strategy is essential in enabling the council to manage and plan its required savings. Also in our previous findings we advised that the council needed to improve its information and communications technology: this is fundamental to effective transformation and we note that this is an area that still requires improvement.

We acknowledge, however, that some important elements are now in place to help such a drive for improvement. We are particularly encouraged by the progress made by the council in embedding its governance arrangements, notably around elected member scrutiny of performance. Improved risk management and internal audit is also valuable, and we note the potential influential role of the Corporate Programme Office in making progress. Continuing improvements to communications with staff will also help facilitate staff awareness and buy-in of planned changes.

We identified in our previous findings some service areas where improvement is needed: in adult social work, waste management and meeting housing need. We are encouraged that all have seen improvements, but we recognise that all are subject to substantial pressure.

In the challenging circumstances facing the council the leadership of elected members will be crucial; equally will be a consistent corporate focus by the CMT both in providing elected members with comprehensive and accessible information about the council's financial position and the transparent reporting of all alternative options for service redesign.

The scale of the challenge facing the council has substantially increased since our last findings. We therefore require the Controller of Audit to report to the Commission in a year. We expect the council to have made substantial improvement by that date.

The City of Edinburgh Council

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