

An overview of local government in Scotland 2016



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
March 2016


The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

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.

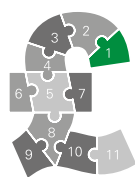
You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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These pound sign icons appear throughout this report and represent key facts.



These question mark icons appear throughout this report and represent questions for councillors.



Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Chair's introduction



In our 2015 overview report we said, 'Councils tell us that they should manage budgetary pressures in 2015/16 but the years beyond pose a level of challenge not previously experienced.' The Commission recognises the achievement of councils – both councillors and officers – in meeting these challenges to date.

But the scale of the challenge in 2016/17 and beyond has significantly increased because of the local government funding settlement. The settlement has substantial implications for services to the public, councillors and the local government workforce.

Next year councils and health boards, through health and social care partnerships, jointly have the responsibility to make a significant start in the shift from hospital care to care at home and care in the community. This is the most far-reaching public service reform since the establishment of the Scottish Parliament.

And these challenges are compounded by: a one-year financial settlement, cost pressures, increasing demands on services from an ageing and growing population, the ambitions of the Community Empowerment (Scotland) Act 2015, and the political pressures created by elections in both 2016 and 2017.

The majority of our recent Best Value audits have highlighted a dependency on incremental changes to services, increasing charges and reducing employee numbers in order to make savings. But these are neither sufficient nor sustainable solutions set against the scale of the challenge facing councils. Cuts can only be part of the solution. What is required is a more strategic approach, longer-term planning and a greater openness to alternative forms of service delivery.

It is challenging for councillors and officers to fundamentally change the way a council has provided a service over a lengthy period of time. But there are significant consequences to not conducting comprehensive option appraisals: services may not be as efficient or effective as they could be and may not be achieving value for money, resources may not be directed to priority areas such as preventative services, and councils may not be able to demonstrate that they are achieving best value.

In considering all viable options, it will be essential that councillors are provided with comprehensive and objective information on the cost, benefits and risks of each option. This will help them make considered decisions in partnership with service users and communities.

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As the landscape of service delivery becomes ever more complex, councils will need to ensure they have people with the necessary knowledge and skills to manage that complexity. This is important for councillors and council officers, as both must have, for example, skills in options appraisal, programme management, commissioning, finance and scrutiny.

And in a climate of reducing resources the importance of scrutiny has never been greater. Scrutiny arrangements must add demonstrable value in monitoring the planning, execution and follow-up of key decisions. The public needs to have confidence that their council's arrangements are transparent, independent and effective. If they are not, the public interest is not being met.

The Commission hopes that this overview report will be a helpful tool for councillors and officers to stand back and assess their progress in the journey of improving outcomes for service users and communities. As always, the Commission welcomes feedback on its overview report.

Douglas Sinclair
Chair of the Accounts Commission

Summary



Key messages

- 1** Councils' revenue funding from the Scottish Government will reduce by five per cent in 2016/17, bringing the real terms reduction in revenue funding since 2010/11 to 11 per cent. At the same time, they face additional financial pressures and greater demands on services. Councils have been effective in balancing their annual budgets until now but councillors face increasingly difficult decisions about how best to spend their reducing budgets. This requires clear priorities and better long-term planning.
 - 2** Councils' responses to budget reductions have mainly focused on incremental savings to existing services. In the face of further funding reductions, councils should be evaluating options for more significant changes to delivering key services, beyond health and social care integration.
 - 3** Despite reducing their spending, performance measures show that councils improved in areas such as educational attainment, the quality of council housing and waste recycling, in 2014/15. However, customer satisfaction with some services declined and there are more significant funding reductions to come in 2016/17 and beyond.
 - 4** Most councils have reduced their workforces to save money, and many are planning further staff reductions. In doing so, they need to ensure they have people with the knowledge, skills and time to design, develop and deliver effective services in the future.
 - 5** Councils and their partners also need to respond to the Community Empowerment (Scotland) Act 2015, by involving local people more in making decisions about services, and empowering local communities to deliver services that are sustainable and meet local needs.
 - 6** Councillors need to keep updating their skills and knowledge to fulfil their complex and demanding role. In particular, it is increasingly important that they are able to challenge and scrutinise decisions and performance, and fully assess options for new and different ways of delivering services within their reducing budgets.
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Recommendations

Councillors are now leading complex organisations in increasingly challenging circumstances. There are a range of sources to help them understand and manage their council's financial and service performance, for example the Improvement Service. Our recommendations are intended to complement other sources of support and help councillors in carrying out their role effectively.

Councillors should:

- satisfy themselves that their council has a longer-term financial strategy (five or more years) supported by an effective medium-term financial plan (three to five years). These should show how the council will prioritise spending to achieve its objectives, make any necessary savings and remain financially sustainable
 - appraise all practical options for how to deliver the services their communities need within the resources available. This includes examining opportunities to work with and empower communities to deliver services in different ways, and learning lessons from others and from wider public service reform. They should ensure they get all necessary information and support from officers to help them fully assess the benefits and risks of each option
 - ensure their council continues to develop workforce strategies and plans that clarify the numbers and skills of staff needed in future. In assessing their council's workforce, councillors should consider whether they have people with the knowledge, skills and time to support them effectively in making the difficult decisions that lie ahead, and to design and implement new ways of delivering services
 - make sure that decision-making processes and scrutiny arrangements remain appropriate for different ways of delivering services. This includes:
 - having clearly written and manageable information to help them make decisions and scrutinise performance
 - carrying out business openly and improving public reporting
 - regularly review their personal training and development needs. They should work with council staff and others to create opportunities to update their knowledge and skills in increasingly important areas, such as financial planning and management, options appraisal, commissioning services, partnership working and scrutiny. These opportunities should also be available to any new members after the local elections in 2017
 - use the questions in this report and the separate self-assessment tool to help them assess their council's position.
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About this report

1. This report provides a high-level, independent view of councils' management and performance. It draws on the findings from local government audit work in 2015, including audits of 2014/15 financial statements, Best Value, Community Planning and performance. All reports are available on Audit Scotland's website.

2. The report is primarily for councillors and senior council officers as a source of information and to support them in their complex and demanding roles:

- **Part 1** reviews the financial context in which councils are operating and gives a national overview of councils' financial performance. Information that compares one year with another is shown in real terms (taking inflation into account, based on 2014/15 prices) unless otherwise stated.
- **Part 2** considers how councils are performing in delivering services and how they are changing the way they operate in the context of increasing pressures. It looks at the implications for councils' workforces and highlights key aspects of governance.

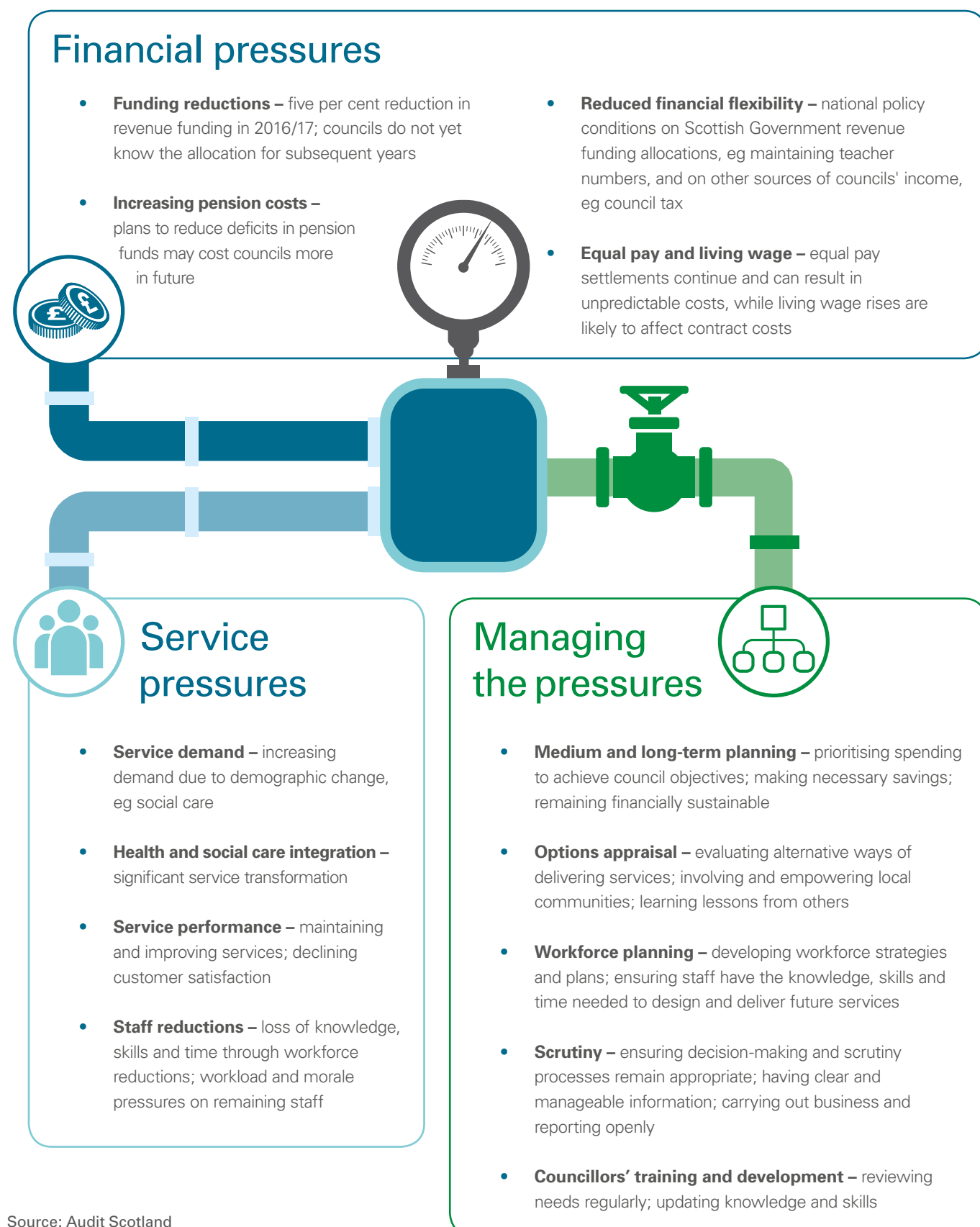
3. [Exhibit 1 \(page 9\)](#) provides a summary of the main pressures that councils face.

4. Throughout the report we identify questions that councillors could ask to help them understand their council's financial position, scrutinise performance and make good decisions. Councillors should satisfy themselves that they understand, and are comfortable with, the answers to the questions most relevant to them in their role within the council. These questions are also in a [separate self-assessment tool](#) on [Audit Scotland's website](#), where we have also provided selected financial facts about each council to help comparisons and benchmarking.

Exhibit 1

Local government pressures

In the face of financial and service pressures, councils should be planning for the longer term and evaluating options for more significant service redesign.



Part 1

Managing financial performance

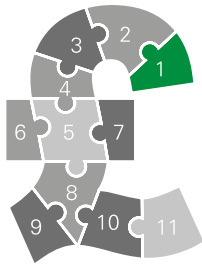


Key messages

- 1** Councils received £10.76 billion of funding from the Scottish Government in 2014/15. This included £9.92 billion for revenue funding, which helps pay for day-to-day running costs, including staff. This was almost the same as the previous year and 6.5 per cent less in real terms than in 2010/11. While revenue funding in 2015/16 also remained largely unchanged in real terms, major challenges lie ahead for councils. The Scottish Government has reduced revenue funding in 2016/17 by five per cent in real terms. This equates to an 11 per cent reduction in revenue funding between 2010/11 and 2016/17. Councils also received capital funding in 2014/15 of £0.84 billion.
 - 2** Councils have continued to balance their budgets each year by reducing their spending. The majority underspent their 2014/15 budgets and increased their reserves in anticipation of future funding reductions.
 - 3** Local Government Pension Scheme (LGPS) funds report shortfalls between the value of funds and the future pension commitments to be paid. This does not create immediate problems. Pension funds have plans in place to reduce any deficits within a 20-year period.
 - 4** Councils' debt has been increasing since 2011/12, although it decreased slightly in 2014/15. In addition, many councils predict gaps between their income and spending in future years. This may threaten their financial sustainability if risks are not well managed.
 - 5** The challenging financial environment, together with changing demographics and rising demands on services, means that effective medium-term (three to five years) and longer-term (five or more years) financial planning is critical for councils. This is more challenging for councils when they do not know what their future funding and income will be, meaning that they need to plan for a range of possibilities.
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councils have effectively balanced their budgets but long-term planning is critical in this challenging financial environment

In 2016/17, Scottish Government revenue funding for councils is 11 per cent lower (in real terms) than in 2010/11



5.1 per cent: reduction in Scottish Government revenue funding for councils in 2016/17



6.5 per cent: reduction in Scottish Government revenue funding between 2010/11 and 2014/15

£0.4 billion: increase in non-domestic rates (NDR) income between 2010/11 and 2014/15

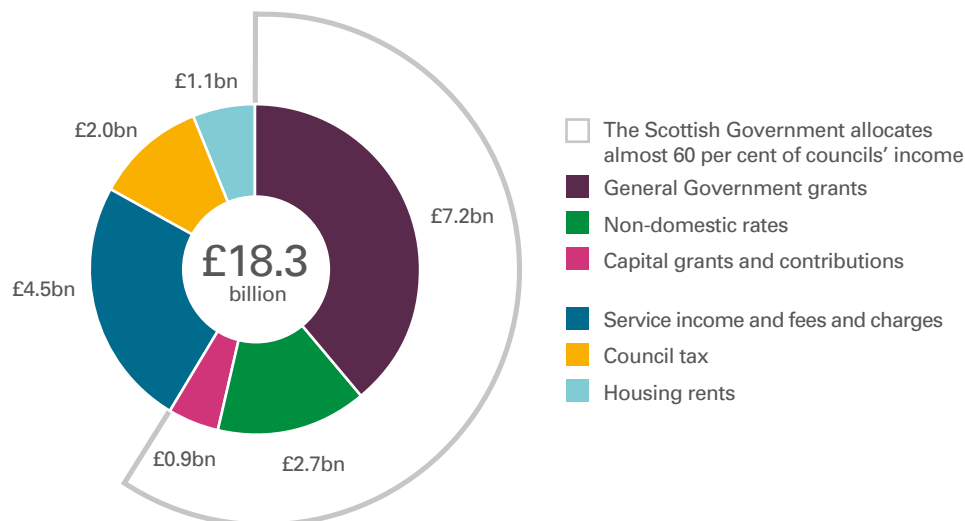
£18.3 billion: councils' total income in 2014/15

5. Councils' 2014/15 accounts showed that their total income was £18.3 billion. In line with previous years, the Scottish Government allocated almost 60 per cent of this (£10.76 billion) ([Exhibit 2](#)). This included revenue funding of £9.92 billion for day-to-day running costs, including staff; and capital funding of £0.84 billion to invest in buildings, roads and equipment. In real terms, the £10.76 billion is six per cent lower than in 2010/11, when total funding was at its highest.

Exhibit 2

Sources of councils' £18.3 billion of income in 2014/15

Almost 60 per cent of councils' income is allocated by the Scottish Government.



Notes:

1. Service income, fees and charges may include specific, service-related grants and income such as payments from the Scottish Government, NHS or other councils. They exclude housing rents which are shown separately as housing income.
2. Capital grants and contributions include income from the Scottish Government and others such as central government bodies, National Lottery and the European Union.
3. Figures sum to £18.4bn due to rounding.

Source: Councils' annual accounts, 2014/15

6. Scottish Government revenue funding remained almost unchanged (in real terms) in 2014/15 and 2015/16. In 2016/17, it will be five per cent lower than in 2015/16. This represents a reduction of 11 per cent in real terms since 2010/11.

7. In 2014/15, Scottish Government revenue funding included £343 million as part of the council tax reduction scheme, replacing council tax benefit that until 2013/14 came from the UK Government. It also included £490 million for freezing council tax at 2007/08 levels. The Scottish Government has added £70 million each year since 2008/09 to make up for income councils would have received if they had increased council tax in line with inflation each year. As part of the funding agreement for 2014/15, councils committed to implementing national policies to freeze council tax, and maintain teacher numbers and pupil to teacher ratios.

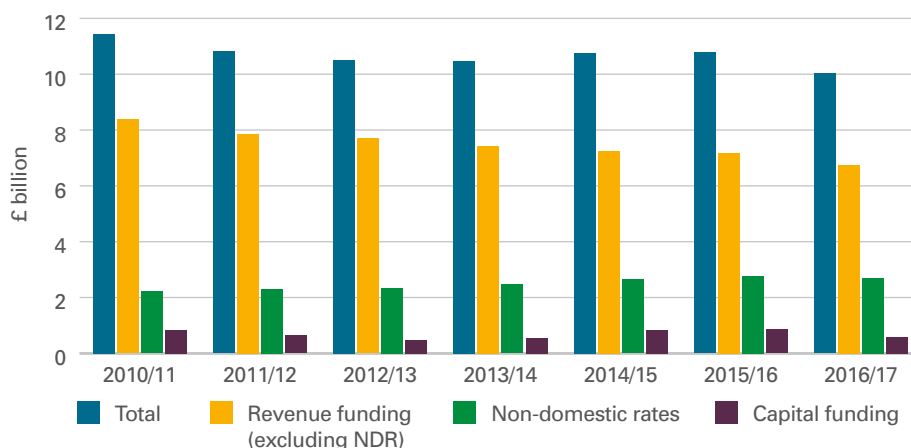
NDR makes up an increasing share of the revenue funding allocated by the Scottish Government

8. Non-domestic rates (NDR) are a tax on business property to help pay for local services. The Scottish Government sets the rate of tax, councils collect the money, and the Scottish Government redistributes it as part of its funding allocation to councils. NDR income has risen in recent years due to annual increases in the rate of tax and rises in the number of business properties on which the tax is paid ([Exhibit 3](#)). This increase, alongside total revenue funding decreases, has led to NDR making up 25 per cent of allocated revenue funding in 2014/15 compared with 19 per cent in 2010/11.

Exhibit 3

Scottish Government funding to councils from 2010/11 to 2016/17, at 2014/15 prices

NDR income has been rising while total revenue funding has reduced.



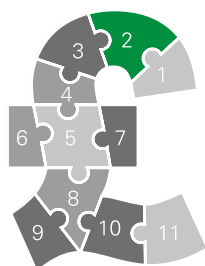
Notes:

- Funding allocations up to 2012/13 have been adjusted to remove funding for police and fire. Responsibility for these services transferred from local to central government in April 2013.
- The Scottish Government has not yet set out its plans for local government funding beyond 2016/17.
- From 2013/14, revenue funding includes payments for council tax reduction, replacing council tax benefit which previously came from the UK Government. This was £356 million in 2013/14 and £343 million in 2014/15, at 2014/15 prices.
- The 2016/17 figures do not include £250 million that the Scottish Government allocated to health and social care integration authorities. This is an allocation from the Scottish Government health budget to NHS boards, rather than councils. The NHS boards will direct the funding to the integration authorities.

Source: Local Government Finance Circulars, Scottish Government, 2011-2016



Capital funding from the Scottish Government increased significantly in 2014/15 as part of a phased plan



£37.1 billion: value of physical assets owned by councils, for example buildings, schools, roads and equipment



£2.2 billion: amount councils invested in capital projects in 2014/15

£498 million: revenue and capital payments for Private Finance Initiatives (PFI) and Non-Profit Distributing (NPD) contracts in 2014/15

9. As part of its 2011/12 Spending Review, the Scottish Government rescheduled payments of some planned capital grant funding for councils for 2012/13 and 2013/14 by two years. This was to provide more capital funding for government bodies that are not allowed to borrow money. The Scottish Government then increased capital allocations to councils by £120 million in 2014/15 and £94.2 million in 2015/16. Similar shifts in capital funding are planned between 2016/17 and 2019/20, with lower funding in the first two years and higher in the last two years.

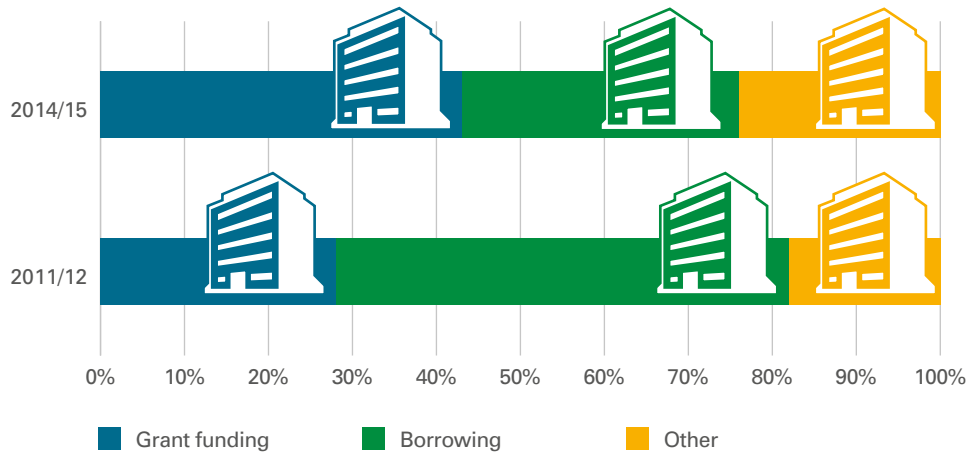
10. Between 2011/12 and 2014/15, capital grant funding increased from £720 million to £925 million (at 2014/15 prices). The Scottish Government provided about 80 per cent of grants in this period. Councils' total capital spending has decreased over the same period, from £2.5 billion to £2.2 billion (at 2014/15 prices). Councils are now using more capital grants than borrowing to fund their capital programmes ([Exhibit 4, page 14](#)). In 2016/17, councils face a decision about whether to increase their borrowing or decrease their capital programmes due to planned capital funding reductions by the Scottish Government.

11. Twenty-eight councils underspent their capital budgets in 2014/15. Capital underspends can have significant effects on a council's financial position, including cash flows from year to year, and how well it achieves its objectives. They may also have an effect on current and future borrowing. It is therefore important that capital spending plans are realistic. Councils should closely monitor capital spending and make sure there is effective communication between their capital investment and treasury management functions (the latter of which manages cash flow, borrowing and investments). Councils' treasury management strategies should set out for councillors how the borrowing strategy is informed by corporate priorities and capital investment needs ([Borrowing and treasury management in councils \[PDF\]](#)).¹ Councils should also demonstrate to elected members and service users how planned capital investment will help achieve their long-term strategic priorities ([Major capital investment in councils: follow-up \[PDF\]](#)).²

Exhibit 4

Sources of funding for capital spending

From 2011/12 to 2014/15, funding from capital grants increased and funding through borrowing decreased.



Note: Other sources of capital finance include money from the sale of assets, revenue funding used for capital spending and contributions from specific capital funds.

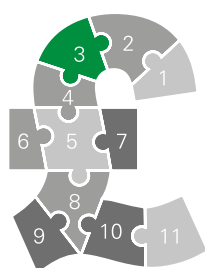
Source: Audit Scotland

12. As councils make decisions on how to manage reducing budgets, they must consider both the short and long-term implications of capital financing. This includes considering innovative funding options available for capital programmes, such as City Deals which attract additional funding from both the UK and Scottish Governments, as well as borrowing in traditional ways.

13. Councils are making significant revenue payments for Private Finance Initiatives (PFI) and Non-Profit Distributing (NPD) contracts, mostly for new and refurbished schools. In future, they will also face revenue charges associated with new projects financed through similar contracts or through newer funding models. It is important that both capital investment plans and treasury management strategies take into account the future revenue costs of capital financing options. Being aware of these costs allows councillors to fully scrutinise the long-term implications and affordability of funding decisions and to assess the sustainability of capital investment plans.

14. Councils have long-term assets worth nearly £40 billion, including physical assets, such as buildings, roads, vehicles and equipment, and long-term investments. The value increased by 1.7 per cent during 2014/15. The reported value of existing assets, shown in councils' annual accounts, is expected to increase greatly from 1 April 2016 when council-owned roads are to be valued on a different basis.

Councils have balanced their budgets by reducing their spending but face additional pressures on top of funding reductions



£18.7 billion: spending on day-to-day running of services (including interest costs and accounting adjustments)



23 councils spent less than their income on providing services in 2014/15

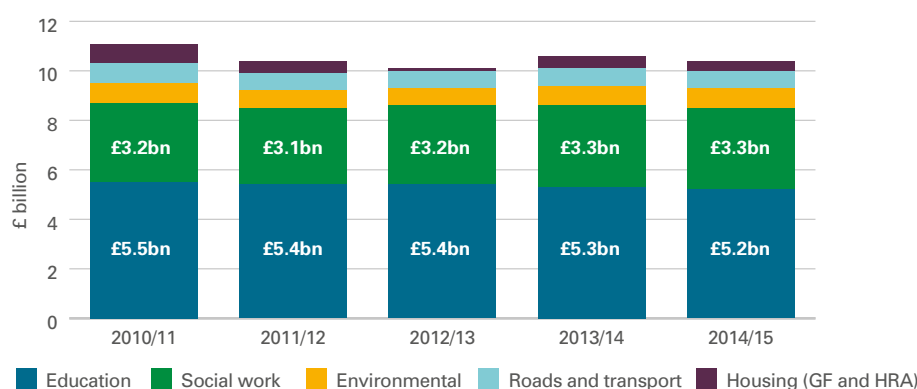
15. Councils have managed financial pressures by reducing spending across many of their main services and activities, except in social work ([Exhibit 5](#)). Councils' 2014/15 accounts showed expenditure of £18.7 billion. This looks like councils overspent by £0.4 billion but is actually due to adjustments that councils must make in their annual accounts, under local government accounting rules, for things like the accounting treatment of fixed assets and pension costs. In fact, the majority of councils underspent against their overall budgets in 2014/15. The one notable exception to this was Falkirk Council, which overspent by £2.9 million (0.8 per cent of its General Fund revenue budget). The most significant overspend of £3.3 million occurred in social work services and was partially offset by underspends in other areas.

16. The large number of underspends suggests that councils have successfully controlled their spending on services in preparation for the anticipated further funding reductions from 2016/17 onwards. Preparations for planned reductions in future years can also contribute to underspends if opportunities arise to

Exhibit 5

Council spending on main services 2010/11 to 2014/15, at 2014/15 prices

Councils have reduced their real terms net spending in service areas except in social work.



Notes:

- The figures show net spending, which is the total amount spent less any income from fees, charges or other service-related income.
- Housing figures include spending from the General Fund (GF) and Housing Revenue Account (HRA).

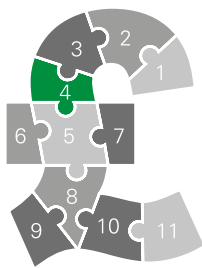
Source: Councils' annual accounts, 2010/11-2014/15



make savings ahead of schedule. Councils will find it increasingly challenging to underspend or balance their budgets from 2016/17 onwards because many incremental savings have already been made.

17. Even where councils underspent against their overall budgets, about a third of councils reported overspending their social work or social care budgets. The highest overspend in 2014/15 was in City of Edinburgh Council's health and social care service, which overspent its budget by £5.9 million due to demand pressures. The council has commissioned an external review to identify the main reasons for this and to help manage the budget in future. With demand rising because people are living longer, combined with further funding reductions, social care budgets will come under increasing pressure for many councils and for the new health and social care integration authorities. In 2016, we will publish a report, *Social work in Scotland*, which will look at the scale and impact of the financial and demand pressures facing social work and how councils and their partners are addressing these challenges.

Councils increased their usable reserves during 2014/15 in anticipation of further funding reductions



£1.9 billion: councils' usable reserves (excluding Orkney and Shetland Islands councils)



£375 million: unallocated General Funds (excluding Orkney and Shetland Islands councils)

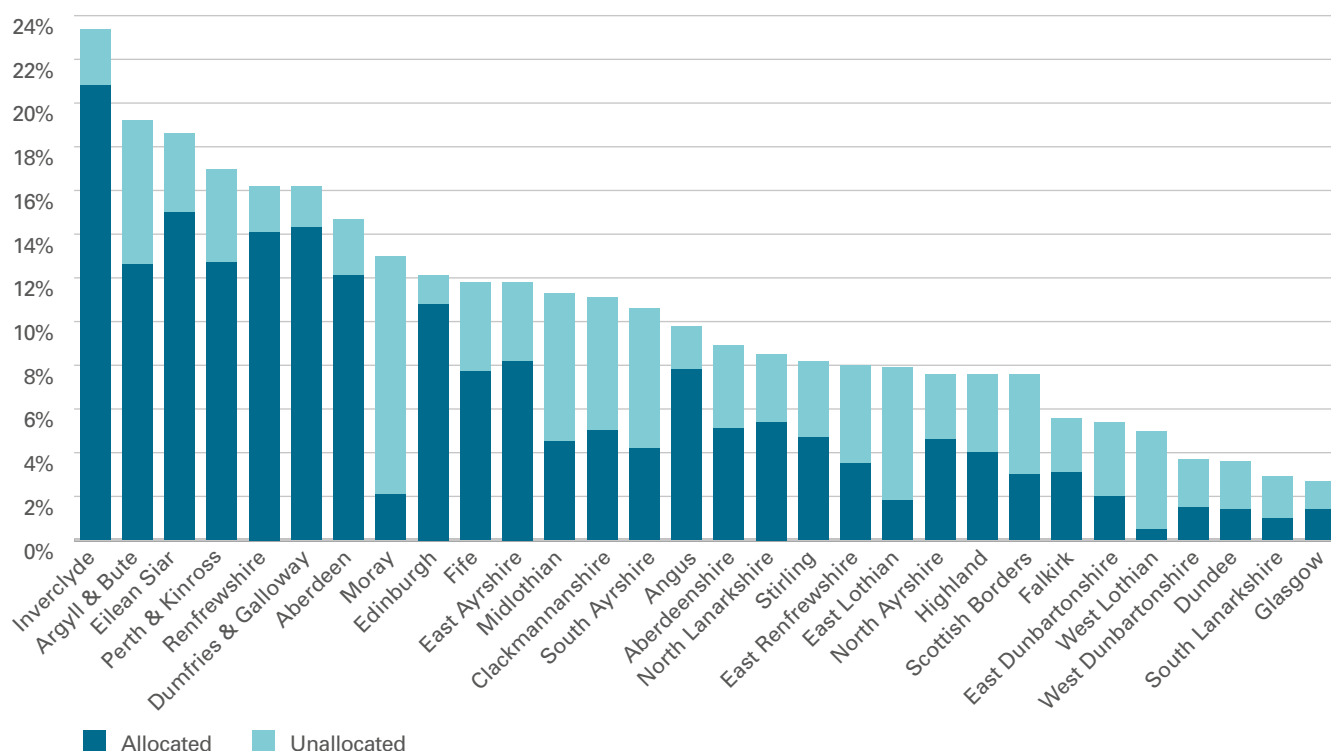
13 councils planned to use reserves for day-to-day spending in 2015/16

18. By the end of 2014/15, councils (excluding Orkney and Shetland Islands councils) had usable reserves of £1.9 billion, which is £31.4 million more than at the beginning of the year. £1.1 billion of this was in General Funds, available for councils to spend as required. £375 million of the £1.1 billion of General Funds were unallocated, meaning they were not earmarked for a specific purpose and therefore available as a contingency for unforeseen spending, such as making up shortfalls in income or savings, or for possible future commitments. Unallocated General Funds rose by 18.5 per cent during 2014/15. They are now 39 per cent higher than they were in 2010/11. Council finance directors tell us this is largely because they are being careful to save whenever opportunities arise, in anticipation of further funding reductions. Across Scotland, there is wide variation in the level of reserves councils hold and the levels of unallocated General Funds, with eighteen of the 30 councils having allocated more than half of their General Funds ([Exhibit 6, page 17](#)).

Exhibit 6

General Fund reserves held as a percentage of service costs, 2014/15

There is wide variation in the amount of General Fund reserves that councils hold compared to the cost of providing services.



Notes:

- Figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities, which affect what is included in their General Funds.
- Service costs in this context are taken as the General Fund net cost of services, as reported in councils' annual accounts.

Source: Councils' annual accounts and data returns from auditors, 2014/15



19. Eighteen out of the 30 councils allocated more than half of their General Fund. Thirteen of Scotland's 32 councils planned to use reserves to bridge a gap between their income and spending in 2015/16 or beyond. Using reserves to support day-to-day spending on services is unsustainable. Financial plans and reserves policies must strike a balance between the planned use of reserves and being prepared for any unforeseen changes in circumstances to ensure councils can manage external pressures. For example, there have recently been multi-million pound compensation payments for multiple equal pay claims. Such events can significantly affect councils' reserves and their plans for using them.

20. The level of reserves that a council holds is a local decision, but should be clearly informed by an annually reviewed reserves policy. Thirty-one councils had a reserves policy in 2014/15, the exception being The Moray Council which plans to finalise a policy in March 2016. It is important that officers advise councillors of the rationale for holding specific levels of reserves. Councillors need to be satisfied that their council's reserve level is both appropriate and necessary. Reserves policies set a minimum or target level of reserves to be held but half of councils ended 2014/15 with unplanned increases or decreases in their General Fund ([Exhibit 7, page 18](#)). This underlines the importance of ensuring reserve levels are adequate and policies are regularly reviewed.



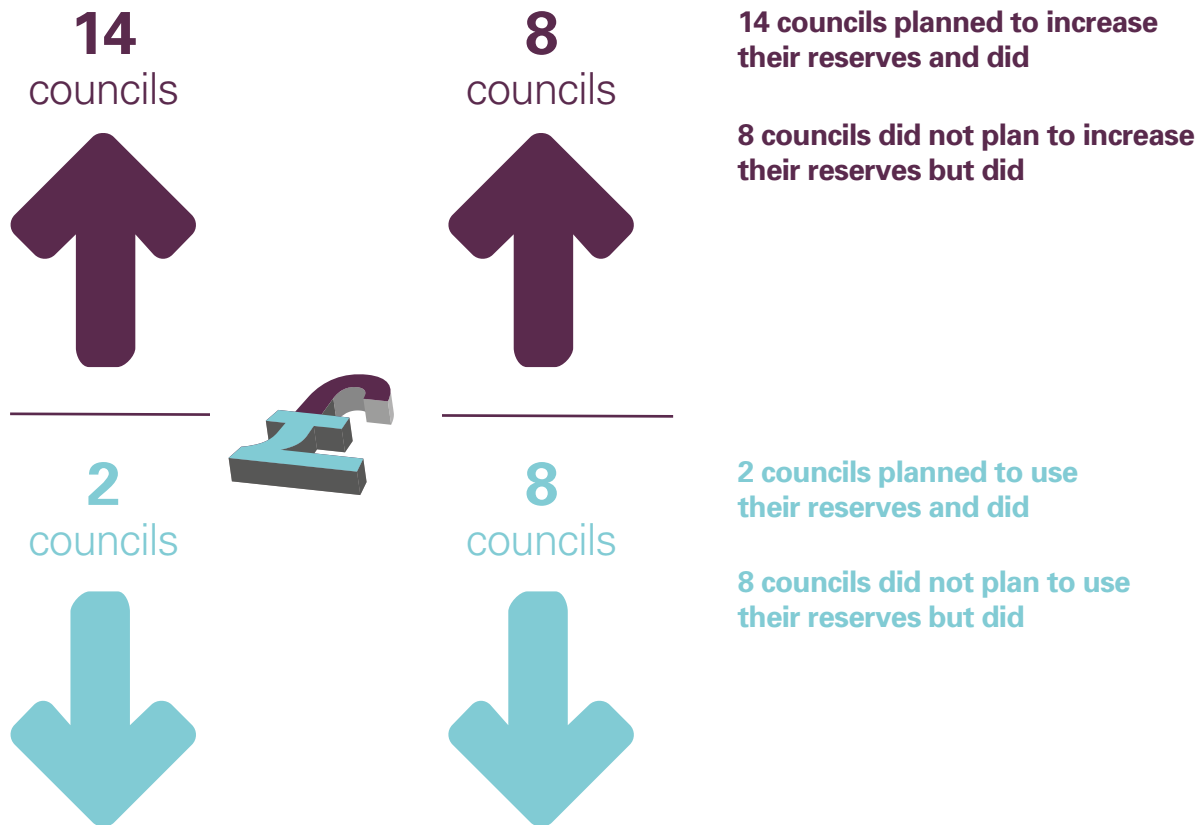
What level of reserves do we need, both allocated and unallocated?

How effectively are we using the reserves we hold?

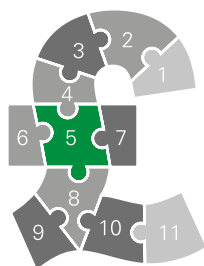
Exhibit 7

Increases and decreases in General Fund reserves

Total General Fund reserves increased overall but half of councils did not increase or decrease their reserves as planned.



Source: Councils' annual accounts and data returns from auditors, 2014/15



£39.9 billion: value of councils' long-term assets including their physical assets (£37.1 billion) and other assets such as long-term investments and money they are owed



£13.8 billion: councils' net debt – the difference between what is borrowed and owed (£15.2 billion) and the value of short-term investments (£1.4 billion)

£12.5 billion: councils' total short and long-term borrowing, which is the majority of their debt

£0.5 billion: increase in borrowing during 2014/15

Councils' net debt has increased since 2010/11, but decreased slightly in 2014/15.

21. Councils' debt includes money they have borrowed as well as commitments made under PFI, NPD and finance leases. Councils paid interest and repayment charges of about £1.5 billion in 2014/15, similar to the amount they paid in 2013/14. Most of councils' borrowing is for capital projects and helps them spread the cost of building, refurbishing and replacing their assets over a number of years.

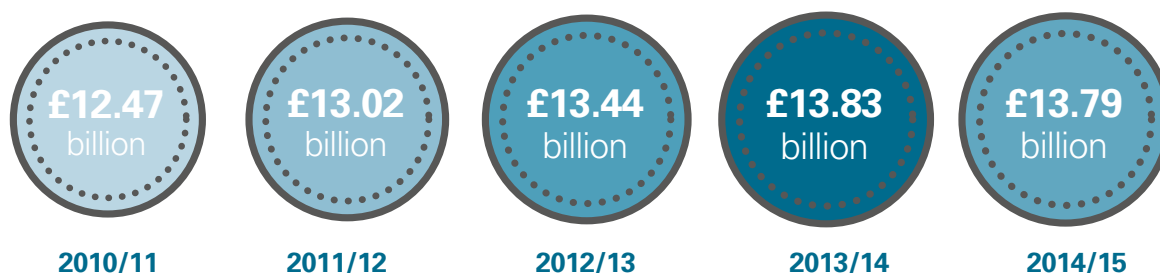
22. Councils' net debt (total debt minus investments and cash) decreased by £44 million during 2014/15. At £13.8 billion (excluding Orkney and Shetland Islands councils), it remains £1.3 billion more than in 2010/11 ([Exhibit 8](#)).

23. Councils need to assess the affordability of borrowing and other forms of debt. In the short term, they do this using a number of 'prudential indicators', which show the effects on revenue budgets, in compliance with The Prudential Code.³ We recommended in [Borrowing and treasury management in councils \[PDF\]](#) that councils should do more to assess the long-term affordability of borrowing and other forms of debt.

Exhibit 8

Councils' net debt, 2010/11 to 2014/15

Councils' net debt has increased since 2010/11, but decreased slightly in the last year.



Notes:

1. Net debt is calculated as total debt (long-term borrowing, short-term borrowing, bank overdrafts and other long-term liabilities) minus external investments (short-term investments and cash, and cash equivalents).
2. Figures exclude Orkney and Shetland Islands councils, which have large investments associated with harbour and oil activities.

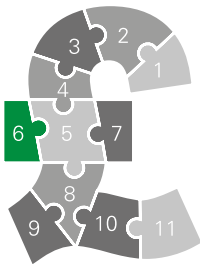
Source: Councils' audited accounts, 2010/11-2014/15

24. Borrowing levels are not an indication of financial problems or that a council may not be financially sustainable. As long as repayments are affordable and the council can finance its debts, then borrowing is a valuable means of financing longer-term capital costs. It is up to individual councils, taking into account their existing commitments, to determine how much they can afford to pay in annual repayments. Councils have reduced their borrowing in recent years, at the same time as there were changes in capital funding allocations from the Scottish Government and reductions in the overall size of capital programmes. Their overall level of outstanding borrowing has increased to £12.5 billion.



What implications do different borrowing and financing options have for our future revenue budgets?

Local Government Pension Scheme fund deficits can vary from year to year and long-term plans are in place to finance them



£33.8 billion: assets managed by the 11 separate LGPS funds in Scotland

£44.5 billion: total liabilities of the 11 LGPS funds

£10 billion: councils' share of the £10.7 billion long-term LGPS fund deficits



25. Pension contributions are a significant cost for councils. Most council staff pay into either the Scottish Teachers' Superannuation Scheme (STSS) or the Local Government Pension Scheme (LGPS). The Scottish Government is responsible for the STSS while councils are responsible for the LGPS. Staff in other related organisations, such as colleges, can also be members of these schemes.

26. The LGPS has 11 separate investment funds. These vary in size from Strathclyde Pension Fund, which manages about £16 billion (over 45 per cent) of the £33.8 billion LGPS assets, to a number of smaller funds each managing less than five per cent of total assets.

27. The value of the pension funds is fully assessed every three years to set contribution rates, most recently in 2014. Annual estimates are also made in between assessments. A range of factors are taken into account each time, for example inflation and life expectancy, and so annual estimates of fund values and future pension payments can vary from year to year.

28. At the end of 2014/15, there was an estimated £10 billion shortfall, or deficit, between the value of councils' pension funds and the future pension payments that will be made. This has increased by around £2.5 billion since 2011. During 2014/15, there were significant deficit increases in Glasgow City (£234m, 18 per cent), City of Edinburgh (£191m, 36 per cent), South Lanarkshire (£140m, 28 per cent), Falkirk (£128m, 51 per cent) and North Lanarkshire (£111m, 26 per cent) councils.

29. Pension deficits do not create immediate problems because staff and employer contributions and future payments will be made over a long period. There are long-term plans in place for funds to address current estimated deficits within 20 years.

The LGPS costs for councils are increasing

30. There are three main factors that determine variation in costs associated with the LGPS, and may result in increased pension costs for councils:

- Employer contribution rates: these range from around 17 to 22 per cent of employees' pay in 2014/15. They are not directly comparable between funds, or between councils within the same fund, because some councils make separate payments specifically to reduce deficits. But rates are set to increase. For example, by 2017/18 contribution rates will increase for five of the 11 councils that manage and administer the funds.

- Administration costs: these include the investment management fees for each fund, and other administration costs, and have been increasing. These are not comparable between funds, but the way the fees are reported has been changed to improve transparency and comparability between funds.
- Investment performance: the investment strategy for a fund takes into account the size of the fund's assets compared to its future liabilities, as well as other external market factors, when setting performance targets. Expected returns on investments are used to set employer contribution rates. In 2014/15, eight of the 11 LGPS funds reported above-expected returns and three reported returns below the targets they set for themselves (Highland, North East and Shetland).

31. Most LGPS funds have a growing number of pensioners within their schemes. The number of contributing members has also been increasing, despite staff reductions. Auto-enrolment into pension schemes is expected to result in more people joining. However, increases in the number of contributing members alone are not expected to offset the growing number of pensioners.

32. Councils face rising pension costs due to increases in pension scheme membership, raising the number of employees for whom they must contribute. Voluntary severance agreements can also increase the costs of paying pensions early and adding years to relevant employees' pensions. These agreements also result in councils having to make separate redundancy payments, although these are not pension costs.

33. Future employer contributions are part of a cost-sharing arrangement which may limit future increases. Employee contributions may however increase. Also, from 2016/17, employees and employers will no longer benefit from a reduction in National Insurance contributions, leading to increased costs for both.

34. There have been several recent developments to strengthen the governance and reporting of LGPS funds. In compliance with The Public Sector Pensions Act 2013, a local pension board was established for each LGPS fund before 1 April 2015. The board's role is to assist the fund manager to comply with rules relating to governance and administration of the fund.

35. A new Scottish Local Government Pension Scheme Advisory Board has also been set up as part of these reforms. Its role includes advising ministers on how the LGPS is operating and on any changes that may be desirable. It is likely to consider whether the structure of the LGPS in Scotland, with 11 separately administered funds, is efficient. That might include considering the value of the approach taken in England, of combining LGPS fund assets to allow collective investments to be made. The Accounts Commission welcomes this review of the LGPS.

Equal pay remains a significant cost pressure

36. By March 2015, councils had paid out £605 million to employees in equal pay compensation. During 2014/15, 24 councils settled nearly 4,000 equal pay claims, worth a total of £24.9 million. Councils currently estimate that about 30,000 cases remain outstanding. Councils had put aside £117 million in anticipation of further payments in 2015/16 and beyond. This includes £78 million by North Lanarkshire Council to compensate employees whose claims were brought to tribunal and agreed in 2014/15.



What are the implications of workforce reductions on our pension costs?

How will these affect our pension liabilities and pension administration costs?

37. Some councils do not expect many more significant equal pay claims and have reduced the money set aside for this purpose. However, recent cases highlight that councils' provisions can be significantly lower than the final costs. For example, Fife Council made a provision for equal pay claims of about £7 million in its 2014/15 accounts, based on the number of existing cases it had. However, in 2015/16 the council agreed to settle a large number of claims brought against it on the basis that the council's application of its job evaluation, pay protection and job assimilation arrangements under single status were unfair. The council's previous estimates of equal pay liability did not anticipate the application of its job evaluation scheme as being at risk. Therefore, the cost to the council of settling these cases is predicted to be many times greater than the financial provision it had made. This will significantly affect the council's financial position, including its planned spending on services and other projects or programmes. It is unclear how many other councils could potentially be in a similar position to Fife. The Accounts Commission plans to look at equal pay issues across local government in more detail during 2016/17.

Minimum and living wage rises have cost implications for councils

38. The living wage in Scotland is £8.25 per hour.⁴ Councils have a collective agreement with Scottish Joint Council trade unions on pay for the period 2015/16 to 2016/17. As part of this agreement, councils committed to a pay settlement which set the living wage at a level of £8.33 per hour. In addition, the UK Government is aiming for a minimum wage of £9 per hour by 2020, which would mean significant pay rises for those currently on or near the current minimum wage (£7.20 per hour for those aged 25 and over from April 2016). While there are clearly benefits to low-paid workers through the living wage commitment, the increases in employee costs and contract costs – when contractors pay their staff the living wage – will put additional pressure on councils' finances. It will also require councils to review their grading structures where the living wage moves jobs out of existing pay scales.

Good financial planning and management is required to manage future pressures and ensure financial sustainability

39. At March 2015, all councils had balanced their budgets and were not planning to spend more in 2015/16 than they could afford. External auditors reported that councils had adequate reserves and could afford to repay their current debts. However, audit work has highlighted concerns about some aspects of financial planning, management and sustainability in a small number of councils.

40. Auditors are most concerned about those councils that have been spending, or plan to spend, a significant amount of their reserves but still face a large gap between their expected income and spending. At March 2015, more than half of councils that had prepared indicative budgets for both 2016/17 and 2017/18 were reporting a funding gap between income and expenditure, even after they had identified savings and planned whether to use some of their reserves. At that point, five councils were predicting cumulative funding gaps of more than five per cent of their service costs by 2017/18. These were Clackmannanshire (14 per cent), Argyll and Bute (ten per cent), and Aberdeenshire, Orkney and Fife (five to six per cent) ([Exhibit 9, page 23](#)).

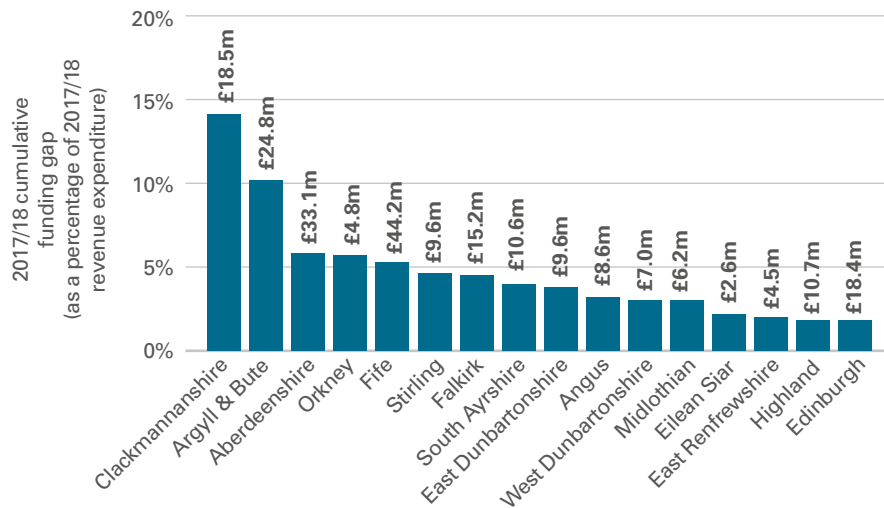


How fully do our financial plans identify estimated differences between income and expenditure (budget shortfall)?

Exhibit 9

Predicted funding gaps at March 2015

At March 2015, five councils were predicting cumulative funding gaps of more than five per cent in 2017/18.



Notes:

1. Figures are the 2017/18 cumulative funding gaps. Ten councils predict a balanced budget in 2017/18. Six councils had not prepared a budget for 2017/18 by March 2015.
2. Many councils have updated their estimates of funding gaps since this data was collected in March 2015 but we have not collected this updated information.

Source: Audit Scotland



41. The extent of the Scottish Government's funding reduction for 2016/17 is likely to result in councils identifying even larger funding gaps between the cost of delivering current services and their income, after taking account of planned savings or additional sources of income. Addressing this will require councils to go beyond incremental cost-saving measures to existing services and to fundamentally rethink their models of service delivery.

42. Councils' financial sustainability continues to be at risk as they face the combined challenges of reduced funding, increasing cost pressures (such as pensions, the living wage and equal pay) and rising demand for services from an ageing and growing population. Auditors will continue to assess councils' financial health and how well they are planning and managing their finances. Councils with good medium and longer-term financial plans and strategies are better equipped to manage these risks effectively.

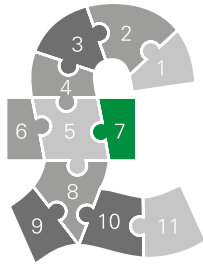


What options do we have to address this budget shortfall for example, redesign services, use reserves?

How big is the remaining funding gap after we implement our selected options?

What actions are we taking to close any remaining funding gap?

Financial planning is crucial as councils face significant pressures in 2016/17 and beyond



15 councils have long-term financial strategies covering five or more years

29 councils have medium-term financial plans covering three to five years



43. A good financial strategy sets out a council's financial objectives and how it will achieve them. It shows clearly how the council will use the money it has to help achieve its Single Outcome Agreement (SOA) and strategic objectives. A financial strategy should cover at least five years and should set out the risks and liabilities, any assumptions made about income and the implications for affordability. Councils should also have in place detailed financial plans that set out fully-costed annual spending plans over at least the medium term (three to five years). When future Scottish Government funding is not known, councils should plan for a range of possible scenarios so they are prepared for different levels of funding and income.

44. Almost all councils have financial strategies that are accompanied by detailed financial plans covering at least three years. About a third of councils have financial plans covering five or more years. In a small number of councils, auditors reported that plans and strategies were still being developed.

45. Effective financial strategies and plans must take into account future financial pressures and how the council intends to respond to these. For example, councils need to assess how affordable the different options are for changing the way they deliver services. It is therefore important that financial plans support councils' priorities, savings and service change programmes, and asset management and workforce plans.

46. Shetland Islands Council, for example, has a five-year financial plan based on forecasts of future income, cost pressures, managing spending within the budget and financial risks. The council also intends to develop a 35-year asset investment plan to help it maintain the assets needed to deliver its priorities without reducing the money left for day-to-day running of services.



Do we have a long-term financial strategy covering at least five years that accounts for future pressures?

Is our five-year strategy supported by detailed financial plans covering a minimum period of three years?

How well do our financial plans set out the implications of different levels of income spending and activity?

How does our financial strategy link to our vision for the future?

Part 2

Delivering services



Key messages

- 1 Councils' performance in 2014/15 continued to improve across many of the performance measures in the Local Government Benchmarking Framework (LGBF). Councils have well-established systems to manage their performance and are improving how they report to the public.
- 2 Health and social care integration is the most significant aspect of public sector reform for councils. New integration authorities may not be in a position to make an impact in 2016/17. Significant risks need to be addressed if integration is to fundamentally improve the way health and care services are delivered.
- 3 The Accounts Commission continues to be concerned about councils' slow progress in delivering services differently, rather than relying on incremental savings to existing models of service delivery. There are some examples of councils achieving savings and community benefits through increasing online access to services, sharing services, collaborating on procurement and using arm's-length external organisations (ALEOs). Councils, however, need to be more ambitious in their plans, better at longer-term planning, and willing to appraise all practical options for delivering services more efficiently and effectively. This includes empowering and supporting local communities in delivering local services.
- 4 Most councils continue to reduce staff numbers. It is essential that they have comprehensive workforce strategies and plans, which must take into account not only workforce-related cost pressures, but the staff knowledge, skills and time they will need to plan and deliver services differently in future.
- 5 There is a need for councillors to continuously review and develop their skills and knowledge to help them carry out their increasingly complex and challenging role effectively. They need to have the skills and the necessary information to allow them to carry out effective scrutiny of performance. This becomes ever more important as councils develop new and different ways of delivering services within their reducing budgets.

councils need to be more ambitious and consider all the practical options for delivering services differently in future

Councils' performance improved in many service areas in 2014/15

47. Within the resources they had available in 2014/15 (for example money, people and buildings), councils continued to improve several key service performance measures, such as secondary school educational attainment, the balance between care at home and in care homes, the quality of council housing and waste recycling (**Exhibit 10**). Whatever their performance, the LGBF provides the starting point for councils to compare themselves with others to understand differences and learn lessons that will help them to improve performance.

48. The LGBF shows that public satisfaction with services has generally declined in recent years. This suggests a need for councils to work more closely with their communities and service users to establish service priorities.

Exhibit 10

Councils' service performance at a national level

There have been improvements across many of the performance indicators in the LGBF.















| LGBF indicator | | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|--|--|---------|---------|---------|---------|---------|
|  Education and Children's service | % of pupils gaining 5+ awards at Higher (Level 6) | 23.0 | 25.0 | 25.7 | 28.1 | 29.3 |
| | % pupils from deprived areas gaining 5+ awards at Higher (Level 6) ¹ | 8.0 | 9.0 | 10.1 | 12.6 | 12.8 |
| | % of children being looked after in the community ² | 91.0 | 91.2 | 91.0 | 91.0 | – |
| | % of adults satisfied with local schools | 83.1 | – | 83.0 | 81.0 | 79.0 |
| | % of pupils entering positive destinations | 88.9 | 89.9 | 91.4 | 92.3 | 92.9 |
|  Corporate services | % of the highest paid 5% of employees who are women | 46.3 | 48.5 | 48.7 | 50.7 | 51.7 |
| | Domestic noise – average time (hours) to respond | 47.8 | 31.6 | 43.2 | 80.7 | 58.9 |
| | Sickness absence days per teacher | 6.6 | 6.2 | 6.6 | 6.1 | 6.3 |
| | Sickness absence days per employee (non-teacher) | 10.8 | 10.4 | 10.9 | 10.3 | 10.8 |
| | % of income due from council tax received by the end of the year | 94.7 | 95.1 | 95.2 | 95.2 | 95.5 |
| % of invoices sampled that were paid within 30 days | 89.5 | 90.2 | 90.5 | 91.9 | 92.5 | |
|  Adult social care | SDS ³ spend on adults 18+ as a % of total social work spend on adults 18+ | 1.6 | 3.1 | 5.9 | 6.4 | 6.9 |
| | % of people aged 65+ with intensive needs receiving care at home | 32.2 | 33.0 | 34.1 | 34.3 | 35.6 |
| | % of adults satisfied with social care or social work services | 62.1 | – | 57.0 | 55.0 | 51.0 |
|  Culture and leisure | % of adults satisfied with libraries | 83.5 | – | 83.0 | 81.0 | 77.0 |
| | % of adults satisfied with parks and open spaces | 83.1 | – | 86.0 | 86.0 | 86.0 |
| | % of adults satisfied with museums and galleries | 75.5 | – | 78.0 | 76.0 | 75.0 |
| | % of adults satisfied with leisure facilities | 74.6 | – | 80.0 | 78.0 | 76.0 |

Exhibit 10 continued

| LGBF indicator | | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|--|--|---------|---------|---------|---------|---------|
|  Environmental services | Street cleanliness score (% acceptable) | 95.4 | 96.1 | 95.8 | 96.1 | 93.9 |
| | % of total household waste that is recycled | 38.7 | 41.0 | 41.7 | 42.2 | 42.8 |
| | % of adults satisfied with refuse collection | 80.9 | – | 83.0 | 83.0 | 84.0 |
| | % of adults satisfied with street cleaning | 73.3 | – | 75.0 | 74.0 | 74.0 |
|  Housing | Gross rent arrears (all tenants) as a % of rent due for the reporting year | – | – | – | 5.6 | 5.9 |
| | % of rent due in the year that was lost due to empty properties | 1.3 | 1.3 | 1.2 | 1.3 | 1.2 |
| | % of dwellings meeting Scottish Housing Quality Standards | 53.6 | 66.1 | 76.6 | 83.7 | 90.4 |
| | Average time taken to complete non-emergency repairs (days) | – | – | – | 10.2 | 9.9 |
| | % of council dwellings that are energy efficient | 74.9 | 81.2 | 88.8 | 94.0 | 96.5 |
|  Corporate assets | % of operational buildings that are suitable for their current use | 73.7 | 74.8 | 75.9 | 78.2 | 79.0 |
| | % of internal floor area of operational buildings in satisfactory condition | 81.3 | 82.7 | 82.6 | 80.9 | 82.9 |
|  Economic development | % unemployed people assisted into work from council operated / funded employability programmes | – | – | 9.6 | 12.5 | 14.2 |
| | | 2009/11 | 2010/12 | 2011/13 | 2012/14 | 2013/15 |
|  Roads maintenance | % of A class roads that should be considered for maintenance treatment | 30.3 | 30.5 | 29.4 | 28.7 | 29.0 |
| | % of B class roads that should be considered for maintenance treatment | 35.8 | 36.3 | 35.0 | 35.2 | 36.1 |
| | % of C class roads that should be considered for maintenance treatment | 35.0 | 36.0 | 34.8 | 36.6 | 37.3 |

| | | | | | |
|---|---|---|--------------------------------|---|--------------------------|
|  | Decline in performance from previous year |  | Improvement from previous year |  | No change in performance |
|  | Baseline year |  | No data available | | |

Notes:

- This data is calculated from the Scottish Index of Multiple Deprivation (SIMD).
- Balance of care for looked after children: percentage of children being looked after in the community.
- Self-directed support.
- We have not included unit cost measures in this exhibit. Additional performance information is available at www.improvementservice.org.uk

Source: Local Government Benchmarking Framework, Improvement Service, 2016

Councils have well-established systems to help manage their performance and are improving how they report to the public

49. Councils have well-established systems for monitoring performance and continue to develop them. For example, in conjunction with the Scottish Public Services Ombudsman's (SPSO's) Complaints Standards Authority, councils are improving complaints monitoring as a means of better understanding public satisfaction with their services. Local government scrutiny bodies (Audit Scotland, the Care Inspectorate, Education Scotland, Scottish Housing Regulator and Healthcare Improvement Scotland), working collectively through the annual Shared Risk Assessment (SRA) process, have highlighted scope in some councils to use information more effectively in order to manage performance. This includes comparing performance with other councils and using self-evaluation.

50. Public performance reporting (PPR) is an important way for councils to demonstrate their performance to the public. Many councils have improved how they report their performance in public but there is a significant gap between top-performing councils and those that still need to improve their PPR.

51. The Accounts Commission will use LGBF data, complaints information and public performance reports as important sources of intelligence to inform future audits of Best Value.

Health and social care integration is intended to transform services across Scotland, but councils and their partners still need to address significant risks

52. The most significant transformation to council services taking place is the integration of health and social care services. The Public Bodies (Joint Working) (Scotland) Act 2014 sets out an ambitious programme of reform for the Scottish public sector to improve support for people who need health and social care services. It creates a number of new public organisations and aims to encourage more effective joint working between NHS boards and councils.

53. Councils and NHS boards are required to establish integration authorities by 1 April 2016. There are now 31 integration authorities, including a joint arrangement in Stirling and Clackmannanshire. All integration authorities are required to integrate adult health and social care services, but they can also choose to integrate other services. The scope of services being integrated varies widely across Scotland. Most notably, in Argyll and Bute, and Dumfries and Galloway, the integrated services will include all NHS acute services, including planned and unplanned hospital services. The integration authorities are now establishing management and governance arrangements, including organisational structures and internal processes.


54. Our [Health and social care integration \[PDF\]](#) report found that integration authorities may not be in a position to make an impact in 2016/17.⁵ We reported on the significant risks that need to be addressed if integration is to fundamentally change the delivery of health and care services. These include:

- difficulties in agreeing budgets and finalising comprehensive strategic plans, due to councils having to set their budgets before NHS boards, and uncertainty about longer-term funding



How clearly do we report our plans and performance to the public?

- uncertainty about how complex governance arrangements will work in practice
- significant long-term workforce issues, such as different terms and conditions for NHS and council staff, and difficulties in recruiting and retaining GPs and care staff.


55. The issues around budgeting, strategic planning and governance need to be addressed quickly in order to improve local health and social care services in the next few years. In the longer term, joint action by councils and NHS boards will be needed to address workforce issues. Our [Changing models of health and social care \[PDF\]](#)  report highlighted that, to transform services and successfully deliver better outcomes for users, NHS boards, councils and integration authorities will have to adopt innovative models of care and ways of working that are quite different from traditional services.⁶

The quality and ambition of councils' savings and service change programmes vary greatly

56. Most of the savings councils have made over the last four years have relied on incremental reductions to a wide range of services and relatively small increases in income from fees and charges. Many savings have come from staff voluntary redundancies. There is a limit to how many staff can be lost before there is a major impact on the quality or quantity of services. Councils need to consider options for more fundamental changes to the way they deliver services.

57. Councils have been developing savings plans and service change programmes in response to current and future reductions in their income. However, auditors have highlighted variation in the ability of councils' programmes to make the savings required. Some are making good progress towards tangible savings and improvements to services for communities. For example, East Ayrshire Council's transformation strategy is designed to achieve sustainable savings of £34.7 million over the five-year period up to 2016/17. Planned savings in the first three years have already been achieved and, at the time of approving its 2015/16 budget, the council reported no funding gap up to 2016/17. The council reviews its transformation strategy annually and consults local communities and stakeholders on its priorities as part of the review.

58. Auditors have expressed concerns about the extent to which planned changes in some councils are enough to make required savings, whether these changes are being implemented quickly enough, and how any changes reflect a council's priorities. For example, in Aberdeenshire Council, the auditor has reported that there is little evidence of robust plans with clear links to outcomes.

59. The Accounts Commission is concerned about councils' slow progress in delivering services differently, rather than relying on incremental savings and staff reductions. Recent Best Value audits on East Dunbartonshire, Falkirk, and Argyll and Bute councils highlight that, regardless of the ambition of savings plans and service change programmes, only relatively small-scale changes have been delivered so far.^{7,8,9} Larger-scale changes that make a bigger impact on budget shortfalls have proved more difficult to achieve. Our [East Dunbartonshire Council: the Audit of Best Value and Community Planning – a follow-up report \[PDF\]](#)  found a clear commitment to improvement but expressed concerns about the pace of delivering the improvements in practice. We recommended the council take urgent action to identify clearer priorities for its transformation programme.



How will our savings plans help us achieve our corporate objectives and commitments made to our Single Outcome Agreement?



How open are we to considering all possible options to reduce the cost, and improve the quality and effectiveness of the services we provide?

60. One area where councils are changing the way they work is in providing services online. This allows councils to provide services that better meet the needs of users, as set out in the Scottish Government's and COSLA's 2012 vision *Scotland's Digital Future – Delivery of Public Services*.¹⁰ It also allows councils to deliver greater efficiency, reducing the number of staff required to deliver these services ([Case study 1](#)). However, it is important that councils continue to provide services for those who do not have access to, or simply do not want to use, online services.

Case study 1



Examples of online services in councils

City of Edinburgh Council

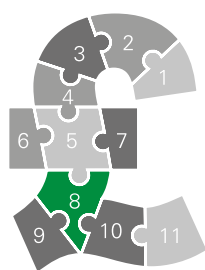
The council is currently redesigning many of its customer care services and moving services online where possible. The council plans to deliver annual savings of £5.9 million, through reducing the number of support staff. There are early signs that this initiative is making an impact: 40 transactions, such as school placing requests, are already available online and savings of £355,000 over the past year have been made. The council now aims to roll out a further 153 new types of online transaction in 2016/17.

The Highland Council

The council aims to reduce the equivalent of 54.2 full-time employees and save £1.3 million by 2018/19 through its Digital First programme. In 2014, 82,000 transactions took place online with a corresponding ten per cent decrease in face-to-face transactions. The council currently offers 87 services online, such as paying rent online, and is aiming to have 40 per cent of customer transactions online by April 2017. The council has implemented the Improvement Service's customer portal 'myaccount'. This reduces the requirement for customers to prove their identity every time they apply, and gives customers the ability to upload scanned and photographed evidence.

Source: Audit Scotland


There is limited evidence of councils collaborating or sharing services




£43 million: saved by councils in 2012/13 by using collaborative procurement contracts



61. Collaborating or sharing services can help meet financial challenges. For example, East Ayrshire and South Ayrshire councils have a shared roads maintenance service, which has been operating since April 2014. It aims to maintain and improve the service while saving £8.6 million over the next ten years. Stirling and Clackmannanshire councils are jointly delivering social work and education services. However, they decided in late 2015 to withdraw from this arrangement, and they will revert to single-council services by April 2017. These shared services involved a lot of preparatory work. They highlight the need for sustained commitment if councils are to deliver shared services successfully and realise any planned longer-term benefits.

62. Our [Procurement in councils \[PDF\]](#)  report found that councils had saved £43 million in 2012/13 through using Scotland Excel or Scottish Government collaborative procurement contracts, and councils' use of collaborative contracts has been increasing since then.¹¹ Savings were not the only benefit to this collaborative working. Councils had been systematically using procurement spending to support local economic development, and they had begun to achieve community benefits, such as apprenticeships and environmental improvements, into procurement contracts.

63. Whatever the means of delivering services, a crucial element of achieving best value is using options appraisal effectively to evaluate current and alternative ways to deliver services. Our [How councils work: Options appraisal – are you getting it right? \[PDF\]](#)  report recommends rigorous and challenging appraisal of all the options.¹² It is important that councils consider a wide range of alternatives, including fundamentally different approaches, to help find the most effective and efficient way to achieve the council's priorities for its local communities ([Exhibit 11, page 32](#)).

64. In looking at possible options for delivering services, councils and their partners need to consider the opportunities presented by the Community Empowerment (Scotland) Act 2015. The Act aims to empower community bodies through ownership or control of land and buildings, and by giving them more say in decisions about public services.



How fully have we appraised the options for sharing services with similar or neighbouring authorities or other public sector bodies?

What options do we have for collaborating or sharing services?

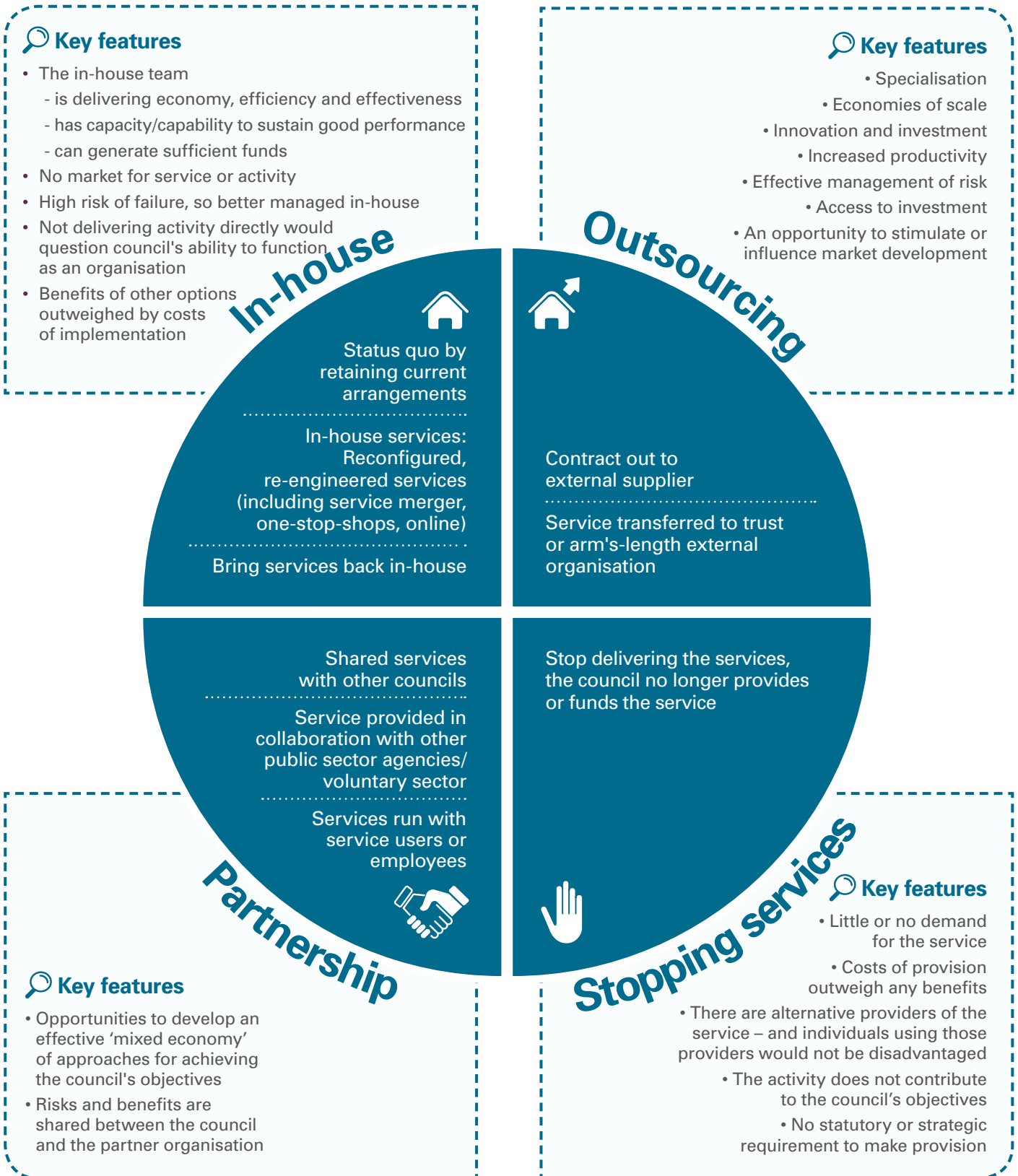


How are we involving and empowering local communities to design and deliver services to suit local needs?

Exhibit 11

Options for delivering services

Councils should use options appraisal to consider alternative ways of delivering services.



Councils are planning to increase the number of ALEOs to deliver services

65. Councils use ALEOs to deliver services differently and more efficiently, as they offer different opportunities for generating income and making tax savings. ALEOs are typically used to provide more commercial activities, including leisure, property development, car parking, energy generation, and conference facilities such as the Edinburgh International Conference Centre. They are also used across a diverse range of services including social care and waste recycling. Auditors have identified approximately 140 ALEOs operated by Scotland's councils, with around three-quarters of these providing cultural, leisure, housing or economic development services. Councils are planning to deliver more services through ALEOs by establishing new ALEOs or expanding the remit of existing ALEOs ([Case study 2](#)).



How do we learn from other changes we have made and the experiences of other organisations when identifying and considering all the options?

Case study 2

Examples of new and expanded ALEOs



SB Cares

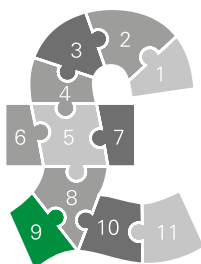
Scottish Borders Council established SB Cares to deliver most of the council's adult social care provision. Around 800 staff transferred to SB Cares on 1 April 2015. The new ALEO aims to make more efficient and flexible use of staff and generate additional income. The council expects to deliver £0.5 million savings in the first year.

Renfrewshire Leisure Limited

Renfrewshire Council expanded Renfrewshire Leisure Limited by transferring the management and staffing of cultural and leisure services, such as town halls, libraries and playing fields. It estimates £0.6 million of annual savings from the transferred services being eligible to pay reduced NDR.

Source: Audit Scotland

As councils continue to reduce staff numbers, it is essential that they plan to have the staff knowledge, skills and time to deliver services differently in future



24 councils, in September 2015, were planning to further reduce staff numbers during 2015/16 and beyond

31 councils have reduced and/or restructured their senior management in recent years, and 11 councils, in September 2015, were planning to make further changes




66. The majority of councils have reduced their workforces over the last few years to save money and establish more efficient ways of working. At 31 March 2015, there were approximately 200,800 people (full-time equivalent or FTE) employed by councils. This was around 800 fewer people (FTE) working in councils compared with the previous year. The net reduction in employment may be lower than 800 as it includes jobs transferring into ALEOs, although we do not have data on this. We have highlighted in previous reports that relying on reducing staff numbers to save money without changing the way councils deliver services is not sustainable.

67. With their income falling further, and as they identify funding gaps in the next two years or longer term, councils are planning further staff reductions. Some councils are now making compulsory redundancies to reduce costs and better manage their workforces. For example, over half of councils have policies that allow them to make compulsory redundancies if necessary, and seven have already made a very small number of compulsory redundancies in 2014/15. At the same time, councils feel that their ability to fully manage their workforce in line with local priorities is affected by other factors outwith their control, such as the Scottish Government's requirement for councils to maintain teacher numbers.

68. A key area of savings has been in reducing and restructuring senior management. Councils need to ensure that they manage the risks of relying on smaller numbers of individual officers with an increasingly wide range of responsibilities. There is also the risk that they may not have the management skills and time they need to plan and implement new ways of delivering services. In contrast, some councils have difficulties in recruiting and retaining people in some key roles. For example, Aberdeen City Council had difficulty filling the position of Director of Corporate Governance. More widely, there is a recognised shortage of qualified procurement professionals. Councils may therefore have to develop the skills of their existing staff or find new ways to attract people with the specialist skills they need. This highlights the importance of succession plans as part of workforce planning to avoid losing essential skills and knowledge, particularly when considering further staff reductions.

Further workforce reductions must reflect councils' priorities

69. A number of councils have been developing their workforce strategies and plans. An effective workforce strategy takes account of the skills needed for the future, not just the numbers and grades of staff. This means tying it in with the council's identified priorities and its plans for changing how services are delivered. For example, with councils expected to involve local communities more in planning, managing and delivering services, in response to the Community Empowerment (Scotland) Act 2015, they may need to retain or develop further their skills in this area.

70. Some councils have still to fully, or further, develop their workforce planning. We have raised concerns about workforce planning in recent Best Value reports. For example, East Dunbartonshire Council has a workforce strategy in place but it does not contain clear targets or timescales for meeting objectives, and so it is difficult to assess its impact. Our [Health and social care integration \[PDF\]](#)  report also identifies the need for long-term workforce strategies in the new integration authorities. Developing a suitably skilled workforce is particularly challenging in health and social care integration, given the wide range of people involved and the size of the workforce.



How do we ensure our senior officers have the knowledge, skills and time to support us in making difficult decisions?

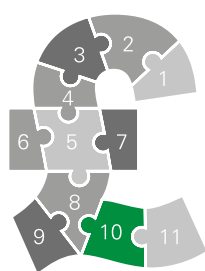


What do we need the workforce to look like in terms of numbers, skills and knowledge?

How do we ensure the council's future pay structures do not discriminate against any groups of staff?

71. We have also identified a risk that staff in some support services may be under severe pressure after significant staff reductions. For example, information collected by auditors shows that most councils have reduced finance staff. This has not had a negative impact on service delivery to date, with all councils submitting their unaudited accounts on time and all council audits being completed by the due date of 30 September 2015. Some councils are planning to reduce finance staffing further. This can pose risks for councils in being able to carry out good long-term financial planning, effective monitoring of budgets and savings, and responding to the additional work involved in budgeting for the new health and social care arrangements. However, it can also indicate better use of technology and therefore a need for fewer finance staff.

There is potential to reduce staff time lost due to sickness absence



10.8 days: the average number of sickness days per employee (excluding teachers) in 2014/15

6.3 days: the average number of sickness days per teacher in 2014/15



72. In 2014/15, sickness absence across councils increased by almost half a day per employee, excluding teachers. Sickness absence per employee varied across councils from an average of 8.8 days per year in Orkney to 14.5 days per year in West Dunbartonshire ([Exhibit 12, page 36](#)). If councils with high absence levels could lower this to match the top eight performing councils (lower than 9.9 days), that would gain the equivalent staff time of close to 700 full-time employees (excluding teachers) across Scotland.

73. Sickness absence also varied in 2014/15 among teachers from an average of 3.6 days per year in North Ayrshire to 10.1 days per year in Clackmannanshire. Similarly, if councils with high teacher absences could match the top eight performing councils (lower than 5.7 days), that would gain the equivalent staff time of close to 200 full-time teachers across Scotland.

74. With councils' workforces reducing, this potentially increases the workload for remaining staff, which in turn can negatively affect morale and sickness absence. It can also impact on the ability of managers to deal with absence issues.

75. Reasons for sickness absence are complex and varied and therefore reducing absence is not easy. East Dunbartonshire Council has taken steps to reduce sickness absence, for example, by introducing better monitoring of short and long-term absences, identifying departments with high absence rates, and providing further support and guidance for managers. This has led to a decrease in staff absence levels, although they are still above the Scottish average. To try to reduce the cost of absence, the Improvement Service is helping councils to learn from each other, using the LGBF as a starting point.

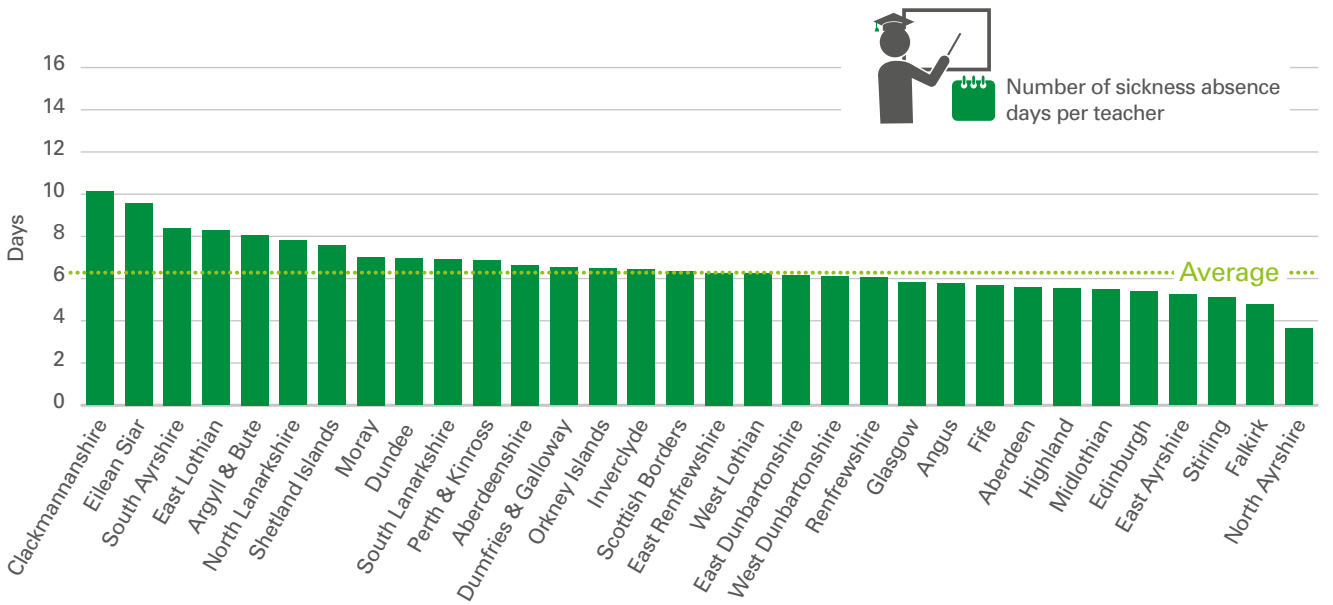
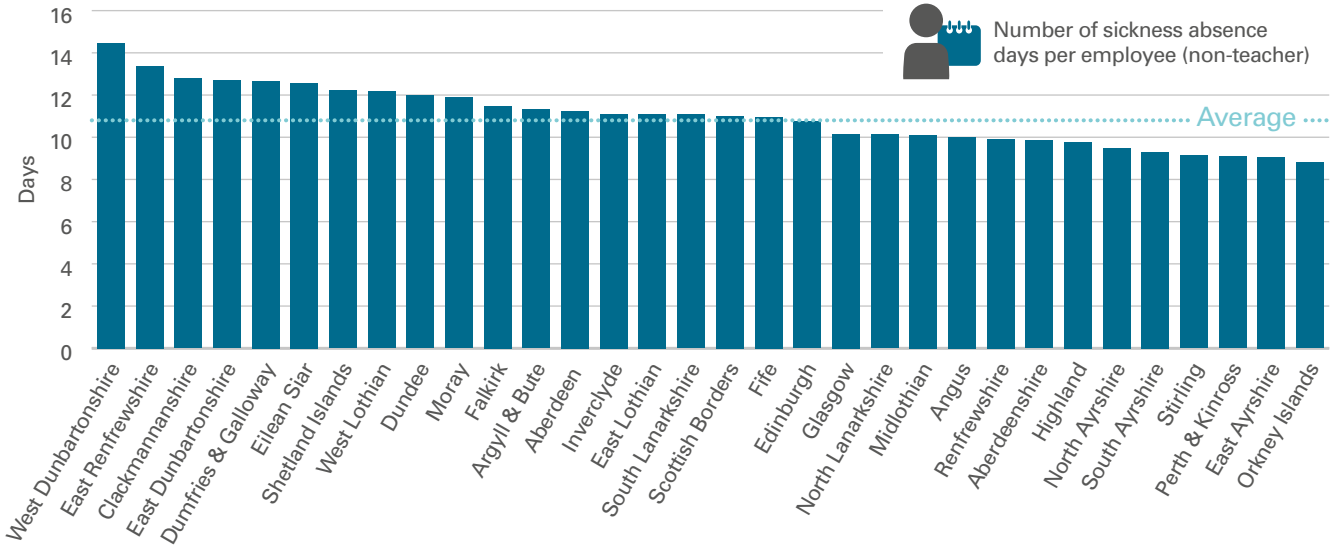


How effectively is the council working to improve sickness absence among employees?

Exhibit 12

Sickness absence for council employees in 2014/15

Clackmannanshire and West Dunbartonshire councils have the highest average number of sickness days for teachers and other employees respectively.

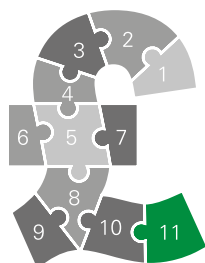


Note: Sickness absence varies from year to year. When councils use this LGBF information, they will want to consider the data for more than one year.

Source: Local Government Benchmarking Framework, Improvement Service, 2016



Councillors need good quality information to make decisions and the appropriate skills to carry out their scrutiny role




1,223: the number of councillors in Scotland

32: all councils' audited accounts were unqualified in 2014/15



76. It is important that councillors have clear, understandable and manageable information to help them make decisions and scrutinise effectively. We have seen meeting papers where councillors were expected to read over 700 pages of information. Committee reports can be long, complex and written in very bureaucratic language, making them difficult to understand. This places significant demands on councillors and makes it difficult for them to focus on the most important issues, such as the council's underlying financial position.

77. Councils were required to add a management commentary to their annual financial reports for the first time in 2014/15. It replaces the previous explanatory foreword, as part of the move to make the accounts more accessible to readers. This should enable councillors and others to scrutinise the annual financial reports more effectively. We have prepared guidance for councils about financial reporting and scrutiny, with suggested questions for councillors to ask. This is available on our [website](#). We will review these in more detail next year.

78. As well as making the accounts more understandable, officers need to provide councillors with information, support and advice to help them scrutinise the accounts and other financial and service performance information. For example, there are gaps between the technical information, such as prudential indicators, and the straightforward explanations that many councillors need to fully understand the consequences of their decisions. Our [Borrowing and treasury management in councils \[PDF\]](#)  report found that councils need to improve their scrutiny in this area.

Councils need to conduct their business openly in the interests of local accountability

79. Good governance requires councils to conduct their business in a transparent manner. In some of the Best Value audits we carried out in 2015, for example in East Dunbartonshire and Argyll and Bute councils, we highlighted that they are carrying out a relatively high proportion of business in private. A wider analysis of the number of reports that councils consider in private, rather than in public, has highlighted variation in approach. For example, around a quarter of councils discuss less than two per cent of reports in private at meetings of the full council or at a policy and resources committee (or equivalent). In contrast, a few councils consider over 15 per cent of items in private.



How do we ensure that the information we receive is clearly written, jargon-free and manageable?




How can we consider more of our business in public?

80. Decisions on considering items publicly or privately are influenced by a range of factors. In particular, they may be affected by local schemes of delegation to senior officers, allowing them to make certain operational decisions. They may also be influenced by the local culture developed over time in councils. In our recent Best Value report on Argyll and Bute Council, we recommended that the council establishes a more open and transparent culture and style of working, which includes minimising the amount of business it carries out in private. Councils should be looking to identify and adopt best practice to strengthen local accountability.

81. Every year, the Accounts Commission emphasises in its overview report the importance of good governance. This includes procedures for authorising spending decisions, systems for managing risks, processes for reporting and scrutinising financial and service performance, and the way councillors and staff behave. All of these are increasingly important as councils continue to adapt to changing circumstances and develop more creative and ambitious ways of achieving positive outcomes for communities. In doing this, they are working more with partners in the public, private and third sectors, and in partnership with their communities. It is therefore even more important for councils to review and update governance arrangements to ensure that they are fit for purpose. The principles of good governance are:

- creating and implementing a vision and focusing on outcomes
- councillors and officers working together to achieve a common purpose, with clearly defined functions and roles
- promoting the council's values and upholding high standards of conduct and behaviour
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- developing the capacity and capabilities of councillors and officers
- engaging with local people and other stakeholders to ensure robust public accountability.¹³

82. Councils should have appropriate arrangements in place to approve, monitor and hold ALEOs to account for the public funding that is provided to them. This includes complying with the Following the Public Pound Code. The Code is designed to ensure that openness, integrity and accountability are applied to all council decisions when public money is being spent, for example when establishing funding relationships with ALEOs. The importance of good governance was highlighted in Audit Scotland's [Conclusions on issues relating to the Lennoxton Initiative \[PDF\]](#)  in November 2015.¹⁴ The report found that more robust processes should have been put in place to demonstrate that the public funds provided were used for the charitable purposes intended, and that using resources in this way represented best value.

83. In 2015, the chair of the Accounts Commission wrote to all chief executives and council leaders highlighting the importance of good governance and to encourage councils to apply good practice more consistently across all ALEOs. Local Area Networks will continue to monitor how effectively councils are overseeing ALEOs, with audit work looking at the role of ALEOs in service delivery being considered for 2017/18.




How can we involve our communities more in local decisions?

Councillors must develop their skills and knowledge as their role becomes more complex and demanding

84. Councillors face taking increasingly difficult decisions, often needing to consider new and more complex ways of delivering services. They need to be confident in their ability to appraise new ways of working and to scrutinise operational and financial performance. This will help them carry out their role effectively in the current demanding environment. Their continuing professional development should identify the skills and knowledge they need to develop.

85. Training on scrutiny tends to be provided at the start of a political term, as part of the induction scheme for new councillors, or targeted towards councillors who sit on scrutiny committees. However, scrutiny training needs to be provided more widely. Perth and Kinross Council, for example, developed an action plan after identifying a risk in councillors appointed to ALEOs not having the appropriate skills and training.

86. Our [Borrowing and treasury management in councils \[PDF\]](#)  report found that councillors said it was often difficult to attend training due to other commitments. This was said to be particularly difficult where training courses were scheduled to last for a full day. To keep knowledge and skills up to date, councils could consider providing more training in a variety of ways to suit councillors' needs, including short briefings and online training.

87. Following local elections in 2017, the induction and training for new and re-elected councillors will be very important in helping them fulfil their role and responsibilities in an increasingly complex and challenging environment. To contribute to this, the Accounts Commission is doing more work on roles and responsibilities in 2016/17.













How well do we scrutinise decisions on financial and service performance?

How do we ensure we have the knowledge and expertise we need to scrutinise effectively?


Endnotes



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- ◀ 1 [Borrowing and treasury management in councils \[PDF\]](#) , Audit Scotland, March 2015.
 - ◀ 2 [Major capital investment in councils: follow-up \[PDF\]](#) , Audit Scotland, January 2015.
 - ◀ 3 *The Prudential Code for Capital Finance in Local Authorities*, CIPFA.
 - ◀ 4 Living Wage Foundation.
 - ◀ 5 [Health and social care integration \[PDF\]](#) , Audit Scotland, December 2015.
 - ◀ 6 [Changing models of health and social care \[PDF\]](#) , Audit Scotland, March 2016.
 - ◀ 7 [East Dunbartonshire Council: the Audit of Best Value and Community Planning – a follow-up report \[PDF\]](#) , Audit Scotland, June 2015.
 - ◀ 8 [Falkirk Council: the Audit of Best Value and Community Planning \[PDF\]](#) , Audit Scotland, August 2015.
 - ◀ 9 [Argyll and Bute Council: Best Value audit 2015 \[PDF\]](#) , Audit Scotland, December 2015.
 - ◀ 10 *Scotland's Digital Future – Delivery of Public Services*, November 2012.
 - ◀ 11 [Procurement in councils \[PDF\]](#) , Audit Scotland, April 2014.
 - ◀ 12 [How councils work: Options appraisal – are you getting it right? \[PDF\]](#) , Audit Scotland, March 2014.
 - ◀ 13 *Delivering good governance in local government, Guidance note for Scottish authorities*, SOLACE/CIPFA, 2008.
 - ◀ 14 [Conclusions on issues relating to the Lennoxton initiative \[PDF\]](#) , Audit Scotland, November 2015.

An overview of local government in Scotland 2016

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