

# Agenda



## Audit & Performance Review Committee

**Date:** Wednesday, 21 June 2017

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**Time:** 10:00

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**Venue:** Committee Room 3, Council Offices  
Garshake Road, Dumbarton

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**Contact:** Craig Stewart, Committee Officer  
Tel: 01389 737251 [craig.stewart@west-dunbarton.gov.uk](mailto:craig.stewart@west-dunbarton.gov.uk)

Dear Member

Please attend a meeting of the **Audit & Performance Review Committee** as detailed above. The business is shown on the attached agenda.

Yours faithfully

**JOYCE WHITE**

Chief Executive

**Distribution:**

Councillor Jim Brown  
Councillor Karen Conaghan  
Councillor Daniel Lennie  
Councillor Jonathan McColl  
Councillor John Millar  
Councillor John Mooney (Chair)  
Councillor Martin Rooney  
Councillor Brian Walker  
Mr SJ Doogan  
Ms E McKerry

All other Councillors for information

Chief Executive  
Strategic Director - Transformation & Public Service Reform  
Strategic Director - Regeneration, Environment & Growth  
Chief Officer of West Dunbartonshire Health & Social Care Partnership

Date of issue: 9 June 2017

## AUDIT & PERFORMANCE REVIEW COMMITTEE

WEDNESDAY, 21 JUNE 2017

### AGENDA

**1 APOLOGIES**

**2 DECLARATIONS OF INTEREST**

Members are invited to declare if they have an interest in any of the items of business on this agenda and the reasons for such declarations.

**3 INTERNAL AUDIT ANNUAL REPORT TO 31 MARCH 2017 5 – 15**

Submit report by the Strategic Lead - Resources advising of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2016/17 and advising of the Assurance Statement given to the Section 95 Officer (Strategic Lead - Resources) in support of the Statement of Internal Financial Control/ Governance Statement.

**4 CODE OF GOOD GOVERNANCE 17 – 22**

Submit report by the Strategic Lead - Resources advising of the outcome of the annual self-evaluation undertaken of the Council's compliance with its Code of Good Governance.

**5 ACCOUNTS COMMISSION REPORT: *LOCAL GOVERNMENT IN SCOTLAND – PERFORMANCE AND CHALLENGES 2017* 23 – 65**

Submit report by the Strategic Lead - Resources providing, for information and consideration, a national audit report which has been received from the Accounts Commission.

**6 AUDIT SCOTLAND REPORT: *WEST DUNBARTONSHIRE COUNCIL: REVIEW OF KEY INTERNAL CONTROLS 2016/17 – JUNE 2016* 67 – 72**

Submit report by the Strategic Lead - Resources providing for information a letter which has been received from our external auditors, Audit Scotland, and, in addition, information on management actions implemented following receipt of the letter.

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## **7      AUDIT ACTION PLANS**

**To Follow**

Submit report by the Strategic Lead - Resources advising of:-

- (a)      recently issued Internal Audit action plans; and
- (b)      progress made against action plans previously issued contained within Internal Audit and External Audit reports.

**WEST DUNBARTONSHIRE COUNCIL**

**Report by Strategic Lead – Resources**

**Audit and Performance Review Committee: 21 June 2017**

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**Subject: Internal Audit Annual Report to 31 March 2017**

**1. Purpose**

- 1.1** The purpose of this report is to advise Members of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2016/17 and to advise Members of the contents of the Assurance Statement given to the Section 95 Officer (Strategic Lead - Resources) in support of the Statement of Internal Financial Control / Governance Statement. This report outlines how audit assurances are obtained.

**2. Recommendations**

- 2.1** It is recommended that Members note the contents of this report.

**3. Background**

- 3.1** The Public Sector Internal Audit Standards (PSIAS) became effective on 1<sup>st</sup> April 2013 and require that:

*“The chief audit executive [WDC: Audit and Risk Manager] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*

*The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.*

*The annual report must incorporate:*

- *The opinion;*
- *A summary of the work that supports the opinion; and*
- *A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme”*

- 3.2** Attached at Appendix A is information on the completion of the key risk based and ICT audit elements of the Audit Plan. The Assurance Statement is included at Appendix B. A suite of Key Performance Indicators is detailed at Appendix C.

- 3.3** A six monthly progress report was provided to the Audit and Performance Review Committee during the course of 2016/17.

#### **4. Main Issues**

- 4.1** The risk based systems audits and ICT audits contained within the Audit Plan for 2016/17 are shown in the tables included at Appendix A, showing the number of agreed actions for each of these reports. The numbers in brackets denotes the number of outstanding actions as at 6 June 2017. As a result of a significant amount of investigations work to which the Internal Audit team has had to respond, four risk based audits have been rolled forward into 2017/18. This approach has been agreed in discussion with External Audit. In addition, four of the audits from the 2016/17 plan are still in the process of being completed.
- 4.2** On the basis of the key Internal Audit work performed in 2016/17 as summarised in Appendix A, it can be concluded that the Council's control procedures in key areas are operating as expected during the period under review, although it is recognised that:
- For risk based audits, 35 recommendations were made by Internal Audit to improve controls of which 20 have now been implemented;
  - For ICT audits, 8 were made by Internal Audit to improve controls of which 3 have now been implemented; and
  - Three of the outstanding recommendations are overdue – management have advised that these will be resolved shortly.
- 4.3** The Audit and Risk Manager is pleased to report good progress across the Council on audit recommendations and is of the opinion that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's systems of governance, risk management and internal control in the year to 31 March 2017. However, in relation to an ongoing audit investigation being carried out on tendering and contracting within Roads and Greenspace the audit work completed to date has highlighted a number of high risk issues. Management has been advised of these issues and has implemented appropriate interim actions to rectify them and the audit report is currently being compiled.
- 4.4** The work of Internal Audit, External Audit and external inspection agencies who reported on the Council's work has been reviewed. Assurances were sought from Strategic Directors and Strategic Leads on the implementation of action plans and recommendations and the Chief Executive, Strategic Directors and Strategic Leads have been asked to provide assurance statements to the Audit and Risk Manager, including their opinion of the control environment operating within their own service areas.
- 4.5** The Internal Audit Annual Report for 2016/17 included at Appendix B includes the Audit and Risk Manager's independent and objective opinion as to the

adequacy and effectiveness of internal controls within the Council and has informed the Council's annual Governance Statement.

**4.6** A suite of Key Performance Indicators is detailed at Appendix C.

## **5. People Implications**

**5.1** There are no people implications.

## **6. Financial and Procurement Implications**

**6.1** As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £222K have been identified during 2016/17, against a target of £150,000.

**6.2** There are procurement implications arising from this report.

## **7. Risk Analysis**

**7.1** There is a risk that failure to deliver the Internal Audit Plan would result in an inability to provide assurances over the Council's system of internal financial control to those charged with governance.

## **8. Equalities Impact Assessment (EIA)**

**8.1** There are no issues.

## **9. Consultation**

**9.1** This report has been subject to consultation with appropriate Strategic Leads.

## **10. Strategic Assessment**

**10.1** This report relates to Assuring Our Success through strong financial governance and sustainable budget management.

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Stephen West  
Strategic Lead - Resources  
Date: 6 June 2017

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**Person to Contact:** Colin McDougall, Audit and Risk Manager Telephone (01389) 737436  
E-mail: colin.mcdougall@west-dunbarton.gov.uk

**Appendix A:** Audit Plan 2016/17: Risk Based Audits and ICT Audits

<b>Appendix B:</b>	Assurance Statement for the year ended 31 March 2017 from the Audit and Risk Manager
<b>Appendix C:</b>	Key Performance Indicators
<b>Background Papers:</b>	Audit & Performance Review Committee – 9 March 2016: Internal Audit Plan 2016/17  EIA Screening
<b>Wards Affected:</b>	All wards



**APPENDIX A****Audit Plan 2016/17: Completed Risk Based and ICT Audits**

<b><u>Report Title</u></b>	<b><u>No. Of Agreed Actions</u></b>			<b><u>Comments</u></b>
	<b><u>High</u></b>	<b><u>Medium</u></b>	<b><u>Low</u></b>	
Cash and Bank	0 (0)	0 (0)	5 (0)	All actions have been completed
Payroll	0 (0)	2 (1)	1 (0)	The one o/s action is not yet due
Debtors	0 (0)	1 (1)	2 (1)	The two o/s actions are not yet due
Capital expenditure / capital programme	0 (0)	0 (0)	1 (1)	The one o/s action is not yet due
Stocks and Stores	0 (0)	2 (2)	5 (4)	The six o/s actions are not yet due
Employee Licences / Vehicle Checks	0 (0)	2 (0)	0 (0)	All actions have been completed
Emergency Payments	0 (0)	6 (1)	0 (0)	The one o/s action is not yet due
Economic Development	0 (0)	1 (0)	0 (0)	The one action identified has been completed
European Grants Programme	0 (0)	0 (0)	1 (0)	The one action identified has been completed
Home Care	0 (0)	3 (2)	1 (1)	Three of the outstanding actions are overdue – management anticipate that the actions will be completed shortly
City Deal	0 (0)	1 (0)	0 (0)	The one action identified has been completed
Fostering and adoption payments / allowances	1 (1)	0 (0)	0 (0)	The one o/s action is not yet due
Education Services IT Arrangements	0 (0)	2 (2)	1 (1)	The three o/s actions are not yet due
ICT Risk Register	0 (0)	3 (0)	0 (0)	All actions have been completed
Public access to Council IT Systems	0 (0)	0 (0)	2 (2)	The three o/s actions are not yet due
<b>TOTAL</b>	<b>1 (1)</b>	<b>23 (9)</b>	<b>19 (10)</b>	

**NB:** Figures in ( ) denote actions which remain outstanding as at 6 June 2017



**Assurance Statement for the year ended 31 March 2017**  
**from the Audit and Risk Manager**

**To the Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Strategic Lead - Resources)**

As Audit and Risk Manager of West Dunbartonshire Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Group Accounts prepared by the Council for the year ended 31 March 2017.

**Respective responsibilities of management and internal auditors in relation to internal control**

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal financial control and to monitor the continuing effectiveness of that system. It is the responsibility of the Audit and Risk Manager to provide an annual overall assessment of the robustness of the internal financial control system.

**The Council's framework of governance, risk management and internal control**

The Council has a responsibility to ensure that its business is conducted in accordance with legislation and proper standards.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and how it accounts to communities. It enables the Council to monitor the achievement of its strategic priorities and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The main objectives of the Council's internal control systems are to ensure:

- Adherence to management policies and directives in order to achieve the organisation's objectives;
- Economic, efficient, effective and safe use of resources and assets;
- The relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- Compliance with statutory requirements.

The system of internal control is a significant element of the governance framework. Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the

effectiveness of its systems of internal control in order to identify and prioritise the risks that would prevent the achievement of the Council's strategic objectives

### **The work of internal audit**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Council's Internal Audit Section operates in accordance with the *Public Sector Internal Audit Standards* (PSIAS) which have been agreed to be adopted from 1<sup>st</sup> April 2013 by the relevant public sector Internal Audit Standard setters. PSIAS applies the Institute of Internal Auditors International Standards to the UK Public Sector.

PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed in order to provide assurance that internal audit activity:

- Is conducted in accordance with an Internal Audit Charter;
- Operates in an efficient and effective manner; and
- Is perceived to be adding value and improving operations.

An internal self-assessment of internal audit practices has been carried out by the Audit and Risk Manager every year since PSIAS became effective on 1<sup>st</sup> April 2013, with improvements identified and implemented as appropriate. PSIAS also requires, as outlined in Standard 1300 "QAIP", that:

*"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation".*

To meet this requirement, a reciprocal arrangement to complete a programme of inspections has been developed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). This process identified South Lanarkshire Council as the Authority to undertake the independent review of WDC's Internal Audit function's level of compliance with PSIAS.

A report detailing the findings from the External Quality Assessment (EQA) undertaken in the period August 2015 to December 2015 by the Chief Internal Auditor of South Lanarkshire Council was submitted to the A&PRC on 9<sup>th</sup> March 2016. The recommendations contained in this report have all been implemented during 2016/17.

The Internal Audit Section undertakes an annual programme of work based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council. All Internal Audit reports

identifying system weaknesses and / or non-compliance with expected controls are brought to the attention of management and the Audit and Performance Review Committee together with appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. A programme of follow-up on assignment findings and recommendations provides assurance on the complete and timeous implementation of both internal Audit and External Audit recommendations.

Internal Audit and Corporate Fraud staff regularly attended the following external user group meetings:

- SLACIAG, the purpose of which is to develop and improve the practice of internal audit activity with Scottish local authorities. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, working in partnership with other professional / governing bodies and promoting SLACIAG as the representative body for internal audit in local authorities. The Council's Audit and Risk Manager attended three out of four of the quarterly meetings of SLACIAG during 2016/17 and also further meetings in his role as a member of the SLACIAG management committee;
- SLACIAG Computer Audit sub group: either an Auditor or the ICT Security Officer attends this forum which has the aim of ensuring that audit teams are better equipped to perform technical Information Systems auditing; and
- The Scottish Local Authority Investigators Group (SLAIG): This group consists of fraud practitioners from local authorities in Scotland, with the objectives of:
  - Raising the profile of the counter fraud agenda;
  - Sharing good practice;
  - Raising awareness of the risk of fraud; and
  - Ensuring that fraud is investigated in a professional manner.

### **Basis of Opinion**

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by Internal Audit during the year to 31 March 2017, including risk based systems audits, ICT audits, investigations, follow-up reviews and one-off exercises;
- The assessment of risk completed during reviews of the annual audit plan;

- The assurance statements signed by the Strategic Directors and Strategic Leads on the operation of the internal financial controls for the services for which they were responsible during the year to 31 March 2017;
- The assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2017;
- Reports issued by the Council's External Auditors, Audit Scotland, and other review agencies;
- My knowledge of the Council's governance, risk management and performance monitoring arrangements; and
- An ongoing audit investigation on tendering and contracting within Roads and Greenspace, for which the audit work completed to date has highlighted a number of high risk issues. Management has been advised of these issues and has implemented appropriate interim actions to rectify them.

### **Limitation to Resources or Scope of Internal Audit Work**

There were sufficient resources available to deliver the programme of audit assignments contained within the 2016/17 Audit Plan and no significant threats emerged to the independence of the internal audit activity such as inappropriate scope or resource limitations.

### **Opinion**

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's systems of governance, risk management and internal control in the year to 31 March 2017.

**Signature:** 

**Title: Audit and Risk Manager**

**Date: 29 May 2017**

**Key Performance Indicators**

<b><u>Performance Indicator</u></b>	<b><u>Target for 2016/17</u></b>	<b><u>Actual for 2016/17</u></b>
Efficiency of Adherence to Audit Plan	90%	101%
Percentage of planned risk based audits to completed by 31 May (following year end)	100%	79%
Training days per Auditor	4	2
Audits completed within budgeted days	80%	60%
Draft reports issued within 21 days of fieldwork completion	80%	80%
Final reports issued within 14 days of agreement of action plan	80%	100%
Level of full compliance with the Public Sector Internal Audit Standards (PSIAS)	100%	100%
Corporate Fraud Team – savings	£180K	£222K





**WEST DUNBARTONSHIRE COUNCIL****Report by Strategic Lead - Resources****Audit and Performance Review Committee: 21 June 2017**

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**Subject: Code of Good Governance****1. Purpose**

- 1.1** The purpose of this report is to advise Committee of the outcome of the annual self-evaluation undertaken of the Council's compliance with its Code of Good Governance.

**2. Recommendations**

- 2.1** The Committee is asked to note:

- the outcome of the recent self-evaluation process in considering how the Council currently meets the agreed Code of Good Governance; and
- the issues identified and improvement actions.

**3. Background**

- 3.1** *Delivering Good Governance in Local Government: Framework*, published by CIPFA in association with Solace in 2007, set the standard for local authority governance in the UK. CIPFA and Solace reviewed the Framework in 2015 to ensure it remained 'fit for purpose' and published a revised edition in spring 2016. The new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) applies to annual governance statements prepared for the financial year 2016/17 onwards.

- 3.2** The concept underpinning the revised Framework is that it assists local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. This Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities;
- there is sound and inclusive decision making; and
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

- 3.3** In order to demonstrate a commitment to sound governance, local authorities are encouraged to publish a governance statement on an annual basis.

- 3.4** The annual governance statement is the formal statement that recognises, records and publishes a Council's governance arrangements as defined in the CIPFA/SOLACE Framework. The statement requires to be signed off by the most senior officer [Chief Executive] and the most senior member [Council Leader]. Clearly the signatories must be satisfied that the document is supported by reliable evidence.

#### **4. Main Issues**

- 4.1** A revised local code was developed for the Council and agreed at the Audit and Performance Review Committee on 8 March 2017.
- 4.2** A Governance Report is produced annually and is based on an annual self-evaluation of compliance against the Council's Code of Good Governance.
- 4.3** The annual self-evaluation review for 2016/17 has been carried out by a group of Officers and has identified that current practice is mainly compliant against our revised Code of Governance, while identifying some areas for improvement. Areas for improvement are detailed on the attached Appendix.

#### **5. People Implications**

- 5.1** There are no personnel issues.

#### **6. Financial and Procurement Implications**

- 6.1** There are no financial or procurement implications arising from this report as all improvement actions will be managed from within existing resources.

#### **7. Risk Analysis**

- 7.1** There is a risk that a failure to maintain a local code and develop a framework to support the gathering and updating of the necessary evidence will leave the Council unable to produce a Governance Statement. The current approach to ongoing annual assessment of compliance and reporting to this Committee ensures that the Council can produce a meaningful Governance Statement.

#### **8. Equalities Impact Assessment (EIA)**

- 8.1** There are no issues identified.

#### **9. Consultation**

- 9.1** This report has been subject to consultation with appropriate Strategic Leads.

#### **10. Strategic Assessment**

- 10.1** This report relates to all five of the Council's Strategic Priorities.

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**Stephen West**  
**Strategic Lead - Resources**  
**Date: 29 May 2017**

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**Person to Contact:** Colin McDougall, Audit and Risk Manager  
Telephone (01389) 737436  
E-mail: colin.mcdougall@west-dunbarton.gov.uk

**Appendix:** Code of Good Governance - Improvement Action Plan

**Background Papers:** Report to Audit and Performance Review Committee (8 March 2017) – Revised Local Code of Good Governance

Report to Audit and Performance Review Committee (10 June 2014) - Code of Good Governance

**Wards Affected:** All Wards



## Appendix: Code of Good Governance - Improvement Action Plan

<b>No.</b>	<b>Action Required</b>	<b>Responsible Officer</b>	<b>Due Date</b>
1.	Widen scope of “whistleblowing” policy to cover issues/ suspicions raised by non-employees to be reported	Stephen West	30 June 2017
2.	Report complaints outcomes to relevant Committees, including lessons learned and changes implemented	Strategic Leads	30 June 2017
3.	Consider approach around ethical investments options	Stephen West	31 December 2017
4.	Ensure practical implementation of Procurement Policies and Guidance	Strategic Leads	30 June 2017
5.	Review and update Publication Scheme	Peter Hissett	31 December 2017
6.	Review and implement a comprehensive systematic Communication Strategy with detailed Communication Plan covering planned community engagement and consultations; including clarity on engaging with employees and their representatives; ensure the approach covers “institutional stakeholders” e.g. Trades Unions and Partner Organisations; Develop a systematic approach to public participation and feedback	Malcolm Bennie	30 September 2017
7.	Ensure that Community Planning West Dunbartonshire (CPWD) and the Local Outcome Improvement Plan maximise partnership opportunities	Malcom Bennie	31 March 2018
8.	Review Media Protocol, including a consideration of its effectiveness	Malcolm Bennie	30 September 2017
9.	Put in place revised Communications Strategy for the CPWD	Malcolm Bennie	30 September 2017
10.	Ensure a robust business intelligence support to strategic needs assessment informing strategic planning across the organisation	Malcolm Bennie	30 September 2017
11.	Review approach to ensure Sustainability issues/ assessment are reported to Members in relevant Committee reports	Stephen West	1 April 2018
12.	Improve service planning process to ensure all plans identify intended outcomes	Malcolm Bennie	31 March 2018
13.	Improve performance reporting process to ensure delivery of outcomes is reported	Malcolm Bennie	31 August 2018
14.	Ensure reporting on outcomes identifies risk to their successful delivery	Malcolm Bennie	31 March 2018
15.	Review approach in relation to Quality Standards linked to service planning process	Malcolm Bennie	31 March 2018

16.	Review overarching approach to strategic capital planning	Stephen West	31 March 2018
17.	Consider consultation protocol to ensure all aspects of aims and benefits are considered.	Malcolm Bennie	30 June 2017
18.	Refresh Options Appraisal guidance; Update Committee reporting guidance to reflect requirements for Options Appraisal and appropriate reporting.	Stephen West Peter Hessel	31 March 2018 31 March 2018
19.	Implement an engagement framework which ensures resident views inform service prioritisation	Malcolm Bennie	30 September 2017
20.	Consider approaches to identifying, reporting and monitoring partnership risk in accordance with the Partnership Risk Management Policy	Strategic Leads	30 September 2017
21.	Consider service planning approach around service flexibility issues through sensitivity analysis	Malcolm Bennie	30 September 2017
22.	Consider whether 'social value' is appropriately covered by current service planning approach	Malcolm Bennie	30 September 2017
23.	Improve approach to continuous improvement, including benchmarking and customer feedback approach, proof of "best value"; Consider whether PI's cover all key activities; Benchmarking approach requires to be wider and more systematic; and Consider approach to using cost as a performance review tool	Malcolm Bennie	30 June 2017
24.	Implement improved approach to workforce planning	Victoria Rogers	31 December 2017
25.	Review role of Audit Committee in respect of Code compliance	Stephen West	31 December 2017
26.	Refresh of Records Management Policy and identify the corporate approach to the new Data Protection requirements of the General Data Protection Regulations (GDPR), including those elements of Information Security affected by these policies and the GDPR	Peter Hessel	30 June 2018
27.	Consider approach to sensitivity analysis and optimism bias and consideration of sufficient contingency plans around major decisions	Stephen West	31 December 2017

**WEST DUNBARTONSHIRE COUNCIL****Report by Strategic Lead – Resources****Audit and Performance Review Committee: 21 June 2017**

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**Subject: Accounts Commission report: Local government in Scotland  
Performance and Challenges 2017****1. Purpose**

- 1.1** The purpose of this report is to provide Committee a national audit report, for information and consideration, which has been received from the Accounts Commission.

**2. Recommendations**

- 2.1** The Committee is invited to note and consider the report and the position of the Council in terms of the report's recommendations as detailed at 4.2.

**3. Background**

- 3.1** The report covers three areas:

- The current and future challenges facing councils;
- Councils' progress in meeting these challenges, including performance in key service areas, public satisfaction and unit costs; and
- What more councils can do to ensure they are best placed to successfully manage the changes and challenges they face.

- 3.2** This report is primarily for councillors and senior council officers as a source of information and to support them in their complex and demanding roles.

**4. Main Issues**

- 4.1** The report contains a number of key messages:

- Councils have faced significant challenges from a long-term decline in revenue funding and from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work;
- Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite

these challenges, councils' performance has been maintained or improved; and

- With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward. A councillor's role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account.

- 4.2.** The report contains a number of recommendations that councils should address. These are detailed in the table below along with WDC's position. It should be noted that another report to this Committee meeting in relation to the review of the Code of Good Governance identified a number of areas where we have recognised that some improvement is required relating to a number of areas within the recommendations in the following table in areas such as workforce planning, benchmarking and consultation processes.

<b>Report recommendation</b>	<b>WDC current position</b>
Set clear priorities supported by long-term strategies and medium term plans covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions	<ul style="list-style-type: none"> <li>• Local Outcome Improvement Plan;</li> <li>• Strategic Plan;</li> <li>• Delivery Plans;</li> <li>• Long Term Financial Strategy;</li> <li>• 10-year General Capital Plan, 5-year HRA Capital Plan;</li> <li>• HRA financial model (30 years);</li> <li>• Workforce Plans;</li> <li>• Switch Policy and Employment Policies and Plans;</li> <li>• Asset Management Plans; and</li> <li>• Performance Reporting Framework.</li> </ul>
Ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year	<ul style="list-style-type: none"> <li>• Budget setting process;</li> <li>• Budgetary control reports;</li> <li>• Long Term Financial Strategy reported annually covers 3 year projections in detail and 10 years at high level – linking directly to Council strategic plan and other policies;</li> <li>• Long Term Capital Plan; and</li> <li>• Budget setting process directly linked to long term finance strategy and requires budgets to reflect current policy and priorities as well</li> </ul>



	<p>as current cost of service provision; and</p> <ul style="list-style-type: none"> <li>• Budgetary control reports produced monthly for management from period 3 each year, with forecast outturn and variances reported and savings expected monitored as part of the budgetary control process.</li> </ul>
Have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future	<ul style="list-style-type: none"> <li>• Organisational Workforce Plan;</li> <li>• Service Workforce plans</li> <li>• Recruitment Policy; and</li> <li>• SWITCH Policy.</li> </ul>
Ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department (WDC - service) level. This will allow councils to better assess the opportunities and risks in staff changes	<ul style="list-style-type: none"> <li>• Organisational Workforce Plan;</li> <li>• Service workforce plans; and</li> <li>• Regular monitoring and reporting of workforce information (JCF; JCCs; Committee(s); PAMG).</li> </ul>
Thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes	<ul style="list-style-type: none"> <li>• Options appraisals for decisions are required for reports to Members where these are appropriate;</li> <li>• For major decisions full business cases are generally developed;</li> <li>• In setting the budget a range of efficiency options are developed for Members' consideration;</li> <li>• Change Board is in place to monitor progress of approved change options; and</li> <li>• Attainment of anticipated efficiencies is reported to Members and management through ongoing budgetary control processes.</li> </ul>
Support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources	<ul style="list-style-type: none"> <li>• Community engagement and consultation strategy</li> <li>• Citizens Panel;</li> <li>• Telephone Surveys;</li> <li>• Statutory consultation processes;</li> <li>• Staff Surveys;</li> <li>• Your Community approach;</li> <li>• Tenants Groups engagement and consultation processes;</li> <li>• Formal consultation and engagement with Trades Unions; and</li> </ul>

	<ul style="list-style-type: none"> <li>• Budget consultation processes.</li> </ul>
Ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles	<ul style="list-style-type: none"> <li>• Elected Member induction programme following Local Government elections; and</li> <li>• Ongoing Elected Member development programme.</li> </ul>
Ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas	<ul style="list-style-type: none"> <li>• Progress reports to Council of Strategic Plan and to service committees / audit committee of Delivery Plans;</li> <li>• Committee report on Local Government Benchmarking Framework;</li> <li>• Performance content on internet content;</li> <li>• Annual Performance Report;</li> <li>• Committee report on Local Government Benchmarking Framework; and</li> <li>• Public Performance Reporting.</li> </ul>
Continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice from each other	<ul style="list-style-type: none"> <li>• The Local Government Benchmarking Framework provides information which can be used to compare the Council's unit cost and performance against others so as to identify opportunities of good practice for the Council to adopt.</li> <li>• Self-Evaluation and Continuous Improvement Framework;</li> <li>• Benchmarking processes are in place across a number of services using Local Government Benchmarking Framework, APSE and other appropriate available benchmarks; and</li> <li>• Work is underway to develop benchmarking approaches to improve and widen the approach and report outcomes.</li> </ul>

## 5. People Implications

5.1 There are no direct people implications arising from this report.

## 6. Financial and Procurement Implications

6.1 There are no direct financial or procurement implications arising from this report.

## **7. Risk Analysis**

- 7.1** Taking cognisance of the key messages in the report will help councillors and senior council officers in their complex and demanding roles

## **8. Equalities Impact Assessment (EIA)**

- 8.1** There are no equalities issues arising from this report.

## **9. Consultation**

- 9.1** This report has been subject to consultation with appropriate Strategic Leads.

## **10. Strategic Assessment**

- 10.1** The report is for noting and, therefore, does not directly affect any of the strategic priorities.

.....  
**Stephen West**  
**Strategic Lead - Resources**  
**Date: 8 June 2017**

---

**Person to Contact:** Stephen West, Strategic Lead - Resources  
Council Offices, Garshake Road, Dumbarton  
Telephone (01389) 737191  
E-mail: [stephen.west@west-dunbarton.gov.uk](mailto:stephen.west@west-dunbarton.gov.uk)

**Appendix:** Accounts Commission report: *Local government in Scotland Performance and challenges 2017*

**Background Papers:** None

**Wards Affected:** All Wards



Local government in Scotland

# Performance and challenges 2017



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
March 2017

# 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-us/accounts-commission](http://www.audit-scotland.gov.uk/about-us/accounts-commission) 

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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## Links

 PDF download

 Web link

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## 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.

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

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# Chair's introduction



Scotland's councils are operating in an increasingly demanding environment. New and returning councillors face major challenges from continued reductions in their funding from the Scottish Government, and greater demands for services from an ageing population and, in parts of the country, a growing school population. The scale of these challenges mean it is more important than ever that councillors provide effective leadership in setting a clear strategy and make the difficult decisions that will be needed. We have repeatedly stressed the importance of councils having established clear priorities and effective long-term plans. As reported in our 2015/16 financial overview, only 14 councils have long-term financial strategies in place to support delivery of their wider strategic priorities. We acknowledge that annual funding settlements from the Scottish Government make this more challenging but we remain firmly of the view that the absence of indicative funding should not prevent councils from projecting future income and expenditure, and planning accordingly.

Any council tax increases in 2017 may increase public expectations of local government. Paying more for potentially fewer or reduced services will be a difficult argument to sustain, and even more so if compounded by possible increases in other charges. In our report [\*Charging for services – are you getting it right?\*](#)  (2013), we said 'charges should not be set in isolation. Any decision to vary or introduce charges should take account of the council's priorities and financial objectives; they should not be seen solely as a means of generating income'.

Councils are increasingly relying on the use of reserves to bridge projected funding gaps. Moreover, recent Best Value audits have highlighted a dependency on incremental changes to services, increasing charges and reducing employee numbers in order to make savings. These are neither sufficient nor sustainable solutions for the scale of the challenge facing councils. We stress the need for a greater openness to alternative forms of service delivery and the consequences of 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, and councils may not be able to demonstrate that they are achieving best value. The extent to which councils are evaluating their performance and appraising all available options for service delivery will be an important feature of our revised approach to auditing Best Value.

We recognise that councils are generally maintaining or improving performance in many services. But benchmarking data shows a wide variation in the cost of delivering services throughout the country, suggesting there are potential opportunities for councils to make further savings.



These are not the only challenges that councils face. They will need to respond effectively to national policy priorities in the Scottish Government's Programme for Government and, along with their partners, will need to demonstrate progress in integrating health and social care and in meeting the requirements of the Community Empowerment Act.

Local government elections in 2017 could see a significant change in elected members. Any change in leadership and administrations may delay the process of change as new priorities are established and new working relationships develop. In our recently published report, [\*Roles and working relationships in councils – Are you still getting it right?\*](#)  (2016), the Commission highlighted how local government has become much more complex and fragmented and that this additional complexity demands a broader set of skills for councillors, not only in option appraisal but also in scrutiny, audit and risk management all of which are becoming increasingly important. Councillors elected in May must have the necessary training and tools to do an increasingly complex job. We asked councils to ensure comprehensive training is in place for these key roles.

The Commission hopes that this overview report will be a helpful tool to enable councillors and officers to stand back and assess their council's progress. Indeed one of the most important documents in the next iteration of best value will be a councils self evaluation. The more effectively a council can demonstrate a high degree of self awareness of the challenges and improvements it needs to make, the better placed will be that council in becoming one that can demonstrate continuous improvement.

As always, the Commission welcomes feedback on its overview report.

**Douglas Sinclair**  
Chair of the Accounts Commission

# Summary



## Key messages

- 1** Councils have faced significant challenges from a long-term decline in revenue funding and from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work.
- 2** Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite these challenges, councils' performance has been maintained or improved.
- 3** With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward. A councillor's role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account.

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## Recommendations


### Councils should:

- set clear priorities supported by long-term strategies and medium-term plans covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions. [Exhibit 14 \(page 34\)](#) sets out the main elements of a councils' financial planning processes and how these link with other council plans
- ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good

financial management and real-time information to ensure spending is accurately forecast and monitored within the year

- have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future
- ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department level. This will allow councils to better assess the opportunities and risks in staff changes
- thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes
- support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources
- ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles
- ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas
- continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice from each other.



## About this report


**1.** This report provides a high-level, independent view of the challenges facing councils, how well they are addressing these and what more they can do. It draws on findings from [Local government in Scotland: Financial overview 2015/16](#) , local government audit work in 2016 (including annual audit reports, Best Value audit reports and national performance audits) and published performance data. All audit reports are available on our [website](#) .

**2.** This report is primarily for councillors and senior council officers as a source of information and to support them in their complex and demanding roles. It covers three areas:

- The current and future challenges facing councils.
- Councils' progress in meeting these challenges, including performance in key service areas, public satisfaction and unit costs.
- What more councils can do to ensure they are best placed to successfully manage the changes and challenges they face.

**3.** The 2017 local government elections could result in new councillors and changes to the political make-up of councils. To help councillors who are new to the role, those who are re-elected, and council officers, we have produced the following supplements to accompany this report:

- [\*A self-assessment checklist for councillors\*](#)  – this has questions that councillors could ask to help them understand their council’s position, scrutinise performance and make difficult decisions. Councillors should feel they fully understand, and are satisfied with, the answers to the questions most relevant to them in their role within the council.
- [\*Good practice supplement\*](#)  – a summary of the good practice we identified during the audit. It is not an exhaustive list of all good practice across Scotland but provides examples of councils improving performance and processes or using innovative techniques. This may be a useful source of reference for councillors or senior officers when appraising options for changes.

**4.** Councillors may also find it helpful to refer to our recently published report, [\*How councils work: Roles and working relationships in councils – are you still getting it right?\*](#) . This highlights the increasingly complex nature of local government and includes a series of questions designed to help councillors and officers review current practice and make sure governance arrangements are fit for purpose.

**5.** We refer to real-terms changes in the report, meaning that figures are adjusted for inflation, when we are showing financial information from past and future years. Our analysis of local government funding adjusts figures into 2016/17 prices to reflect the current financial year. Where the report focuses on council performance in 2015/16, figures have been adjusted to 2015/16 prices.

# Part 1

## The challenge for councils

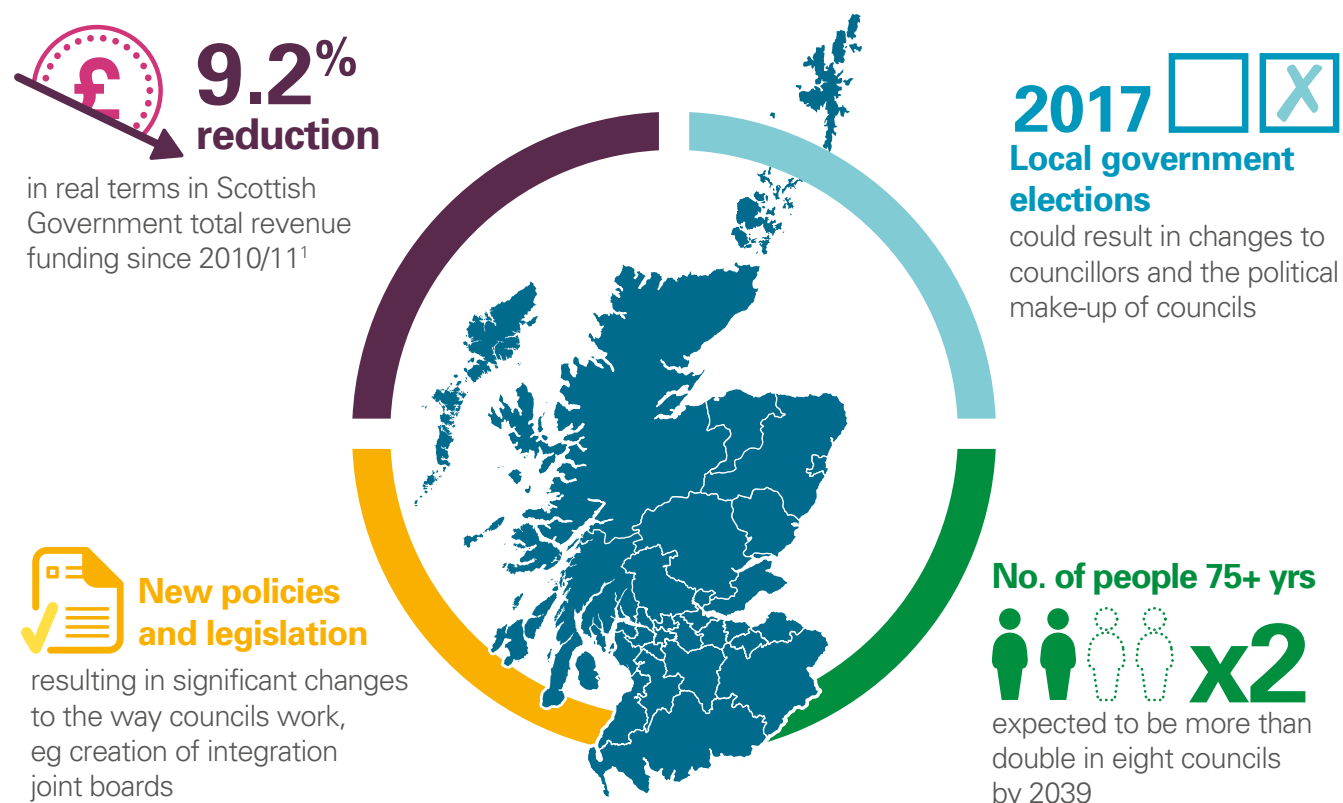


6. Councils continue to face significant financial and demographic challenges, and the scale of these continues to grow. Council budgets are under increasing pressure from a long-term decline in revenue funding (in real terms) from the Scottish Government, and council services are under pressure from an ageing and growing population. Policy and legislative requirements are also changing how councils work and the services they must deliver ([Exhibit 1](#)).

### Exhibit 1

#### The environment in which Scotland's councils are operating

Councils are facing a number of different challenges.



Note: 1. Scottish Government funding for 2017/18 is subject to Parliamentary approval.

Source: Audit Scotland

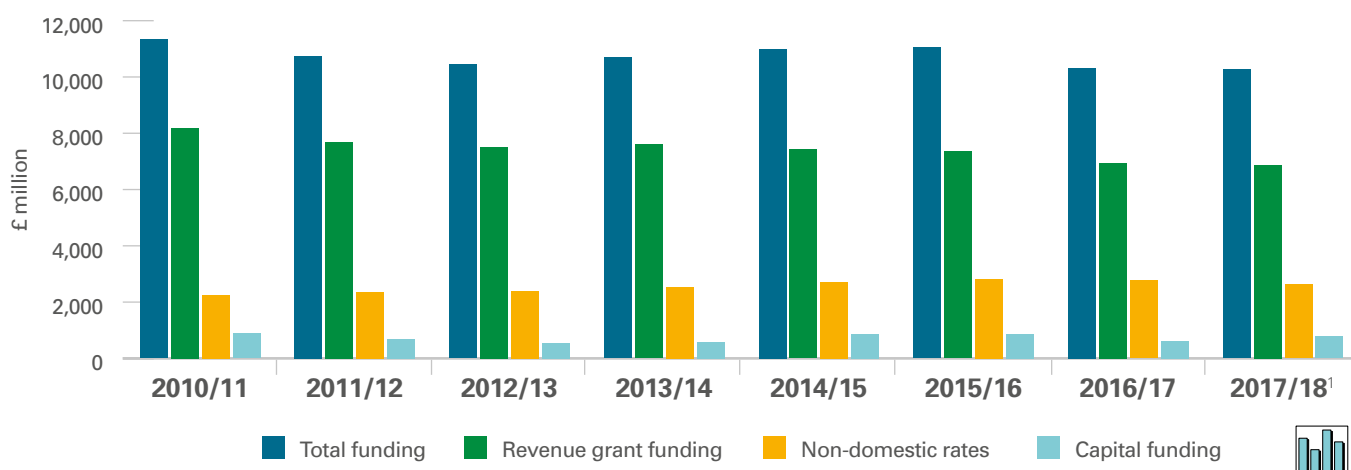
## The funding challenge for councils continues to deepen

7. Councils receive most of their income (about 60 per cent) from the Scottish Government.<sup>1</sup> We previously reported that there has been a long-term reduction in total Scottish Government revenue funding, for day-to-day spending, to local government; and that further reductions were expected.<sup>2</sup> Since then, the Scottish Government has published its 2017/18 budget and a single year local government funding settlement for 2017/18. This is subject to Parliamentary approval.

8. Based on Scottish Government proposals, between 2016/17 and 2017/18, total revenue funding from the Scottish Government will reduce by about £216 million in real terms (2.2 per cent). Both non-domestic rates and revenue grant funding will reduce, by 5.1 per cent and 1.1 per cent respectively ([Exhibit 2](#)).

### Exhibit 2

Scottish Government funding to councils from 2010/11 to that proposed in 2017/18 (at 2016/17 prices)  
The most recent local government funding settlement continues the trend of a long-term reduction in revenue funding.



Notes:

- Figures for 2017/18 are subject to Parliamentary approval.
- 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. We have also adjusted figures for specific elements of funding related to adjustments for police and fire pensions.
- Since 2013/14, Scottish Government revenue funding has included payments of about £350 million per year to fund council tax reductions, replacing council tax benefit which previously came from the UK Government.
- The 2016/17 figures do not include £250 million the Scottish Government allocated to health and social care integration authorities specifically for social care. This is an allocation from the Scottish Government health budget to NHS boards rather than councils, and NHS boards allocate funding to the integration authorities. Integration funding, including the uplifted integration funding for 2017/18 and additional £107 million primarily to support implementation of the living wage for social care staff, is also excluded from 2017/18 figures.

Source: *Local Government Finance Circulars 2011-16*, Scottish Government

9. If approved, the 2017/18 settlement means that total revenue funding will decrease by 9.2 per cent from £10.5 billion in 2010/11 to £9.5 billion in 2017/18. A 16.3 per cent decrease in revenue grant funding has been partially offset by a 16.5 per cent increase in non-domestic rate income.<sup>3</sup> The Fraser of Allander Institute predicts a total reduction of £1 billion to local government revenue funding between 2016/17 and 2020/21.<sup>4</sup>

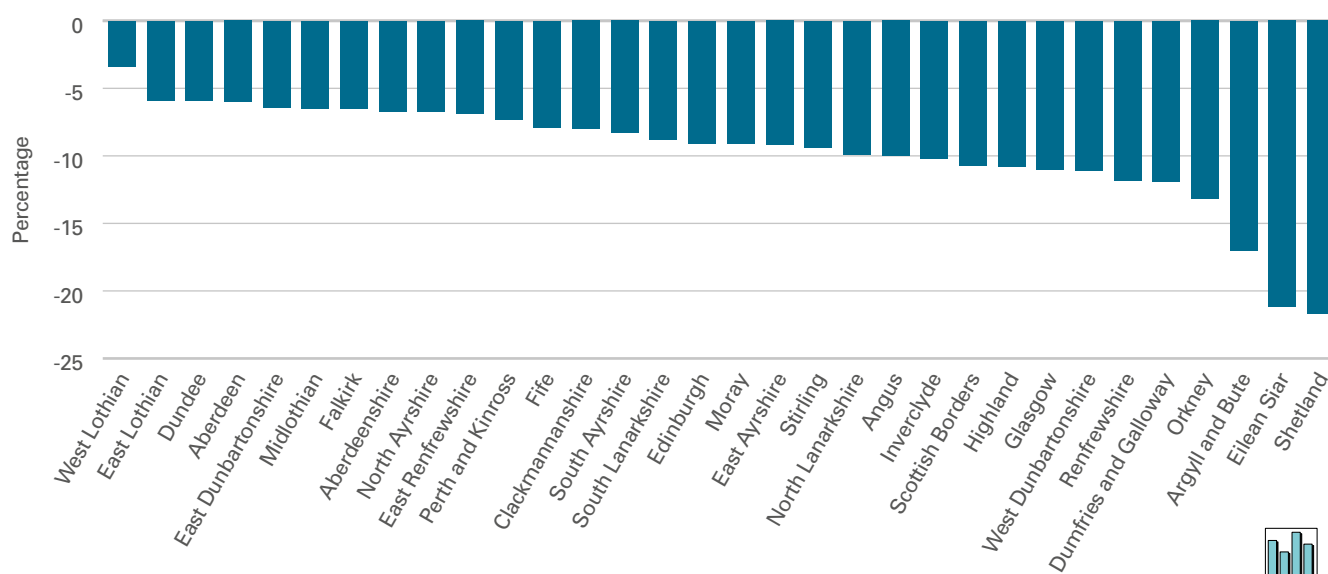
**10.** Although some elements of total revenue funding are allocated separately, such as funding for probationary teachers or elements of the council tax reduction scheme, the majority of revenue funding is distributed to individual councils. This funding is made up of non-domestic rate income, a small number of specific grants and general revenue grant funding. The Scottish Government distributes this funding to councils using a formula based on factors such as population, deprivation and rurality.

**11.** This means that not all councils have experienced the same level of reductions in funding. For example, Scottish Government funding for Comhairle nan Eilean Siar and Shetland Islands Council will reduce by over 20 per cent between 2010/11 and funding proposed in 2017/18, whereas 21 councils saw a reduction of less than ten per cent ([Exhibit 3](#)).

### Exhibit 3

#### Changes in Scottish Government revenue funding by council, 2010/11 to that proposed in 2017/18 (at 2016/17 prices)

There is wide variation in changes in revenue funding allocated to councils.



#### Notes:

- Figures for 2017/18 are subject to Parliamentary approval.
- Figures are based on the distributable elements of initial funding allocations and include grant revenue funding, non-domestic rate income and a small number of specific grants.
- 2010/11 funding has been adjusted to remove funding for police and fire. We have removed the specific police grant and the police grant element of the general revenue grant and estimated the share of distributable funding specifically for fire based upon councils' share of the total Grant Aided Expenditure and Scottish Government budget documentation.
- There are elements of distributable funding that may not feature in all years across the period.

Source: *Local Government Finance Circulars 2011-16*, Scottish Government


#### Councils' ability to increase council tax in 2017 will have a limited impact on their financial position

**12.** The Scottish Government and councils agreed to freeze council tax levels in 2007. Although the Scottish Government provided funding of £70 million each year to compensate councils financially, the freeze did limit councils' flexibility to respond to changes in demand and grant funding by varying their tax rate accordingly. The council tax freeze will be lifted from April 2017. This gives councils the opportunity to increase their council tax charges by up to three per cent a year.

**13.** Not including direct funding for the council tax relief scheme, councils raised £2.1 billion from council tax in 2015/16 (10.9 per cent of total income). If councils had the ability to increase council tax rates by three per cent in 2015/16, and all had done so, this would have marginally increased the share of total income raised from council tax by 0.3 per cent to 11.2 per cent.<sup>5</sup>

**14.** In 2017/18, any additional income raised from increasing the general rate of council tax will be supplemented by income generated because of Scottish Government reforms to higher council tax bands. As part of the 2017/18 local government funding settlement, the Scottish Government has estimated these reforms will generate £110.5 million. Due to the make-up of council funding, however, the ability to increase council tax by up to three per cent per year will continue to have a relatively limited impact on the total income available to councils.

### Education and social work make up an increasing proportion of council spending

**15.** In 2015/16, councils' net spending on services, that is spend minus service income, was £12.4 billion. Our [\*Local government in Scotland: Financial overview 2015/16\*](#)  report shows that £8.8 billion (71 per cent) of this was spent on providing education and social work services. Between 2011/12 and 2015/16, the proportion of relevant council spending on these two services increased from 69 per cent to 71 per cent. This increase is likely the result of a number of factors including:

- growing service demands, particularly on social care from an ageing population
- commitments to deliver national policy priorities, such as maintaining pupil to teacher ratios.

**16.** The proportion of spending on education and social work varies across councils, from about 60 per cent in Orkney Islands, Shetland Islands and Aberdeen City councils to about 80 per cent in Clackmannanshire Council. This could have implications for where councils can make future savings, particularly once charges associated with privately financed assets (via the Public Finance Initiative, Public Private Partnership and Non-profit distributing models) and debt repayment costs are factored in.

**17.** Analysis by Inverclyde Council in April 2016 shows that, of its £190 million spending in 2016/17, £145 million is on education and social work or on areas the council considers protected. This leaves £45 million to spend on other services such as roads, environmental services and corporate services. The council has estimated that it needs to make savings of £25.8 million between 2017/18 and 2019/20. Even if it makes five per cent of savings in education, social work and other protected budgets, it will potentially need to make savings of over 40 per cent in other service budgets such as roads and environmental services.

**18.** Research on Scotland's 2016 budget analysed the impact on other council services of the Scottish Government's commitment to protect areas such as healthcare and childcare spending. It found that other services could face average reductions of ten to 17 per cent over the next four years.<sup>6</sup>

**19.** Increasing demand for education and social care services from population change and national initiatives may make it harder for councils to control spending in these two services. Indeed, about a third of councils overspent their social



care budgets in 2015/16. However, these services do need to be included in councils' discussions on savings as it is possible to make savings and improve performance. We have previously reported that a group of seven councils decreased spending on education by more than five per cent between 2010/11 and 2012/13, while their percentage of S4 pupils achieving five awards at level five increased by more than the national average.<sup>7</sup>

## **Councils face further challenges from a growing and ageing population**

**20.** Predictions of population change suggest that, if all other things remain the same, councils will continue to spend an increasing proportion of their budgets on education and, through integration joint boards, on social work. Between 2014 and 2039, the number of children (defined as aged 0-15) is expected to increase by 1.4 per cent to about 924,000; and the number of people aged 75 and over by 85 per cent to over 800,000.

**21.** The challenge of population change is expected to vary across the country. Some councils will see their total populations falling while the number of people aged 75 and over will increase. For example, Comhairle nan Eilean Siar's population is expected to fall by 14 per cent by 2039 with an increase of 64 per cent of residents who are aged 75 and over. In other councils, the whole population is projected to increase. The number of people aged 75 and over is expected to more than double in eight councils by 2039.<sup>8</sup> This is likely to have a significant impact on demand for health and social care services. The number of people aged 15 and under is expected to increase by 25 per cent in Midlothian Council and decrease by 28 per cent in Comhairle nan Eilean Siar over the same period ([Exhibit 4, page 14](#)).

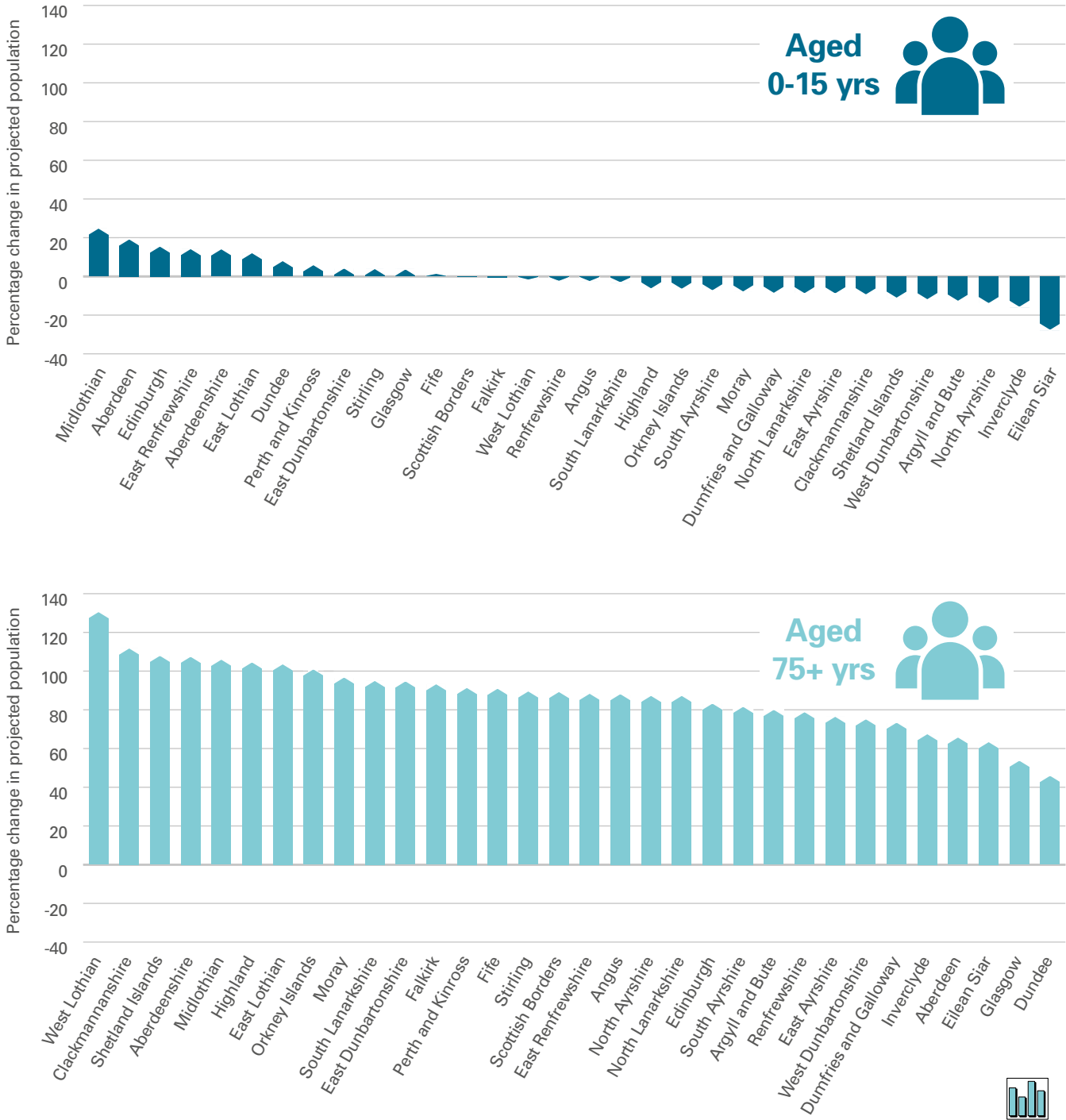
## **The environment within which councils operate is changing**

**22.** Legislative and policy changes affect the way councils work. Councils will have to implement and manage significant legislative and national policy changes initiated by the Scottish Government, although some of the detail is still not clear ([Exhibit 5, page 15](#)). Some of these changes, such as the creation of integration joint boards (IJBs), have already fundamentally altered the role of councils. Some change the relationship between councils and the Scottish Government, NHS boards and local communities. While these changes provide opportunities for positive change, implementing them will require council capacity in terms of staff time, knowledge and skills. Additional funding may also be required, at least in the short term.

**23.** Councils also face further challenges and uncertainties:

- The United Kingdom's decision to leave the European Union will have an impact on councils' work. It is unclear what impact it will have and where, but some councils are starting to plan for a number of scenarios.
- The Scottish Government is currently considering a local democracy bill. This is still at an early stage so the details and impact on councils are not known.
- Equal pay remains an issue across local government. We are auditing equal pay in councils and will publish a report later in 2017.

**Exhibit 4**  
Projected percentage change in population, 2014 to 2039  
The projected change in population varies significantly by council.



Source: National Records Scotland, 2016

## Exhibit 5

### Ongoing and planned legislative and policy changes

Councils will have to change the way they work to successfully implement a wide range of reforms.

#### Legislative and policy changes



##### Public Bodies (Joint Working) (Scotland) Act 2014

Councils and NHS boards must integrate health and social care services. Almost all councils have chosen to do this by creating an integration joint board (IJB) with their NHS partners to commission health and social services through joint budgets.<sup>1</sup> Councils will no longer be wholly responsible for adult social work services.

##### Opportunity

- Fully integrate health and social care services to meet the Scottish Government's 2020 Vision of people living longer at home and more health and social care in local communities.
- To provide services which are better targeted to local communities.

##### Challenge

- Agreeing and managing budgets for the IJBs at a time of reduced funding and an ageing population.
- Agreeing how governance in IJBs will work in practice, including lines of accountability, systems and process for decision-making and managing performance.
- Ensuring continuity of progress after the 2017 local government election.
- Promoting public understanding and managing expectations.
- Localities and locality planning are defined differently in the Public Bodies Act and the Community Empowerment Act. This could lead to confusion.



##### Living Wage

Scottish Government commitment to replace the minimum wage (£7.20 an hour) with a living wage (£8.25 an hour) from 1 October 2016.

##### Opportunity

- Reduce inequalities.
- Provide financial benefits for low-paid workers.
- Improve recruitment and retention.

##### Challenge

- Significant increases in employee costs and the costs of some contracts, notably for social care. Costs could become unaffordable. The potential cost for councils of the Living Wage for social care workers is £199 million a year by 2019/20.<sup>2</sup>
- Impact on existing pay structures means new pay models may need to be developed.



##### Community Empowerment (Scotland) Act 2015

To help empower community bodies and ensure communities are involved in planning and decision-making.

##### Opportunity

- Improve outcomes for communities by improving the process of community planning and ensuring local service providers work more closely with communities to meet the needs of the people who use services.

##### Challenge

- Requires new ways of working – councils and other public bodies need to promote and involve communities in local decisions and activities. This includes decisions about how a council's money should be used, including a target of one per cent of all council spending being decided by communities.<sup>3</sup>
- Engaging with harder-to-reach groups could be challenging and expensive, particularly for rural councils.
- Duty to tackle inequalities at a time of budgetary pressures.
- Councils must focus on local community planning and contribute to developing Local Outcome Improvement Plans. This has resource issues.
- Localities and locality planning are defined differently in the Public Bodies Act and the Community Empowerment Act. This could lead to confusion.

## Exhibit 5 (continued)

### Legislative and policy changes



#### Education reform

Additional funding from Scottish Government will be targeted at specific schools to help close the attainment gap (ie, differences in pupil performance in richer and poorer areas). Attainment challenge funding will also go to councils.

#### Opportunity

- Additional money for education and potential increased flexibility for using money.

#### Challenge

- The additional money is to go to head teachers in some schools, removing some decisions about resources from councils.
- Proposed changes to education funding model are causing uncertainty and have an impact on longer-term planning.



#### City Deals

UK and Scottish Government funding initiative which provides significant funding to city regions to develop infrastructure and economy in line with agreed plans.

#### Opportunity

- Economic growth and improved outcomes for communities.
- Councils could benefit from investment in infrastructure such as roads, technology, housing and transport.

#### Challenge

- Requires partnership working with a wide range of public and private partners.
- Governance arrangements, such as roles, responsibilities, accountability and performance reporting, will need to be determined.
- Ensuring continuity of progress after the 2017 local government elections.
- May take longer for some, particularly rural, councils to see benefits.



#### Community Justice (Scotland) Act 2016

Changes arrangements for managing community justice services and creates a new national body, Community Justice Scotland, to be formally established on 1 April 2017.

#### Opportunity

- Integrating community justice planning with wider community planning.
- Improved outcomes for communities and people at risk of offending.

#### Challenge

- Replace eight Community Justice Authorities with community justice governance structures within each Community Planning Partnership.
- Councils are expected to consult with other community justice partners when developing community justice outcome improvement plans to ensure consistency.



#### Named Person provisions

The Scottish Government plans to implement a Named Person service for every child or young person in Scotland. This means that every child will have someone who is responsible for helping them get the support they need. This is expected to start in August 2017.

#### Opportunity

- To promote, support or safeguard the wellbeing of children and young people.

#### Challenge

- Head teachers, deputy head teachers or guidance teachers could be the Named Person for a large number of school-aged children but it is unclear if a limit applies to the number of children assigned to each Named Person.
- Detailed arrangements for how the Named Person will function during school holidays will be left to councils to organise, with the intention being that they build on current practice.
- There may be an impact on teachers' workloads and councils must ensure that people have the skills to deliver the Named Person service.

## Exhibit 5 (continued)

### Legislative and policy changes



#### Early learning and childcare (ELC)

Scottish Government commitment to increase access to funded hours of high-quality and flexible early learning and childcare. Includes plans to increase the entitlement to 1,140 hours per year by August 2020.

#### Opportunity

- To improve outcomes for children, especially those who are most vulnerable.
- To support parents to work, train or study, especially those who need routes into sustainable employment and out of poverty.

#### Challenge

- Councils will need to assess demand, and commission and provide flexible services.
- Councils, private and third sector ELC providers may face challenges in expanding workforces and extending buildings and facilities.



#### Council tax reform

Removal of council tax freeze and increases to the ratios for higher-banded properties.

#### Opportunity

- Removing the council tax freeze will give councils greater control over their income.
- Increased ratios for higher-banded properties will provide additional council tax income.


#### Challenge

- The changes to ratios will lead to increased charges of over 20 per cent for properties within the highest band. However, residents could be paying more for the same level of services which could be a difficult message for councils to manage.



We are carrying out performance audits in these areas later in 2017/18.

#### Notes:

1. Some have also included children's services and community justice services in their IJBs. NHS Highland and Highland Council are the only partners to not create an IJB. They are continuing with lead agency arrangements whereby NHS Highland leads on adult health and care services, with Highland Council leading on children's community health and social care services. These arrangements have been in place since 2012.
2. [Social work in Scotland](#) , Audit Scotland, September 2016.
3. *A Plan For Scotland: the Scottish Government's Programme for Scotland 2016-17*, Scottish Government, September 2016.

Source: Audit Scotland


# Part 2

## Councils' responses to the challenges



### Councils have reduced staff numbers to save money but many do not have workforce plans

#### Councils' workforce has fallen by seven per cent in the last five years

**24.** Councils spend a significant amount on staff and staff-related costs. Most councils have reduced their workforces as a way to reduce costs. Our [Local government in Scotland: Financial overview 2015/16](#)  highlighted that, between 2011/12 and 2015/16, 13,029 individuals left councils through exit packages costing a total of £518.5 million (at 2015/16 prices). Councils' decisions to reduce their workforce numbers through exit packages should be supported by business cases that outline:

- associated costs
- potential savings
- the impact that this will have on the level of skills and experience within the council.

**25.** At March 2016, approximately 198,000 full-time equivalent (FTE) employees worked in Scotland's councils. Between 2011 and 2016, 27 councils reduced their number of FTE employees and councils' total workforce fell by 15,100 FTE (seven per cent).<sup>9</sup> In the last year, 14 councils reduced their number of FTEs, with councils' total workforce reduced by 2,700 (one per cent) ([Exhibit 6, page 19](#)). From the data that is collected centrally by the Scottish Government, it is not clear how many of these moved to arm's-length external organisations (ALEOs).<sup>10</sup>

#### Only half of councils have organisation-wide workforce plans, risking their ability to deliver services and manage change

**26.** Reducing council workforces, if not planned and managed appropriately, can affect the skills mix and capacity of the organisation to deliver, manage and scrutinise services effectively. Councils should have effective systems in place for managing their workforce and monitoring staffing levels. Councils should hold accurate information on staff numbers by grade and department to help them prepare and implement organisation-wide workforce plans. These should be aligned with other long-term plans such as financial plans.



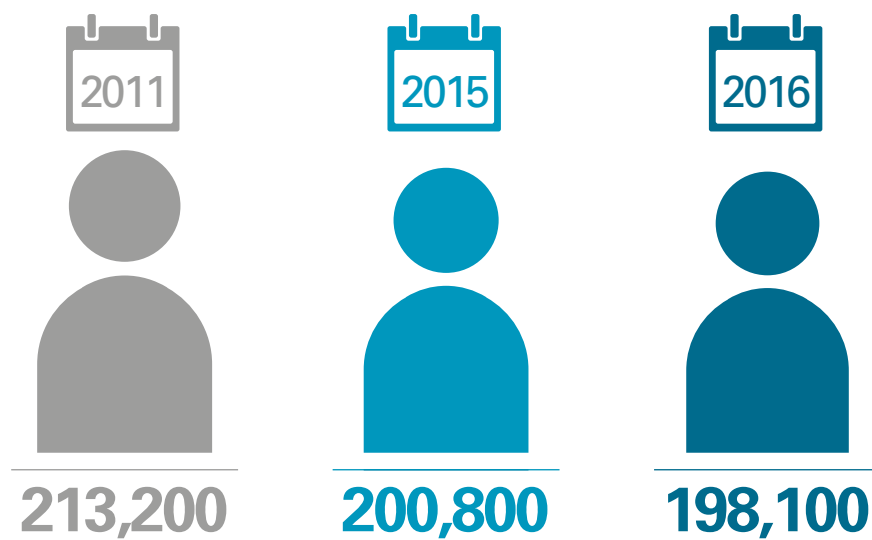
**What do you need the workforce to look like in terms of numbers, skills and knowledge?**

**Does your workforce data allow accurate analysis of changes to the workforce at an organisation and department level?**

## Exhibit 6

Number of full-time equivalent employees in councils in 2011, 2015 and 2016

Councils reduced their workforce by seven per cent between 2011 and 2016.




Source: *Public Sector Employment in Scotland*, Scottish Government, 2016

**27.** Half of Scotland's councils do not have organisation-wide workforce plans in place. For those that do, the quality of these varies and they do not all include information on:

- the numbers and skills of the current workforce
- the numbers, costs and skills of the desired workforce
- how the move from the current to the desired workforce will be achieved.<sup>11</sup>

**28.** Where comprehensive organisation-wide workforce plans are not in place, councils risk losing capacity in key areas. For example:

- Our report *Maintaining Scotland's roads: a follow-up report*  highlighted concerns about a loss of technical and commercial expertise within roads maintenance departments.<sup>12</sup>
- Auditors for East Dunbartonshire Council raised concerns about the capacity within both the finance and the revenue and benefits teams. Within these teams, staff reductions and changes have led to individual officers having sole responsibility for, and knowledge of, certain areas of work.

**29.** National initiatives impact on workforce planning. The Scottish Government's commitment to maintaining teacher to pupil ratios means councils cannot reduce the number of teachers below a certain level. This limits councils' flexibility to reduce staff numbers among a sizeable proportion of staff. The planned expansion of early learning and childcare could mean councils either have to redeploy staff or recruit additional early years workers.



**Do you have an organisation-wide workforce plan with realistic targets and timescales for meeting objectives?**

**Do you think your organisation-wide workforce plan will ensure staff reductions do not have a negative impact on the skills mix and ability of your council to scrutinise, manage and deliver services effectively?**



**30.** The absence of organisation-wide workforce plans means that it is harder for councils to manage workforce changes effectively and ensure that they have the right number of staff with appropriate skills and experience throughout the organisation. This is particularly important given the scale of the challenges and policy and legislative changes councils face. Councils must ensure they have the capacity to manage change and deliver services effectively.

### **Councils have the potential to further reduce staff sickness absence**

**31.** Reducing staff sickness absence increases a council's capacity. Nationally, the average number of sickness days for all council staff (excluding teachers) reduced between 2010/11 and 2015/16; however, there is variation across councils. In 2015/16, sickness absence per non-teaching employee varied across councils from an average of 8.8 days a year in Aberdeenshire Council to 14.8 days a year in Comhairle nan Eilean Siar. If councils with high absence levels could reduce these to be in line with the top eight performing councils, they would gain the equivalent staff time of about 650 full-time employees across Scotland. This is a reduction of about ten per cent since 2014/15.

**32.** Sickness absence also varied among teachers in 2015/16, from an average of 4.2 days a year in Midlothian Council to 8.7 days a year in Perth and Kinross Council. If councils with high teacher absences could reduce these to be in line with the top eight performing councils, they would gain the equivalent staff time of over 160 full-time teachers across Scotland. This is a reduction of about 18 per cent since 2014/15.

## **The pace and scale of reform need to increase**

### **Councils approved savings of over £500 million in 2016/17**

**33.** Councils have managed their finances well so far in responding to the pressures they face.<sup>13</sup> In 2016/17, councils approved £524 million of savings and intended to use £79 million of reserves to balance their budgets and meet their funding gaps. Evidence from annual audit reports shows that some councils have made better progress than others. For example, Midlothian Council did not achieve its savings target in 2015/16 and auditors reported that there is a risk that Orkney Islands Council will have to rely heavily on reserves to achieve its target savings. In contrast, auditors highlight the good track record of Inverclyde Council in delivering efficiency savings and note that Renfrewshire Council is expected to make significant savings. East Ayrshire Council has made savings of over £34 million in the five years to 2016/17.

### **Councils are adopting a range of approaches to deliver savings**

**34.** Councils are adopting a range of approaches to address their forecasted gap in funding ([Exhibit 7, page 21](#)). While there is some evidence of positive change delivering better services for less money, there is limited progress in other areas.

### **Some councils are better placed to meet future challenges than others**

**35.** Looking forward, councils are predicting significant funding gaps up to 2018/19. Using information available at the time councils were setting their 2016/17 budgets, we estimated that councils would have funding gaps of £358 million in 2017/18 and £544 million in 2018/19.<sup>14</sup> These figures are likely to change as councils approve their 2017/18 budgets and continue to identify and deliver savings. However, they do demonstrate the scale of the challenge facing councils.



**Do you have the staff and skills necessary to manage change and deliver services?**

**Do you need to invest in any skills, for example, change management?**



## Exhibit 7

### Councils have been adopting different approaches to make savings






There is little evidence of progress in some areas but there are also examples of positive change.





Key fact



Good practice

Council approach	Progress
 Sharing services	<p><b>Key fact</b> In 2007, the Scottish Government published guidance relating to shared services. Ten years later, there is limited evidence of councils sharing services. Evidence suggests that most shared services are on a small scale and for back office functions.</p>
	<p><b>Good practice</b> East Dunbartonshire, Inverclyde, and West Dunbartonshire councils are exploring opportunities to share a range of services, beginning with roads and transportation services. In February 2016, the councils estimated that they may be able to generate recurring savings of about £3.5 million by 2020 (15 per cent of current spending on these services).</p> <p>When councils are considering sharing services, it is important that they have mutually understood and compatible objectives. Differing objectives can be a barrier to sharing services. Councils, together with their citizens, need to agree what their primary aims are, for example reducing costs or improving customer experience, or both.</p>
 Using ALEOs	<p><b>Key fact</b> Arm's-length external organisations (ALEOs) can provide services more flexibly than councils, generate income and deliver savings.</p>
	<p><b>Key fact</b> Evidence suggests that the number of council ALEOs has reduced slightly in 2016 from about 140 to 130. ALEOs provide a range of services across Scotland, with around one third providing leisure and culture services.</p> <p>We are planning to undertake an audit of ALEOs later in 2017.</p>
 Using digital and online solutions	<p><b>Key fact</b> Digital and on-line solutions provide opportunities for councils to significantly reduce costs. The estimated cost of a face-to-face visit is £8.21, a telephone call is £2.59 and an online transaction is £0.09.<sup>1</sup></p>
	<p><b>Good practice</b> Glasgow City Council has launched a myglasgow app and a new website which allows users to access or request services online (for example, request a bulk uplift). This is expected to deliver savings of £3 million a year and improve the customer experience.</p> <p>In recognition that more could be done, 27 councils have recently appointed a chief digital officer and chief technology officer to drive change across local services. It is too early to judge the success of this initiative.</p>
 Increasing fees and charges	<p>Increasing fees and charges is one way councils can increase their income. National information is not available on changes to charges and fees although there is some evidence of increases in charges in the last year. For example, research by Citizens Advice Scotland shows that burial charges increased by eight per cent between 2015 and 2016.</p>
	<p>There is evidence of councils reducing front-line services.</p>
 Reducing/restricting services	<p><b>Key fact</b> Most councils, through IJBs, now only provide adult social care to people assessed as being of critical and substantial risk. This has reduced the percentage of older people receiving homecare between 2006 and 2015, from just under 70 per 1,000 population to 50 per 1,000. While this has saved councils money in the short term, there is a risk that removing more preventative services will cost more in the longer term.</p>
	<p>In education, Dundee City Council has closed a high school, saving £756,000. Aberdeen City Council has saved £440,000 a year by removing class size limits for S1 and S2 maths and English classes.</p>

## Exhibit 7 (continued)

Council approach	Progress
 <b>Improving procurement</b>	 Councils have made significant savings in the cost of homecare and care homes through competitive tendering and the national care home contract.
	 Through service redesign, councils are also procuring new models of care. For example, in East Ayrshire Council, changes to its model of care for supported living from 24-hour care per person to more flexible care that promotes independence has saved the council almost £500,000 in 2016/17 (about 40 per cent of costs). The council also reports improved service user satisfaction.
	<p>All councils have signed up to Scotland Excel, the Centre of Procurement Expertise for the local government sector.</p>

Note: 1. 2012/13 figures for councils published by the Society of Information Technology Management (Soctim)

Source: Audit Scotland

**36.** In response, many councils have established corporate change, or transformation, programmes. These are significant council-wide programmes that look at what services councils provide and how they are delivered to identify how a council can save money and improve services. It is clear that some councils are taking a strategic approach and looking at what services they provide as a whole. Others are not. Rather, they are making individual departments responsible for identifying an equal proportion of desired savings. Evidence from annual audit reports shows that some councils are making faster progress than others. For example, Fife Council is still developing its change programme; progress is slow in Clackmannanshire Council; and behind schedule in East Dunbartonshire Council. In contrast, East Ayrshire Council is now working on its second transformation programme.

**37.** Best Value reports also raise concern over the pace of change and the small-scale nature of savings to date. For example, in Falkirk Council, the pace of change remains slow and the council needs to urgently agree its priorities and identify significant savings over the next two years.<sup>15</sup>

**38.** Some councils have lacked capacity to manage their corporate change and transformation programmes. In response, councils, through the Improvement Service, have established the Change Managers Network to support the exchange of skills, knowledge and practice to build capacity in corporate change. As part of councils' financial and savings plans, councils should actively consider options for investing to save such as investing in change management skills.

### Effective leadership is required to explore all options for change

**39.** Effective leadership is required to set a clear strategy for how the council will achieve its priorities and outcomes, and make the difficult decisions that will be needed. Councillors must set the strategy and officers must work up options to implement the change required. The importance of effective leadership has been

demonstrated in our Best Value audit work. For example, South Ayrshire Council has made considerable progress in delivering improvements and meeting financial challenges as a result of effective political and managerial leadership.<sup>16</sup>

**40.** Comprehensive option appraisals, risk assessments and scrutiny are required to assess options for change and to monitor the impact and progress. Auditors at Stirling Council reported that the council has a project-driven approach where all projects need to be fully backed up by business cases and completed option appraisals before a decision is taken. Options are effectively challenged throughout the process to ensure that they are achievable and that the project provides value for money. Evidence also suggests that South Ayrshire Council has a robust system in place to review and improve services ([Case study 1](#)). However, it is a mixed picture in other councils. In Falkirk Council, auditors reported a good level of scrutiny and challenge by councillors. But they also noted a lack of detailed reporting on anticipated and achieved outcomes, with no process in place for providing updates on all projects.



**How well do you scrutinise decisions on financial and service performance?**

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

## Case study 1

### South Ayrshire Council



The council has developed a comprehensive review system to help approve and reform services. This follows a nine-step process and includes topic selection, approval, consultations and options appraisal. The reviews and consultation procedures involve staff at all levels, trade unions and service users.

Through this approach, the council has reported that it is starting to achieve positive results. For example, in April 2015, the council carried out a property maintenance service review that concluded that there has been an overall average increase in productivity of staff of 15 per cent from 2014; and an increase in the number of jobs completed on time, from 68 per cent in 2013/14 to 87 per cent in 2015/16.

Source: Audit reports

## Despite challenges, performance has been maintained or improved

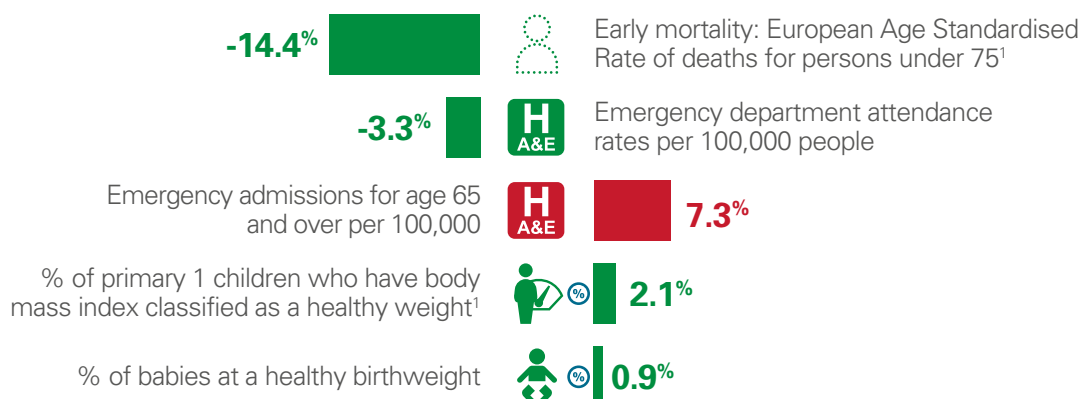
**41.** The Improvement Service reports on progress against 18 outcomes, supported by 16 performance measures, through the Community Planning Outcomes Profile. This is a new tool which allows outcomes and equalities data to be measured on a consistent basis. Councils need to work with partners and communities through, for example, community planning partnerships (CPPs) and integration joint boards (IJBs) to improve outcomes for communities. Changes in outcomes will be influenced by factors wider than council activity so cannot be solely linked to council activity. The 16 performance measures suggest that outcomes are generally improving across Scotland ([Exhibit 8, page 24](#)).

## Exhibit 8

### Changes in performance measures for Scotland's outcomes, 2004/05 to 2014/15

Performance measures suggest that outcomes for Scotland's communities are generally improving.

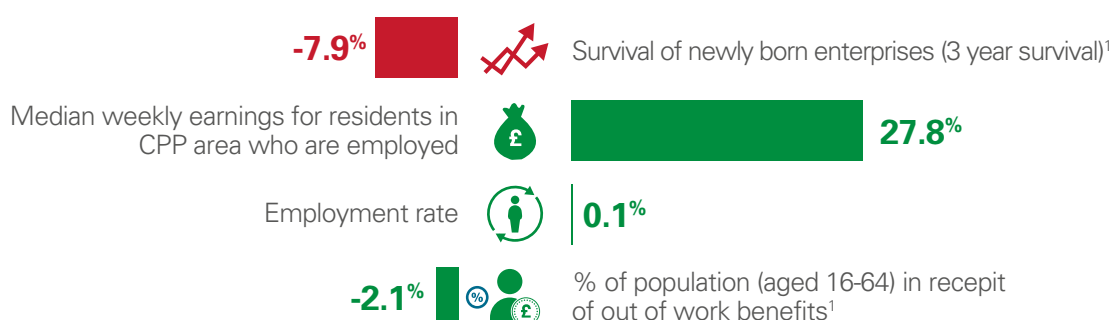
#### Health



#### Education



#### Employment



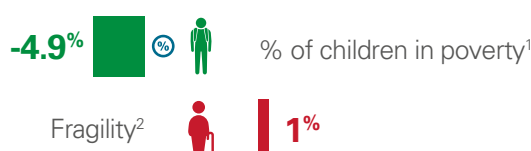
#### Environment



#### Community safety



#### Other



Percentage point change – raw data is not available therefore absolute changes are shown.

#### Notes:

1. Imputed and projected data has been calculated using different methodologies for different measures where raw data is not yet available.
2. Fragility is a weighted combination of three indicators: de-population, rural de-population and old age dependency ratio.

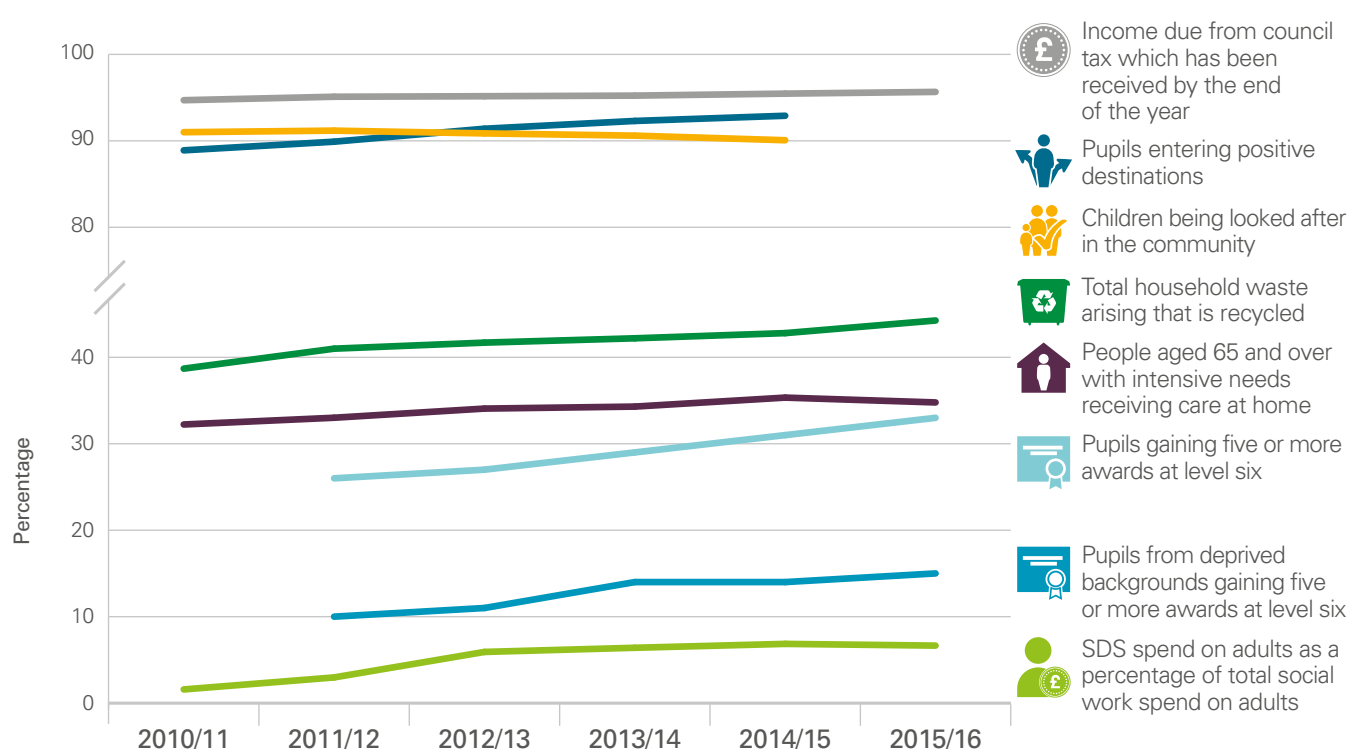
Source: Audit Scotland; and *Community planning outcomes profile*, Improvement Service, 2014/15

**42.** The Improvement Service, in partnership with councils, collates and reports on the Local Government Benchmarking Framework (LGBF) to provide information for councils to improve performance and costs. The framework covers a range of over 60 performance indicators covering a wide range of areas. We have selected those measures which give an indication of council performance in key service areas for the public.<sup>17</sup> This shows that councils' performance in the last five years has been maintained or improved ([Exhibit 9](#)).

## Exhibit 9

### Performance against selected indicators, 2010/11 to 2015/16

Councils' performance has been maintained or improved over the last five years.



#### Notes:

1. Data is not available for all indicators for 2010/11 to 2015/16.
2. We have not included measures of public satisfaction or cost indicators in this analysis.

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

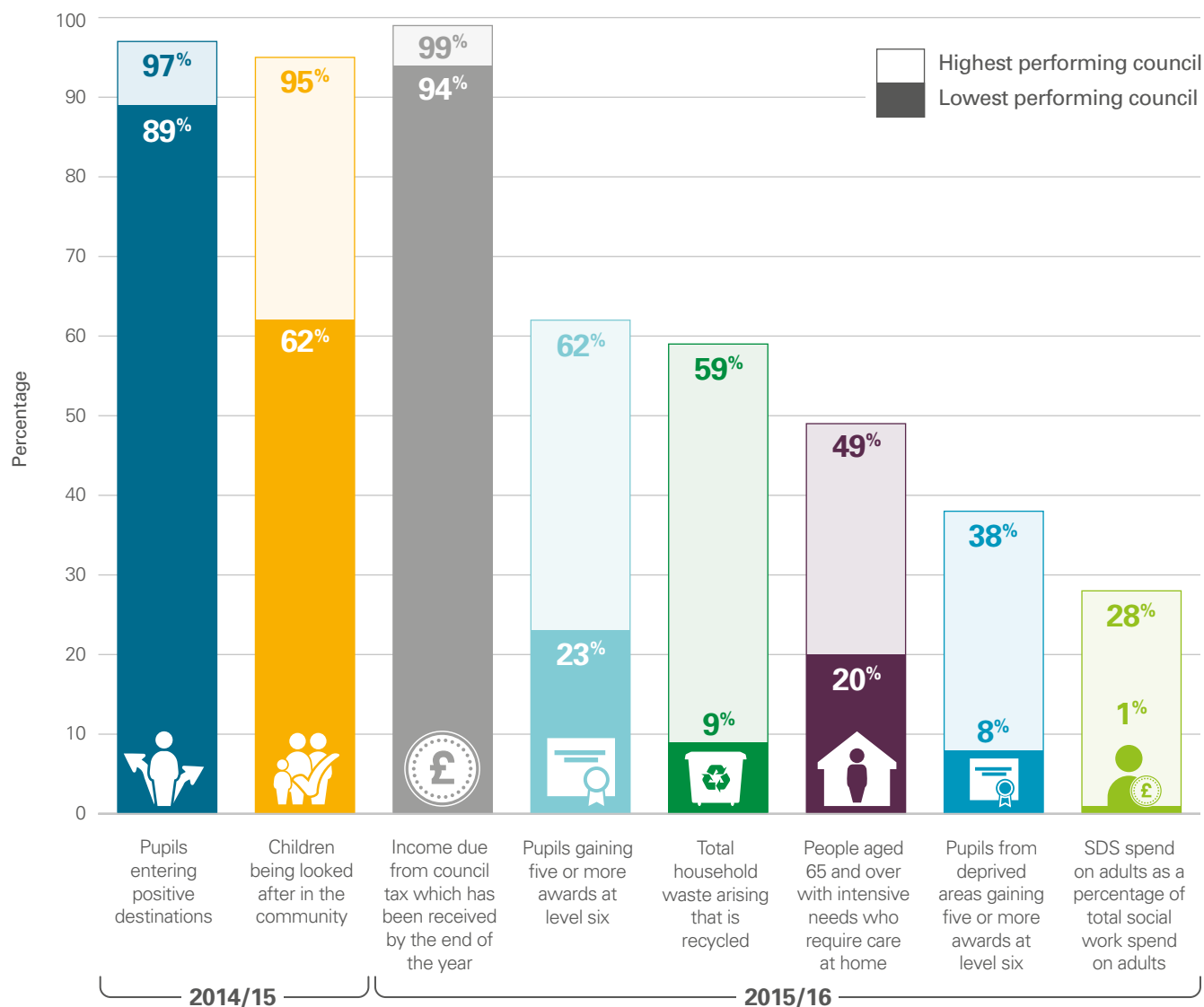


**43.** Analysis also shows significant variation in performance among councils ([Exhibit 10, page 26](#)). The amount of waste recycled and the percentage of pupils gaining five or more awards at level six show the biggest variation. However, there is also variation in social care indicators. There may be valid reasons for some of this variation; however, councils need to work to understand reasons for any lower performance in these measures, learn what has been successful in other councils and apply these lessons to their own services.

## Exhibit 10

### Variation in highest and lowest performing councils

There is significant variation in council performance in most performance measures.



Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

### Some unit costs have reduced but there is variation across councils

**44.** We have also analysed selected unit cost indicators over the last five years ([Exhibit 11, page 27](#)). The unit costs of these selected indicators have all reduced over the last five years. Some culture and leisure unit costs reduced by around one-third whilst education unit costs reduced by less than ten per cent.

**45.** The cost of providing similar services varies between councils. In some cases, cost variation will be heavily influenced by geography, population density and deprivation. The Local Government Benchmarking Framework has placed councils with similar profiles into family groups based on factors such as population density and levels of deprivation. This allows similar councils to compare themselves.

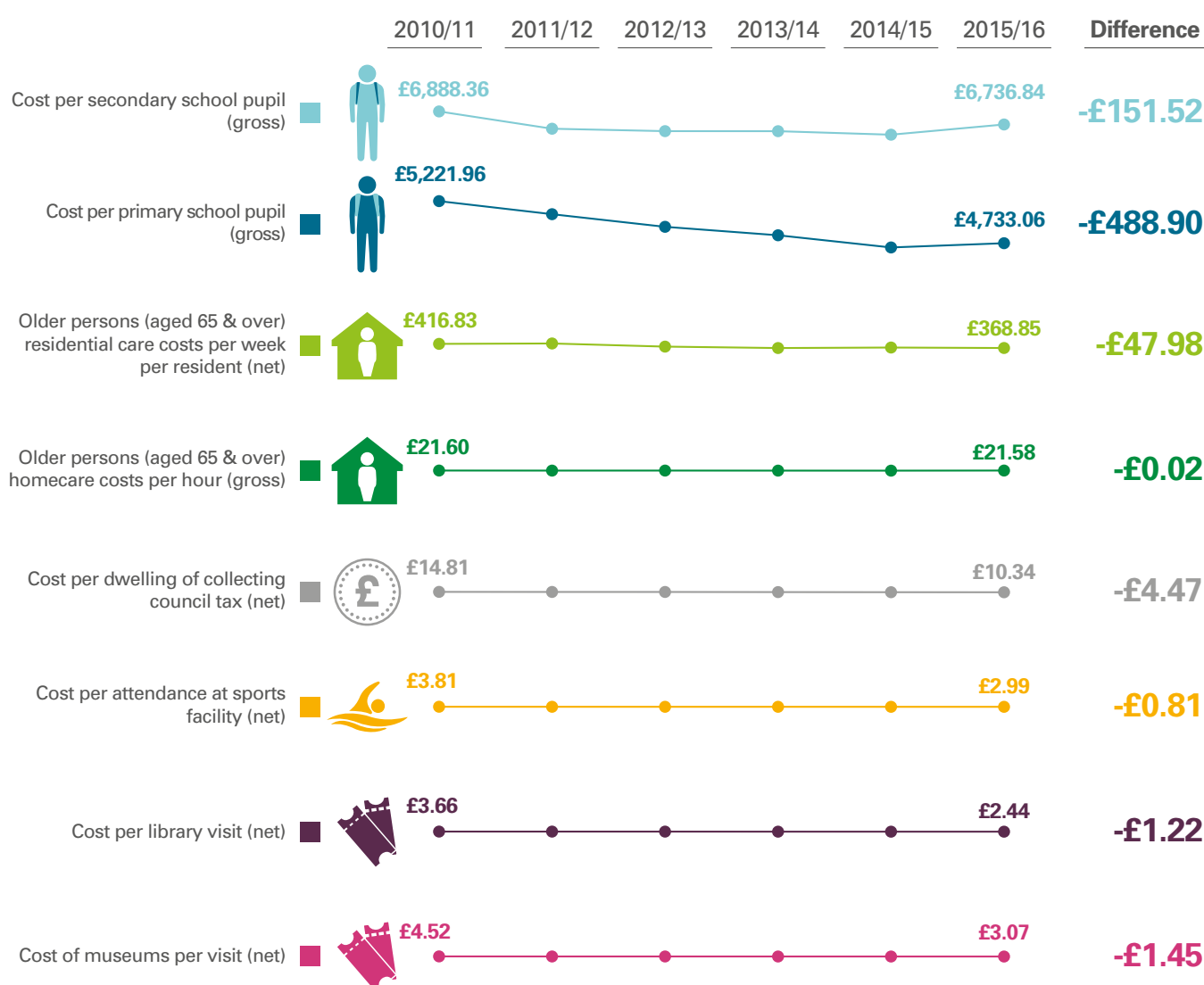
However, some councils in the same family group have significant variation in unit costs. For example, the cost of street cleaning per 1,000 population is almost three times greater in Glasgow City Council (£26,460 in 2015/16) than Aberdeen City Council (£9,312 in 2015/16).

**46.** Analysis of 2015/16 family group data for the cost of collecting council tax shows that, if all councils were able to reduce their cost of council tax collection per dwelling to the lowest in their family group, collectively they could save over £13 million. These figures are only indicative and there will be reasons for some variation, however they do indicate that savings can be made. Councils should continue to work to understand the reasons for their unit costs, learn from each other, identify possible savings that can be made and agree the acceptable impact on performance and policy.

## Exhibit 11

### Change in selected unit costs since 2010/11 to 2015/16

Unit costs have varied over the past five years.



Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16



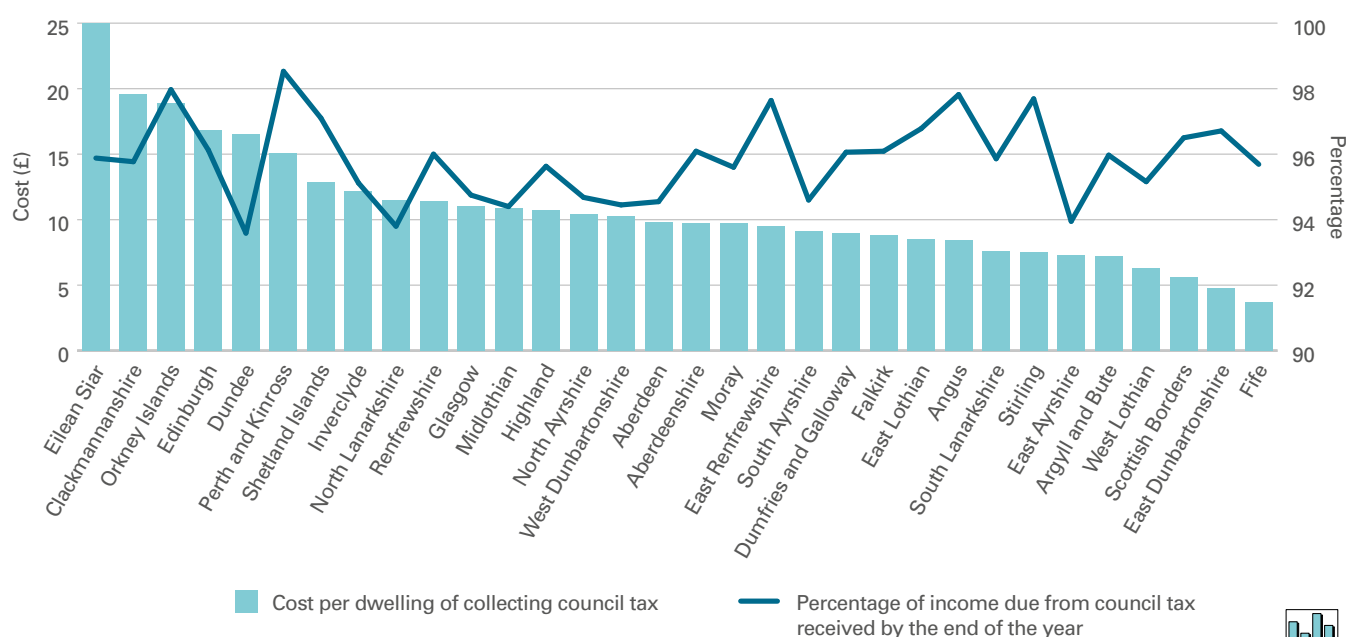
### The link between performance and cost is not always clear

**47.** Variation in unit costs is not always reflected in performance measures at a local level. For example, there is no link between the cost and collection of council tax in 2015/16 ([Exhibit 12](#)). Similarly, changes in unit costs do not always have the expected impact on performance. For example, between 2010/11 and 2015/16, 11 councils improved their cleanliness score, of these; three increased their unit costs while eight reduced their costs ([Exhibit 13, page 29](#)).

## Exhibit 12

### The cost and collection rate of council tax, 2015/16

There is no link between the cost of collecting council tax and the collection rate.



Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

### Councils have reduced some costs with no negative impact on performance

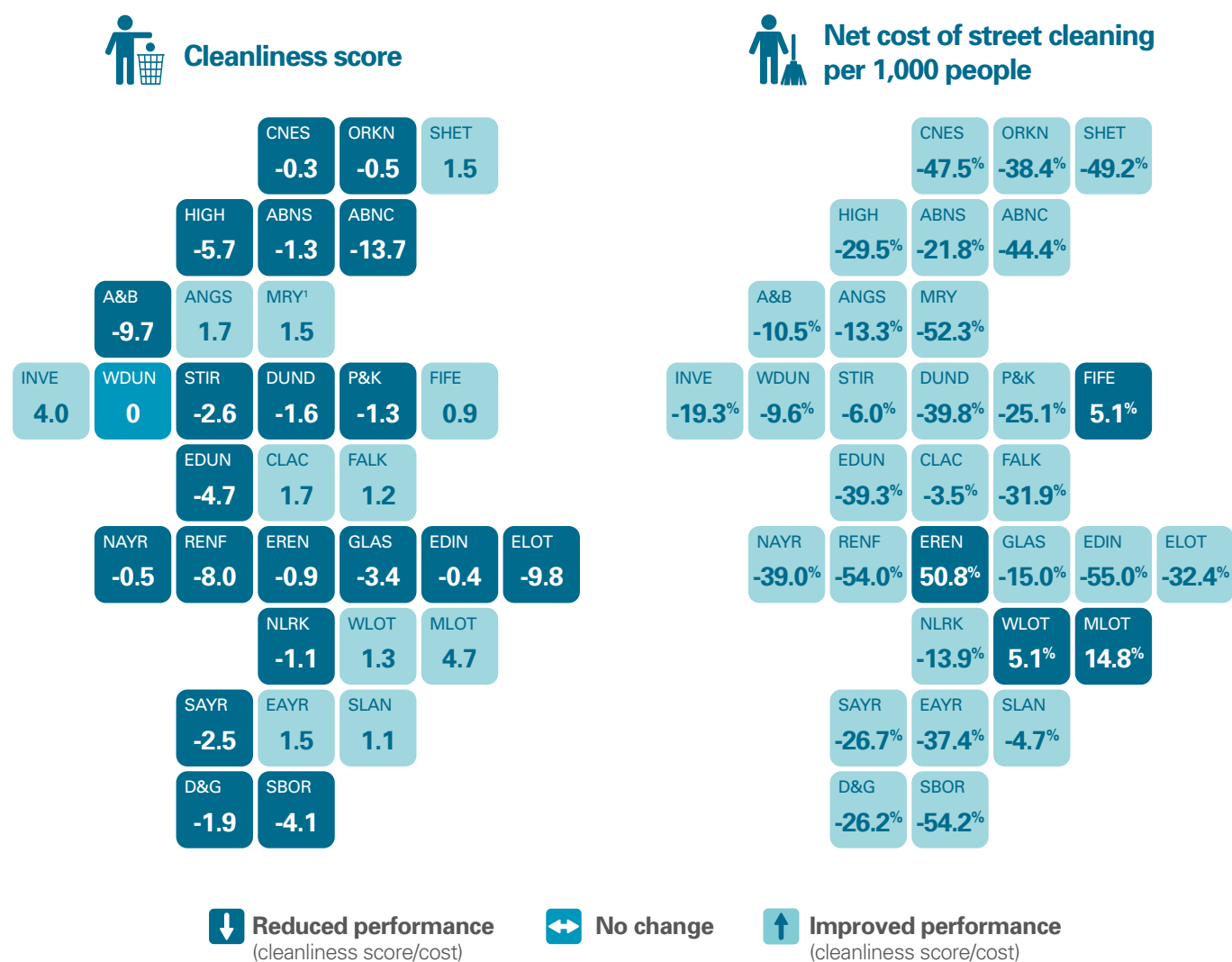
**48.** There is evidence of councils reducing costs and improving performance. Between 2010/11 and 2015/16, the average cost of collecting council tax reduced from £14.81 in real terms to £10.34 while the rate of collecting council tax improved from 94.7 per cent to 95.7 per cent. At council level, Glasgow City Council reduced the cost of collecting council tax in real terms from £18.48 per dwelling in 2010/11 to £10.98 in 2015/16. It achieved this by redesigning processes, better use of technology and closer working with partner organisations. Over the same period, the collection rate increased from 92.3 per cent to 94.7 per cent. City of Edinburgh Council has reduced the net cost of street cleaning per 1,000 residents by over 50 per cent in real terms, from £37,006 to £16,646, with the council's cleanliness score only falling by 0.4 percentage points from 90.5 per cent to 90.1 per cent.



## Exhibit 13

### The cost and cleanliness of streets in Scotland, 2010/11 to 2015/16

The majority of councils have reduced the cost of street cleaning but there has also been a reduction in street cleanliness.



### Councils

**ABNC** Aberdeen  
**ABNS** Aberdeenshire  
**ANGS** Angus  
**A&B** Argyll and Bute  
**CLAC** Clackmannanshire  
**D&G** Dumfries and Galloway  
**DUND** Dundee  
**EAYR** East Ayrshire  
**EDUN** East Dunbartonshire  
**ELOT** East Lothian  
**EREN** East Renfrewshire

**EDIN** Edinburgh  
**CNES** Eilean Siar  
**FALK** Falkirk  
**FIFE** Fife  
**GLAS** Glasgow  
**HIGH** Highland  
**INVE** Inverclyde  
**MLOT** Midlothian  
**MRY** Moray  
**NAYR** North Ayrshire  
**NLRK** North Lanarkshire


**ORKN** Orkney Islands  
**P&K** Perth and Kinross  
**RENF** Renfrewshire  
**SBOR** Scottish Borders  
**SHET** Shetland Islands  
**SAYR** South Ayrshire  
**SLAN** South Lanarkshire  
**STIR** Stirling  
**WDUN** West Dunbartonshire  
**WLOT** West Lothian

Note: 1. The data presented for The Moray Council is calculated using data for 2010/11 and 2012/13 as no further data is available.

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16


**49.** The Accounts Commission has previously stated that given the challenges facing local government, not least the future financial challenges, it does not expect to see performance improving in all measures for all councils. It is up to individual councils and their communities to agree local priorities and identify where improvements are required.

#### Public satisfaction is declining and complaints are increasing

**50.** Public satisfaction with services is falling. The latest information from the Scottish Household Survey shows that between 2010 and 2015, satisfaction with schools fell from 83 to 74 per cent.<sup>18</sup> However, around the same period, there was an increase in the percentage of school pupils gaining five or more awards at level six. As reported in [Social work in Scotland](#) , satisfaction with social care and social work fell from 62 per cent in 2010/11 to 51 per cent in 2014/15. We recognise that there are limitations with this data, particularly for some rural councils. Many councils therefore supplement this data with locally collected information.

**51.** In 2015/16, the Scottish Public Service Ombudsman (SPSO) received 1,722 complaints relating to Scottish councils. This is 13 per cent more than in 2011/12. It upheld 55 per cent of complaints in 2015/16 compared to 47 per cent in 2014/15. The health sector experienced a similar level of complaints being upheld in 2015/16. The SPSO records complaints by category. For councils, housing has the largest number of complaints (423 complaints in 2015/16), followed by social work (231 complaints). The number of complaints about environmental health and cleansing more than trebled between 2011/12 and 2015/16 to 126.

#### Greater community involvement could improve public satisfaction

**52.** The decline in satisfaction measures may be expected given the financial challenges councils have faced. It may also suggest that councils need to have frank and wide-ranging debates with communities to determine what they can realistically deliver in reduced budgets. Our 2016 report on [Social work in Scotland](#)  highlighted that councillors had a key role in consulting more fully with the public about service priorities. It stated that councillors also needed to manage people's expectations of services that councils can afford to provide in the future.<sup>19</sup> North Ayrshire Council reviewed its library opening hours in consultation with local communities and reduced the service by 475 hours a year, saving £315,000.

**53.** The Community Empowerment (Scotland) Act 2015 should ensure councils work more closely with public bodies and communities to design, develop and deliver better-quality services. Some councils already do this through participatory budgeting ([Case study 2, page 31](#)). One per cent of a council's spending should be decided by communities.<sup>20</sup> This allows communities to be actively involved in decision-making and to influence where public funds should be spent.




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**How are you involving local communities and empowering them to design and deliver services to suit local needs?**

**How can you better engage with local communities to understand why public satisfaction is declining?**

---

**What level of complaints does your council receive? For which departments? How has this changed?**

---

**Are appropriate systems in place to deal with complaints?**

---

**Does your council have regular discussions with communities about service priorities and what level of service the council can afford to provide going forward?**

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**What is the your role as councilor in this?**

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## Case study 2

### Participatory budgeting




#### Comhairle nan Eilean Siar

Community members were involved in designing and procuring the Uist and Barra public bus service. The procurement process involved using an 'output performance specification'. In this, participants were asked at various public meetings to define their priorities, rank types of services and vote for their preferred price/quality ratio. The final decisions were made by panels of local people. This participatory budgeting approach has provided a more responsive service for the local community and the council has reported an increase in uptake since it began in March 2016.

#### City of Edinburgh Council

'Leith Decides' is the longest-running participatory budgeting project in Scotland and has been used by Leith Neighbourhood Partnership since 2010/11. The approach involves the local community deciding how 50 per cent of the partnership's community grants fund is spent. In 2014/15, a total of 1,625 people took part in scoring projects (an increase of 66 per cent on the previous year) and £22,092 (in grants of up to £1,000) was allocated to 25 projects. In addition to this, the number of people engaged in local decisions has increased significantly, from 320 in 2010/11 to 1,625 in 2014/15.

#### North Ayrshire Council

In November 2016, the council [launched](#)  one of Scotland's largest online participatory budgeting projects in collaboration with Young Scot. About 5,000 young people aged 11-25 years in North Ayrshire used Young Scot's online voting platform to allocate a share of £60,762 to youth projects in their local area

Source: Audit reports

# Part 3

## Looking ahead




### Councillors need to provide effective, strategic leadership

**54.** The next council term is likely to bring significant challenges and uncertainties for councils. The role of local government in Scotland is under review and is the subject of planned Scottish Government legislation. The impact of the United Kingdom's decision to leave the European Union is currently unknown but will have to be worked out and managed. The ongoing financial and population pressures are set to increase.

**55.** Our audit work has shown that there are still areas that councils need to strengthen in responding to the challenges they face. We recognise that, with reducing resources, councils will find delivering services and improvements increasingly difficult. It is critical therefore, that they set clear long-term strategies and plans that target effort on improving priority areas. This will require councils to evaluate all possible options to make improvements for their communities in the most efficient ways.

**56.** The 2017 local government elections could result in changes to elected members and the political make-up of councils. Councillors have a critical role in setting their council's strategies and need to have the right knowledge, skills and time to lead and scrutinise how councils are achieving these. Councils will also need to continue to involve citizens in decisions about local services and report their performance in ways that help local citizens gauge improvement. Our audit work has highlighted the importance of effective leadership in developing robust strategies and making difficult decisions.


**57.** Councillors need to provide effective strategic leadership if councils are to successfully change the way they work. Councillors need to make informed decisions on the increasingly difficult and complex choices they face and to scrutinise whether the council is achieving its priorities. Council officers must support new and returning councillors effectively by providing them with clear and understandable information, and access to necessary and essential training to help them fulfil their role. We have recently published a report on [\*Roles and working relationships in councils – Are you still getting it right?\*](#)  (2016) to support councillors in their difficult and challenging role. The Improvement Service's induction materials may be a useful resources here.



**How can you ensure that you have the right skills and knowledge to help carry out increasingly complex and challenging roles efficiently?**

## Councils need comprehensive long-term financial strategies and plans in place

**58.** Our recent financial overview for 2015/16 highlighted the increasing challenges that councils are having in managing their budgets. About a third overspent social work budgets in 2015/16, similarly about a third underspent education budgets. The need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing or low levels of usable reserves to draw on. Councils cannot continue to rely on underspends in certain services offsetting overspending elsewhere. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management to ensure spending is accurately forecast and monitored within the year, including systems that allow budgets to be monitored in real time. The impact of current spending approved by councillors on the financial position can only be accurately assessed if budgets are accurate.

**59.** Councils are developing their financial strategies and plans in an increasingly complex environment. The Accounts Commission recognises that the Scottish Government providing funding settlement figures for a single year presents challenges to councils updating medium-term financial plans and having long-term strategies in place. But the absence of indicative funding should not prevent councils projecting future income, and spending and planning accordingly. A longer-term approach to finances provides a context for current decisions and, along with a clear set of financial strategies and principles, creates an overall framework for financial decision-making and sustainability. It is imperative that long-term financial strategies (covering five to ten years) link spending to councils' strategic priorities and that spending plans are considered in this context. Our [\*Local government in Scotland: Financial overview 2015/16\*](#)  highlighted that this is an area where councils can continue to improve.

**60.** Council priorities should be supported by long-term strategies and medium-term plans. Using tools such as scenario planning, councils can consider a range of different scenarios and become more agile in developing their responses. Financial strategies and plans must be aligned to workforce, service and operational plans to ensure that they take account of councils' operating environments. This will ensure the council is financially aware, takes decisions based on financial information and manages the financial risk. [Exhibit 14 \(page 34\)](#) sets out the main elements of the financial planning process and how these interact with key council planning documents.

## Councils need to appraise all possible options for change and involve local communities

**61.** A crucial element of achieving Best Value is using options appraisal effectively to evaluate current and alternative ways to deliver services. There should be rigorous and challenging appraisal of all the options. It is important that councils consider a wide range of alternatives, including fundamentally different approaches, to help each council find the most effective and efficient way to achieve its priorities for its local communities. This includes examining opportunities to work with and give communities powers to deliver services in different ways as well as learning lessons from other councils across the United Kingdom and from wider public service reform. Councillors should get all necessary information and support from officers to help them fully assess the benefits and risks of each option.




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**How fully have you appraised all options for delivering services differently?**

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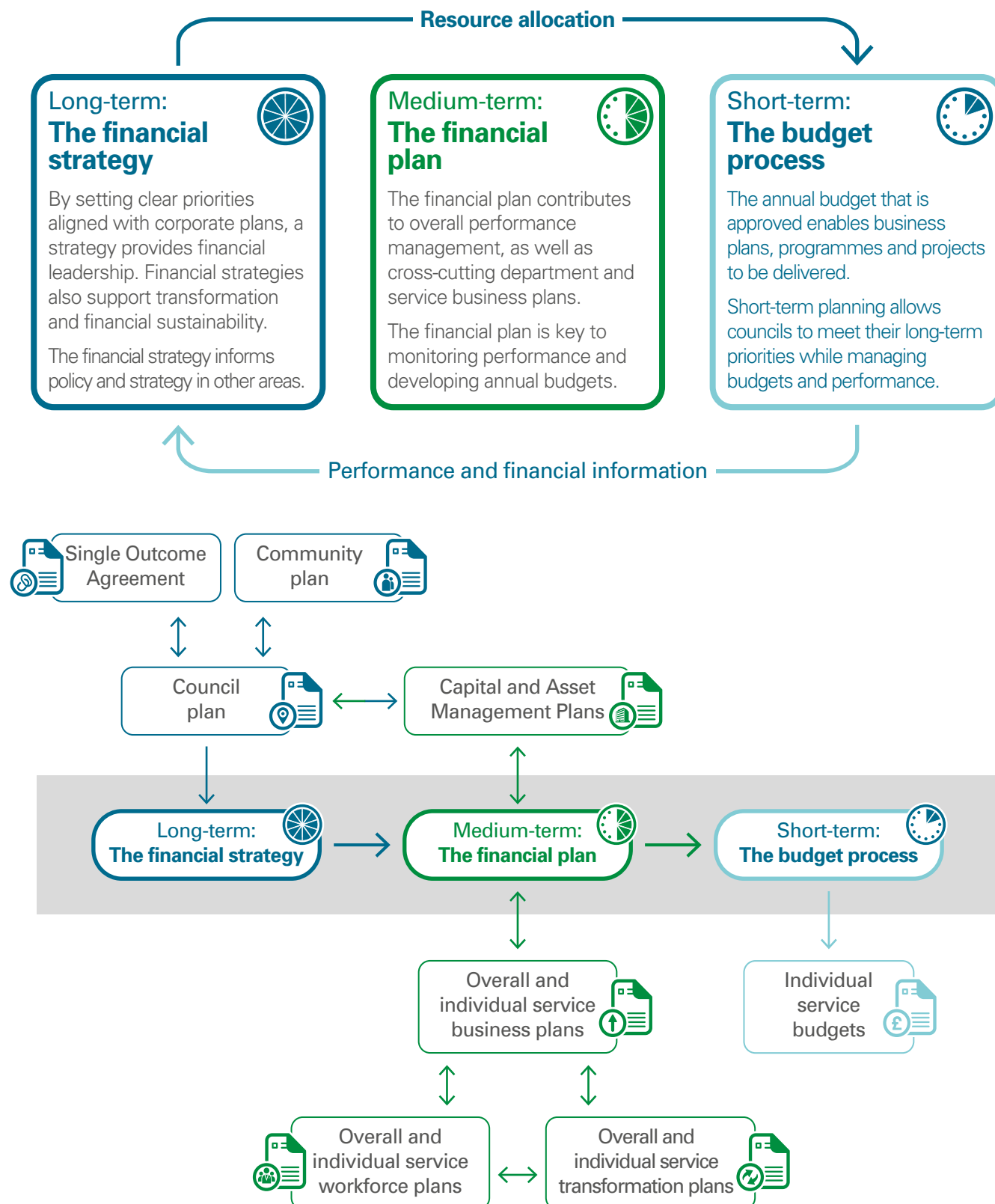
**How can you consider more business in public?**

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## Exhibit 14

### Key components of council strategic planning and operational management

Financial planning should be linked to operational delivery plans.



Source: Audit Scotland












**62.** When councils and councillors are identifying and approving savings in any service area, it is important that they consider, assess and monitor the impact of their decisions. Councils should:

- identify expected savings
- consider the potential impact on people using services, communities and staff
- monitor how they are achieving savings
- review the impact of reforms on the outcomes that services are delivering.

**63.** We have seen examples of councils engaging well with their communities on important local issues. The Community Empowerment (Scotland) Act 2015 provides, among other things, a statutory basis for local people to be more involved in decision-making and to take ownership of councils' assets. Councils need to understand local expectations of services and to work closely with their communities and the people who use services to redesign how services are delivered. New guidance issued in December 2016 places a statutory duty on CPPs to improve local outcomes. An increased emphasis on joint working is expected to improve community involvement and address inequalities.<sup>21</sup>

# Endnotes



- ◀ 1 This is gross income. Councils' total income in 2015/16 was £18.9 billion, with £10.9 billion being provided by the Scottish Government.
- ◀ 2 [Local government in Scotland: Financial overview 2015/16](#) , Audit Scotland, November 2016.
- ◀ 3 The Scottish Government guarantees the combined general revenue grant and non-domestic rate income figure approved by the Parliament for each council. This means that any reduction in one component of funding is compensated for by an increase in the other.
- ◀ 4 *Scotland's Budget – 2016*, Fraser of Allander Institute, 2016.
- ◀ 5 This assumes that council tax collection rates (and the households this was collected from) would have remained the same and that total funding, and therefore income, would have been adjusted to exclude £70 million of revenue funding provided annually by the Scottish Government to councils to support the council tax freeze.
- ◀ 6 *Scotland's Budget – 2016*, Fraser of Allander Institute, 2016.
- ◀ 7 [School education](#) , Audit Scotland, June 2014. This report shows that performance improved between 2002/03 and 2012/13 against the ten attainment measures examined.
- ◀ 8 Aberdeenshire, Clackmannanshire, East Lothian, Highland, Midlothian, Orkney Islands, Shetland Islands and West Lothian councils.
- ◀ 9 *Public Sector Employment in Scotland*, Scottish Government, June 2016. These figures will include staff who have transferred to or from ALEOs over the period.
- ◀ 10 We reported in our November 2013 audit, [Scotland's public sector workforce](#) , that councils transferred 9,100 FTE posts to ALEOs between 2009/10 and 2012/13.
- ◀ 11 Information collected by auditors as a follow up to [Scotland's public sector workforce](#) , Audit Scotland, November 2013.
- ◀ 12 [Maintaining Scotland's roads: a follow-up report](#) , Audit Scotland, August 2016.
- ◀ 13 [Local government in Scotland: Financial overview 2015/16](#) , Audit Scotland, November 2016.
- ◀ 14 Auditors provided this information in July 2016. We report more information on funding gaps in [Local government in Scotland: Financial overview 2015/16](#) , Audit Scotland, November 2016.
- ◀ 15 [Falkirk Council: Best Value audit report](#) , Audit Scotland, December 2016.
- ◀ 16 [South Ayrshire Council: Best Value audit report](#) , Audit Scotland, June 2016.
- ◀ 17 The full range of indicators includes unit costs and public satisfaction. These are available on the Improvement Service website – [www.improvementservice.org.uk/benchmarking/](http://www.improvementservice.org.uk/benchmarking/) .
- ◀ 18 *Scotland's People Annual Report: Results from the 2015 Scottish Household Survey*, 2016. There are limitations when using this data as survey questions do not fully distinguish the views of the whole adult population on services from the views of those who are direct users of the services. Sample size may also be an issue in some councils.
- ◀ 19 [Social work in Scotland](#) , Audit Scotland, September 2016.
- ◀ 20 *A Plan For Scotland, the Scottish Government's Programme For Scotland 2016-17*, Scottish Government, September 2016.
- ◀ 21 *Community Empowerment (Scotland) Act – Part 2: Community Planning Guidance*, Scottish Government, December 2016.



# Local government in Scotland

## Performance and challenges 2017

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

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ISBN 978 1 911494 16 4





**WEST DUNBARTONSHIRE COUNCIL****Report by Strategic Lead – Resources****Audit and Performance Review Committee: 21 June 2017**

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**Subject: Audit Scotland report: West Dunbartonshire Council: Review of Key Internal Controls 2016/17 – June 2016****1. Purpose**

- 1.1** The purpose of this report is to provide Committee for information a letter which has been received from our external auditors – Audit Scotland – and to provide information to Members as to management actions implemented following receipt of this letter.

**2. Recommendations**

- 2.1** The Committee is invited to note the report and the agreed improvement actions.

**3. Background**

- 3.1** Part of the planned work of Audit Scotland as the Council's external auditors, which was described in their report to this Committee on 8 March 2017, is to undertake a review of the Council's Key Controls on and provide a report on any issues or risks arising from this review.
- 3.2** As part of the work required, the auditors undertook a high level review of the governance arrangements and the main financial systems operated by the Council. The purpose of this review was to evaluate whether the Council have sound governance arrangements in place and whether the key internal controls operating within the main financial systems are adequate.

**4. Main Issues**

- 4.1** In previous years the format of the report by the auditors was an audit report; however this year the reporting of issues to management is in the format of a letter. This approach reflects the low number of issues identified at this stage. The letter is appended to this report for information.
- 4.2** The letter states in the paragraph entitled "Conclusion" that the auditors are satisfied that the Council's governance arrangements and internal control systems are operating as intended.

- 4.3** However, the letter identifies 2 areas where improvements could be made. These are listed below along with the intended management actions to address the issues identified:

<b>External Audit Issues</b>	<b>Management Action</b>
It was previously agreed that the monitoring control report to review access to own payroll records would be run quarterly and reviewed timeously. We noted that this report was only processed and reviewed once in 2016/17.	The reports used to monitor this risk will be run and reviewed on a quarterly basis as from 30 June 2017.
The payroll system is reconciled to the general ledger on a quarterly basis. We were advised that this is reviewed by a second officer; however there is no evidence of the secondary review.	The evidencing of the second level review of this reconciliation will be implemented from 30 June 2017.

## **5. People Implications**

- 5.1** The people issues arising from this report are in relation to implementing improved processes in a number of systems and can be implemented from within existing resources.

## **6. Financial and Procurement Implications**

- 6.1** There are no financial or procurement implications arising from this report.

## **7. Risk Analysis**

- 7.1** Failure to address the recommendations outlined in the report could impact on the final audit opinion awarded to the Council in respect of the audit in future financial years.

## **8. Equalities Impact Assessment (EIA)**

- 8.1** There are no equalities issues arising from this report.

## **9. Consultation**

- 9.1** This report has been subject to consultation with appropriate Strategic Leads.

## **10. Strategic Assessment**

- 10.1** Sound financial practices are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan.

.....  
**Stephen West**  
**Strategic Lead - Resources**  
**Date: 9 June 2016**

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**Person to Contact:** Stephen West, Strategic Lead - Resources  
Council Offices, Garshake Road, Dumbarton  
Telephone (01389) 737191  
E-mail: [stephen.west@west-dunbarton.gov.uk](mailto:stephen.west@west-dunbarton.gov.uk)

**Appendix:** Audit Scotland report: West Dunbartonshire Council:  
Review of Key Internal Controls 2015/16

**Background Papers:** None

**Wards Affected:** All Wards



8 June 2017

Mr Stephen West  
Strategic Lead (Finance)  
West Dunbartonshire Council  
Garshake Road  
Dumbarton  
G82 3PU

Dear Stephen

### **West Dunbartonshire Council 2016/17 Review of Systems of Internal Control**

This report contains a summary of the key issues identified during the interim audit work carried out at West Dunbartonshire Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements and follow up of issues reported in the previous year. We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

### **Conclusion**

In our review of the council's internal control systems for 2016/17 we concluded that most of the key controls tested are operating as intended. We identified one key control weakness from our interim audit work for 2016/17. We also followed up the audit issues reported to management in previous years to ensure that progress has been made in implementing the agreed actions. One action from the 2014/15 action plan remains outstanding and has also been reported here.

### **Work summary**

Our 2016/17 risk based testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.

Where possible we place reliance on the work of internal audit to avoid duplication of effort. We have reviewed internal audit's testing of the payroll, banking, and accounts receivable systems, together with the reports they issued to management. We concluded that we could place reliance on this work.

Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to West Dunbartonshire Council.

The two key control weakness we wish to bring to your attention are:

1. **Access to own payroll records:** It was previously agreed that the monitoring control report to review access to own payroll records would be run quarterly and reviewed timeously. We noted that this report was only processed and reviewed once in 2016/17.
2. **Payroll reconciliations:** The payroll system is reconciled to the general ledger on a quarterly basis. We were advised that this is reviewed by a second officer, however there is no evidence of the secondary review.

The contents of this report have been discussed with relevant officers to confirm factual accuracy. Officers advised us that processes will be implemented to ensure the payroll access checks are completed on a quarterly basis; and that the second stage review of the payroll reconciliation will be evidenced.

The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

I would be grateful if you would arrange for this report to be included in the agenda for the next appropriate Audit and Performance Review committee meeting.

Yours sincerely



**Paul Craig**  
**Senior Audit Manager**

Direct Tel: 0131 625 1928

Email: [pcraig@audit-scotland.gov.uk](mailto:pcraig@audit-scotland.gov.uk)

Enc

cc by email:

Joyce White, Chief Executive, West Dunbartonshire Council

Angela Wilson, Strategic Director

Colin McDougall, Audit and Risk Manager

Gillian McNeilly, Manager of Accounting