

Supplementary Agenda

West Dunbartonshire Health & Social Care Partnership Board Audit Committee

Date: Wednesday, 7 December 2016

Time: 14:00

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

Contact: Nuala Borthwick, Committee Officer
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Dear Member

Supplementary Item of Business

With reference to the agenda for the above Meeting of the West Dunbartonshire Health & Social Care Partnership Board Audit Committee which was issued on 28 November 2016, the Chair, Allan Macleod, has agreed that the following report be considered as an additional item of business.

Yours faithfully

JULIE SLAVIN

Chief Financial Officer of the
Health & Social Care Partnership

Undernote:-

13. AUDIT SCOTLAND REPORTS ON LOCAL GOVERNMENT IN SCOTLAND 2016 247 - 309

Submit report by the Head of Strategy, Planning and Health Improvement providing information on two recently published Audit Scotland reports concerning local government in Scotland.

Distribution:-

Allan Macleod (Chair)
Gail Casey (Vice Chair)
Heather Cameron
Jonathan McColl
Martin Rooney
Rona Sweeney

Senior Management Team – Health & Social Care Partnership
Mr C. McDougall
Ms K Cotterell

Date of issue: 29 November 2016

WEST DUNBARTONSHIRE HEALTH & SOCIAL CARE PARTNERSHIP

Audit Committee: 7th December 2016

Subject: Audit Scotland Reports on Local Government in Scotland 2016

1. Purpose

- 1.1** To bring to the Audit Committee's attention two recently published Audit Scotland reports concerning local government in Scotland.

2. Recommendation

- 2.1** The Partnership Board is recommended to note the findings of the Audit Scotland reports.

3. Background

- 3.1** Audit Scotland undertakes a number of audits for the Auditor General for Scotland and the Accounts Commission as part of a wider public audit model. This includes reports on significant issues of public interest; and overview reports on specific sectors.
- 3.2** Audit Scotland published its first of overview output at the end of November 2016, which tells the strategic financial story for local government in Scotland in 2015/16 (Appendix 1).
- 3.3** Alongside its role as the local government public spending watchdog, the Accounts Commission also aims to help councils improve. The *How Councils Work* series of reports focus on supporting councils in their drive for improvement, with a follow-up report published in November 2016 (Appendix 2).

4. Main Issues

- 4.1** The Financial Overview 2015/16 report provides a high-level, independent view of councils' financial performance and position in 2015/16. Key messages within the report of particular note are:
- Councils' budgets are under increasing pressure from a long-term decline in funding, rising demand for services and increasing costs.
 - Councils face tough decisions around their finances that require strong leadership and sound financial management.
 - Councils need to change the way they work to deal with the financial challenges they face. Recent Best Value audits have shown councils relying on incremental savings rather than considering service redesign options. The Audit Commission is of the view that this is neither sufficient nor sustainable given the scale of the challenge facing councils.

4.2 The How Councils Work - Follow-up Messages for Councils report highlights issues that are important to the governance of councils in a changing operating environment, for example as a result of:

- Continuing resource constraints, against a backdrop of increasing demand and rising public expectations about the quality of public services.
- The integration of health and social care, which is fundamentally changing the governance arrangements for this significant area of public service delivery.
- The re-emphasis on Community Planning and the Community Empowerment Act, which has the potential to fundamentally change the relationship between councils and local communities.
- The Community Justice (Scotland) Act 2016, which gives community planning partnerships responsibility for the strategic planning and delivery of community justice.

4.3 Key messages within that report of particular note are:

- Councillors and officers must be clear on their roles.
- Scrutiny is an essential part of effective decision-making.
- The governance of partnerships and arm's-length bodies needs to be considered at the outset.
- Statutory officers need to have sufficient influence.
- Good conduct and behaviours are crucial.
- Councillors need the skills and tools to carry out their role.

5. People Implications

5.1 Audit Committee members will recall that one key theme of the Health & Social Care Partnership's Workforce & Organisational Development Strategy is "Effective Leadership and Management", notably with respect to service change; and Partnership Board development.

6. Financial Implications

6.1 With respect to the financial pressures highlighted within the Audit Scotland Financial Overview report, Audit Committee members will appreciate that the Chief Financial Officer has articulated the financial challenges that the Health & Social Care Partnership faces (and as recognised within the Strategic Plan 2016-19) within their regular budgetary reports to the Partnership Board.

7. Professional Implications

7.1 Audit Committee members will appreciate that as required by legislation, the Council's Chief Social Work Officer is a member of the Partnership Board; and presents their Annual Report to both full Council and the Partnership Board.

8. Locality Implications

8.1 None associated with this report.

9. Risk Analysis

9.1 With respect to the issues pertaining to governance in the *How Councils Work* follow-up report, the Audit Committee will have been reassured by the positive report on Audit Scotland's Annual Audit Report and Accounts 2015/16 for West Dunbartonshire Health & Social Care Partnership Board that was presented by Audit Scotland at the September 2016 meeting.

9.2 Alongside that report, Audit Scotland has produced a summary checklist ostensibly for councillors and council officers (Appendix 3). Whilst not all of the elements are directly transferable to integration authorities, Audit Committee members may find it useful to reflect upon the questions posed in respect of the totality of the Partnership Board's resources and arrangements for health and social care.

10. Impact Assessments

10.1 None required.

11. Consultation

11.1 None required.

12. Strategic Assessment

12.1 This report on the above national audit will provide important evidence and context for the on-going implementation of the current Strategic Plan.

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West Dunbartonshire Health & Social Care Partnership.

Date: 7th December 2016

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Appendices: Audit Scotland: Local Government in Scotland – Financial Overview 2015/16 (November 2016)

Audit Scotland: How Councils Work - Follow-up Messages for Councils (November 2016)

Audit Scotland: How Councils Work - Summary Checklist
(November 2016)

Background Papers:

HSCP Board: Chief Social Work Officer's Annual Report
2015/16 (May 2016)

Audit Committee: Annual Audit Report and Accounts
2015/16 (September 2016)

HSCP Board: Workforce & Organisational Development
Support Plan Update (November 2016)

Wards Affected:

All

Local government in Scotland

Financial overview 2015/16



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
November 2016


The Accounts Commission

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

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

Our work includes:

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

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

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

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PDF download



Web link



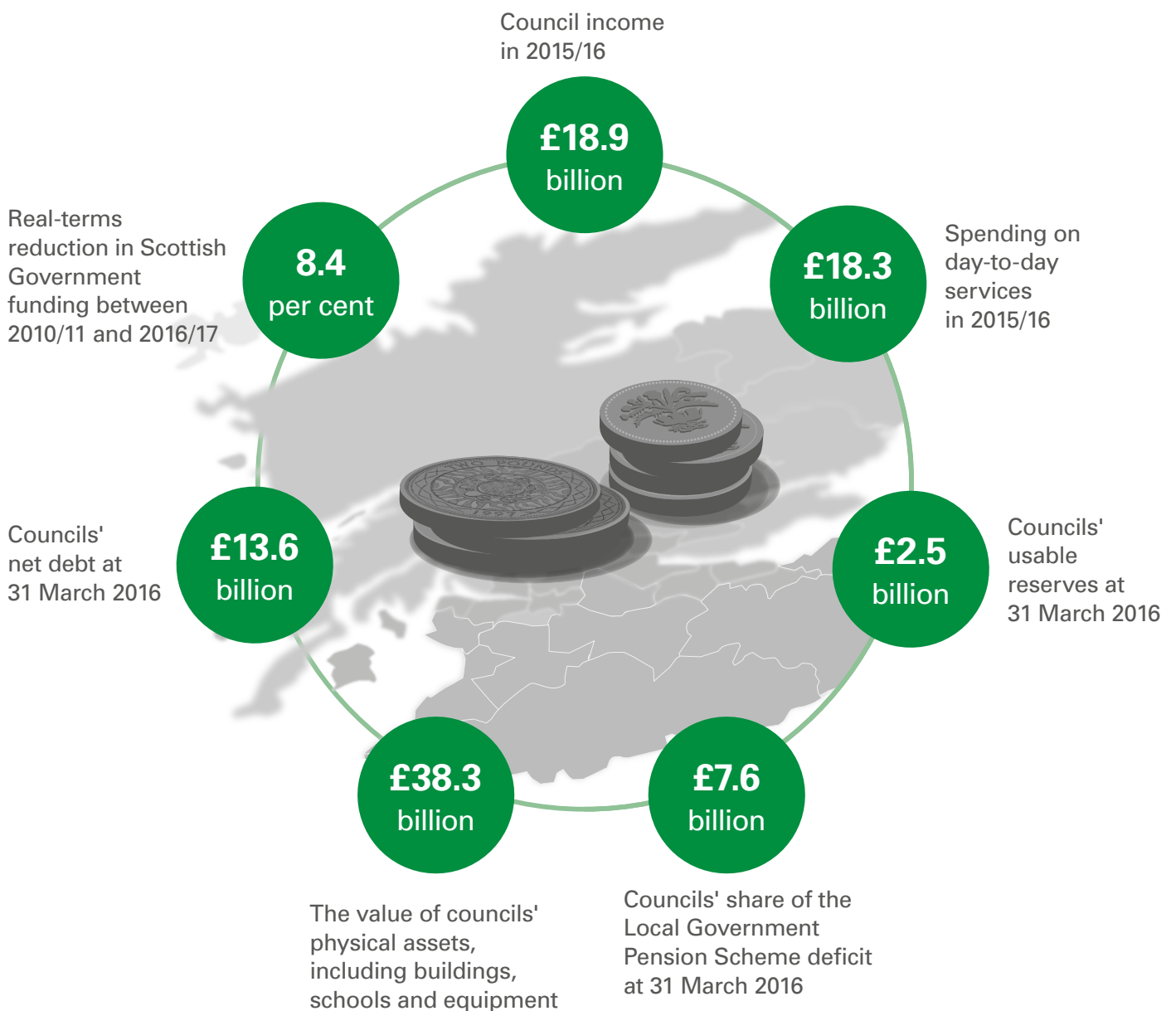
Exhibit data

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.



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

Key facts




Chair's introduction



This financial report is the first of our new overview outputs. It tells the strategic financial story for local government in Scotland in 2015/16, another challenging year for councils. Overall, councils responded well by controlling their spending and have also increased reserves and reduced debt. Scottish Government funding has fallen in real terms in recent years and, although there was a small annual real-terms increase in 2015/16, it fell again in 2016/17. Councils also continue to face cost pressures, including increasing pension costs and wage inflation. We recognise councils have been making difficult decisions when setting their budgets and that this has required a disciplined approach to delivering savings. This disciplined approach must continue when we move into the 2017 election year, as significant challenges lie ahead and councils need to be well placed to meet them.


In anticipation of reductions in future Scottish Government funding, most councils have continued to increase their reserves. Councils must consider how and when reserves are used to support services, in line with their financial plans and reserves policies, as they can only be used once and relying on them is not sustainable. All councils have identified future funding gaps that will need to be addressed through making savings or using reserves. How well placed individual councils are to address these funding gaps is a combination of the relative size of the funding gap, the reserves they hold, and their ability to identify and make savings and to service debt.

Financial scrutiny and transparency in financial reporting are themes that recur throughout this report. Under the new [Code of Audit Practice 2016](#) , auditors will comment on the financial sustainability of councils. It is important that all councils have long-term financial strategies in place that support their strategic priorities, underpinned by more detailed financial plans and indicative budgets that cover the next three to five years. These will help councillors and officers assess the impact of approved spending on their current and future financial position.

Our new approach to overview reporting

This year, we have developed our approach to overview reporting for local government into a series of outputs throughout the year. We will examine the performance of council services and the challenges facing councils in our upcoming overview report in March 2017, but hope that the links between good financial and service performance remain clear.

We are publishing this analysis of the 2015/16 accounts and audit findings a few months earlier than usual, so that they can be considered by councils and councillors when setting their 2017/18 budgets. In addition to this report and the accompanying supplements, an interactive exhibit and additional financial

information are available on our [website](#) . These will allow council officers and councillors to look at areas that may be of particular interest to them and to compare their council with others.

I hope this report and the supplementary information prove to be informative and help shed light on the complex nature of local government finances. We welcome feedback and will use this to inform our approach to overview reporting in future years.

Douglas Sinclair
Chair of Accounts Commission

Summary



Key messages

- 1** The overall financial health of local government was generally good in 2015/16 and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the immediate financial position of Scotland's councils and, for the fifth year in a row, issued unqualified opinions on councils' accounts.
- 2** Significant challenges for local government finance lie ahead. Councils' budgets are under increasing pressure from a long-term decline in funding, rising demand for services and increasing costs, such as pensions. There is variation in how these pressures are affecting individual councils, with some overspending their total budgets or budgets for individual services such as social care. It is important that councils have effective budgetary control arrangements in place to minimise unplanned budget variances that can affect their financial position.
- 3** Councils need to change the way they work to deal with the financial challenges they face. All councils face future funding gaps that require further savings or a greater use of their reserves. There is variation in how well placed councils are to address these gaps.
- 4** Long-term financial strategies must be in place to ensure council spending is aligned with priorities, and supported by medium-term financial plans and budget forecasts. Even where the Scottish Government only provides councils with one-year financial settlements, this does not diminish the importance of medium and longer-term financial planning. This is necessary to allow councillors and officers to assess and scrutinise the impact of approved spending on future budgets and the sustainability of their council's financial position.

councils have managed their finances well but significant challenges lie ahead

About this report


1. This report provides a high-level, independent view of councils' financial performance and position in 2015/16. It is aimed primarily at councillors and senior council officers as a source of information and to support them in their complex and demanding roles. It is in two parts:

- **Part 1 (page 9)** focuses on the councils' income and expenditure in 2015/16 and trends over time.
- **Part 2 (page 19)** comments on the financial outlook of councils at the end of 2015/16 and outlines important factors to be considered in assessing future spending plans.

2. Throughout this report we present a detailed analysis of councils' finances in 2015/16 and, where appropriate, comparisons over a five-year period (2011/12 to 2015/16). Our primary sources of information are councils' audited accounts and their 2015/16 annual audit reports. We have supplemented this with other information supplied by auditors and councils. This includes budget information collected by auditors shortly after councils approved their 2016/17 budgets and which informed our analysis of councils' projected funding gaps up to 2018/19.

3. Where we refer to councils' funding in 2016/17, we use information from the Scottish Government's 2016/17 Local Government financial settlement. Although we do not audit this information, we feel it is important to make appropriate references to funding in the current financial year. Where we have done this, we have analysed trends since 2010/11 when Scottish Government funding peaked.

4. We refer to real-terms changes in this report where we are showing financial information from past and future years in 2015/16 prices, adjusted for inflation, so that they are comparable to information from councils' 2015/16 accounts. In general we compare income and expenditure items in **Part 1** in real-terms but do not adjust items in **Part 2** as they are adjusted in their preparation.

5. Throughout the report, we identify questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise financial performance. The questions are also available in [**Supplement 1: Self-assessment tool for councillors**](#)  on our website.

6. We recognise that complex financial information is often presented differently for different purposes. For example, local finance returns (LFRs), which councils submit to the Scottish Government, present spending information for councils on a different basis from the spending information that councils record in their annual accounts. There are also differences in how funding is recorded in different sources. Alongside this report, we have published a short supplement to explain the main differences in the way financial information is reported. This is included in the self-assessment tool for councillors.

7. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our website. The information is based on councils' audited accounts. We hope this will be useful for senior council finance officers, their staff and other interested stakeholders.

Part 1

Income and spending



Key messages

- 1** The overall financial health of local government was generally good in 2015/16 and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the immediate financial position of Scotland's councils and, for the fifth year in a row, issued unqualified opinions on councils' accounts.
- 2** More than half of councils' income comes from the Scottish Government. Councils have experienced a long-term decline in their grant funding from the Scottish Government. This is expected to continue to fall in future, putting greater pressure on budgets.
- 3** Councils have managed their finances well so far in responding to the pressures they face. In 2015/16, 15 councils planned to use some of their reserves to support spending and, across local government, revenue reserves were forecast to decrease. However, only seven councils drew on their reserves and, overall, revenue reserves increased in 2015/16.
- 4** Councils spent £19.5 billion in 2015/16. Spending on providing services remains lower than in 2011/12, but is increasing in key services, most noticeably in social care because of rising demand from an ageing population. Many councils overspent their social care budgets and this poses a risk to their longer-term financial position. Councils need to ensure budgets reflect true spending patterns so that the impact of current spending on their financial position is clearly understood.
- 5** Over and above growing demands on services, councils need to manage other financial pressures such as increasing pension costs and wage inflation. It is essential that councils have long-term financial strategies and plans in place that align with their priorities and are supported by medium-term financial plans and budget forecasts.

there has been a long-term decline in grant funding to councils, this is to continue

All councils received an unqualified audit opinion on their 2015/16 accounts but they can better use their accounts to explain financial performance

8. The overall financial health of local government was generally good in 2015/16. All accounts were received on time and, for the fifth consecutive year, auditors issued all of Scotland's 32 councils with a true and fair unqualified audit opinion on their 2015/16 accounts.

9. Over two-thirds of councils operated within their budgets and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the short-term financial position of Scotland's councils, but raised a number of concerns about individual councils facing significant funding gaps over the next two to three years.

10. For the last two years, councils have produced a management commentary to accompany their annual accounts. These commentaries play an important role in helping readers to better understand the accounts and a council's financial performance. As such, they should include explanations of amounts included in the accounts as well as:

- a description of the council's strategy and business model
- a review of the council's business
- a review of principal risks and uncertainties facing the council
- an outline of the main trends and factors likely to affect the future development, financial performance and financial position of the council.

11. The management commentary should concisely present the financial 'story' of a council in an understandable format for a wide audience. Auditors express an opinion on whether the management commentary is consistent with the audited financial statements.

12. Analysis of the management commentaries shows variation in how clearly councils explain their financial and general performance. However, there is a general improvement from last year. It is the Commission's view that councillors have an important role in ensuring that the management commentary effectively tells the story of the council's financial performance and can be understood and scrutinised by a wide audience.

Scottish Government funding increased in 2015/16 but has reduced significantly over the longer term

13. In 2015/16, councils' total revenue and capital income was £18.9 billion, a real-terms increase of 2.9 per cent since 2014/15. £10.9 billion (57 per cent) of this came from the Scottish Government ([Exhibit 1, page 11](#)). The share of council income coming from the Scottish Government has reduced slightly from 2014/15 (58 per cent), mainly because of a large increase in income from service fees and charges.¹

14. Scottish Government grants are councils' major source of income. Between 2010/11 and 2015/16, Scottish Government funding (combined revenue and capital) for councils reduced in real terms by around £186 million (1.7 per cent) to £10.9 billion.² Taking into account 2016/17 funding, councils have experienced a real-terms reduction in funding of 8.4 per cent since 2010/11. This is approximately the same as the reduction in the Scottish Government's total budget over the same period.

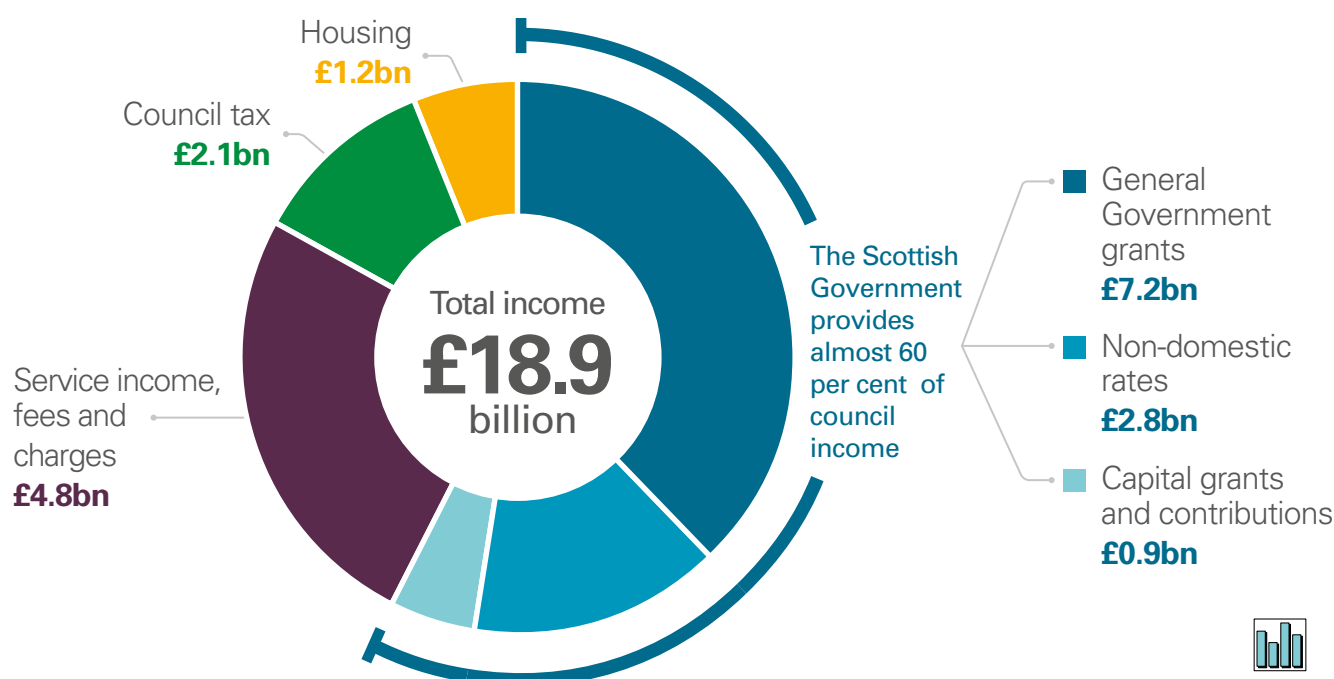


Does the management commentary section of the annual accounts provide a clear and easily understandable account of the council's finances?

Exhibit 1

Sources of councils' income in 2015/16

Councils' total income in 2015/16 was £18.9 billion and almost 60 per cent (£10.9 billion) of this came from the Scottish Government.



Notes: 1. Figures have been rounded to one decimal place so the sum of the categories does not exactly match total income. 2. Service income, fees and charges may include specific service-related grants and income such as payments from the Scottish Government, NHS or other councils. It also includes funds returned to councils from Integration Joint Boards. 3. Capital grants and contributions include income from the Scottish Government and others such as central government bodies, National Lottery and the European Union. As the majority is in the form of Scottish Government capital grants, we have included this within income provided by the Scottish Government.

Source: Councils' audited annual accounts, 2015/16

In 2015/16, councils received a slight increase in revenue funding from the Scottish Government to support the implementation of national policies

15. The Scottish Government allocates councils a set amount of revenue funding from both grants and non-domestic rates (NDR). In 2015/16, this amounted to £10.0 billion. This represents a real-terms annual increase of 1.1 per cent but a 2.1 per cent reduction since 2010/11.

16. Revenue grants totalled £7.25 billion in 2015/16 and included: £560 million for continuing to freeze council tax at 2007/08 levels; around £350 million to replace council tax benefit previously provided by the UK Government; and additional funding for implementing other Scottish Government policies, such as maintaining teacher numbers and pupil to teacher ratios. In their accounts, councils record income from Scottish Government funding differently from how it is allocated ([Supplement 1: Self-assessment tool for councillors](#)). As a result, councils' accounts show income from Scottish Government general revenue grants of £7.2 billion in 2015/16. This represents a real-terms reduction in councils' income of £38.0 million since 2014/15.

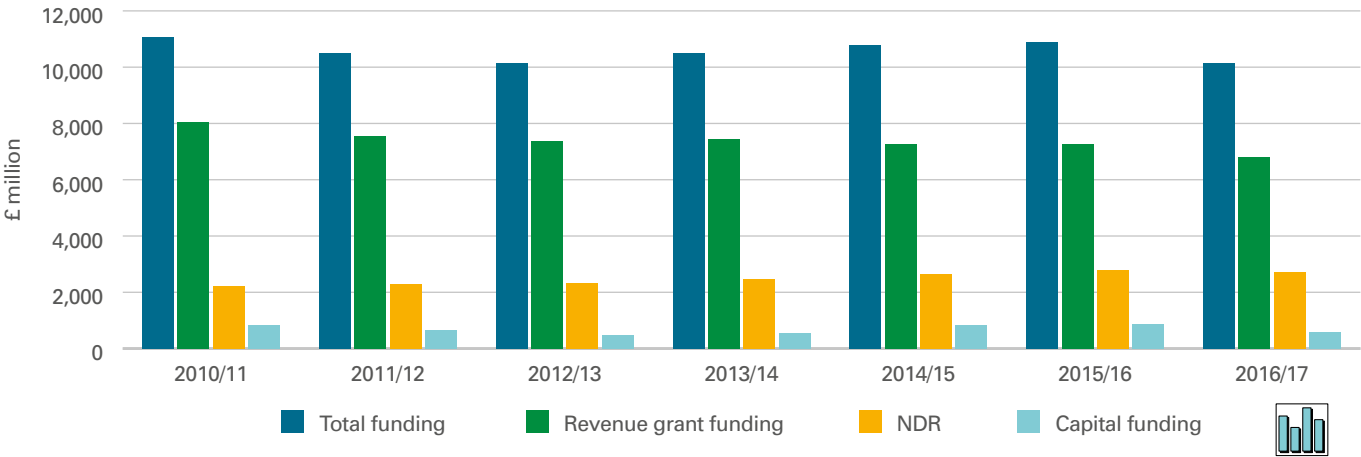
17. An increasing proportion of revenue funding is coming from NDR (29 per cent in 2015/16 compared to 22 per cent in 2010/11). The increase in NDR income in recent years has not fully offset reductions in revenue grant funding.

Scottish Government revenue funding fell by almost seven per cent between 2010/11 and 2016/17, and further reductions are expected

18. In 2016/17, Scottish Government grant funding has fallen by £489 million to £9.6 billion. This is a greater reduction than in previous years and represents a real-terms annual reduction in revenue grant of 5.9 per cent and NDR of 2.2 per cent. Since 2010/11, combined revenue funding has fallen by 6.8 per cent ([Exhibit 2](#)).

Exhibit 2

Scottish Government funding to councils from 2010/11 to 2016/17, at 2015/16 prices
Councils are experiencing a long-term reduction in revenue funding.



- Notes:
1. 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. From 2013/14, revenue funding includes payments for council tax reduction, replacing council tax benefit previously coming from the UK Government. We have also adjusted these figures for specific elements of the local government settlement relating to adjustments for police and fire pensions.
 2. Since 2013/14, Scottish Government revenue funding has included payments of around £350 million per year to fund council tax reductions, replacing council tax benefit which previously came from the UK Government.
 3. 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. The NHS boards will allocate this funding to the integration authorities.

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



How do you consider potential changes to income streams and their impact on spending and services as part of medium and long-term planning?

19. Councils expect revenue funding to decrease in future years, although the extent of this is not clear as, the Scottish Government has provided councils with one-year funding settlements in 2015/16 and 2016/17. Councils contend that this constrains their ability to develop meaningful long-term financial strategies and medium-term financial plans. However, the challenging financial environment further strengthens the case for councils taking a long-term view of their finances [Part 2 \(page 19\)](#). There should be clear links between financial strategies and plans and councils’ strategic priorities to provide a basis for decision-making.

Income from NDR and council tax increased in some councils in 2015/16

20. In 2015/16, councils received £2.79 billion in NDR income, a real-terms annual increase of £134.3 million (5.1 per cent). Twenty-six councils saw an increase in their NDR income in 2015/16. This ranged from a £12.1 million (16.0 per cent) reduction in Falkirk Council to an increase of £26.5 million (7.3 per cent) in City of Edinburgh Council.

21. Council tax income was £2.1 billion in 2015/16, a real-terms annual increase of £32.3 million (1.6 per cent). With council tax levels being frozen nationally ([paragraph 16](#)), real terms increases and decreases will come about through changes in council tax relief and collection rates, as well as changes in the number of households paying council tax through new housebuilding, empty homes and/or depopulation. Council tax income increased in 29 councils but decreased in real terms in three (Aberdeenshire 1.4 per cent, Argyll and Bute 0.1 per cent and East Lothian 1.7 per cent.)

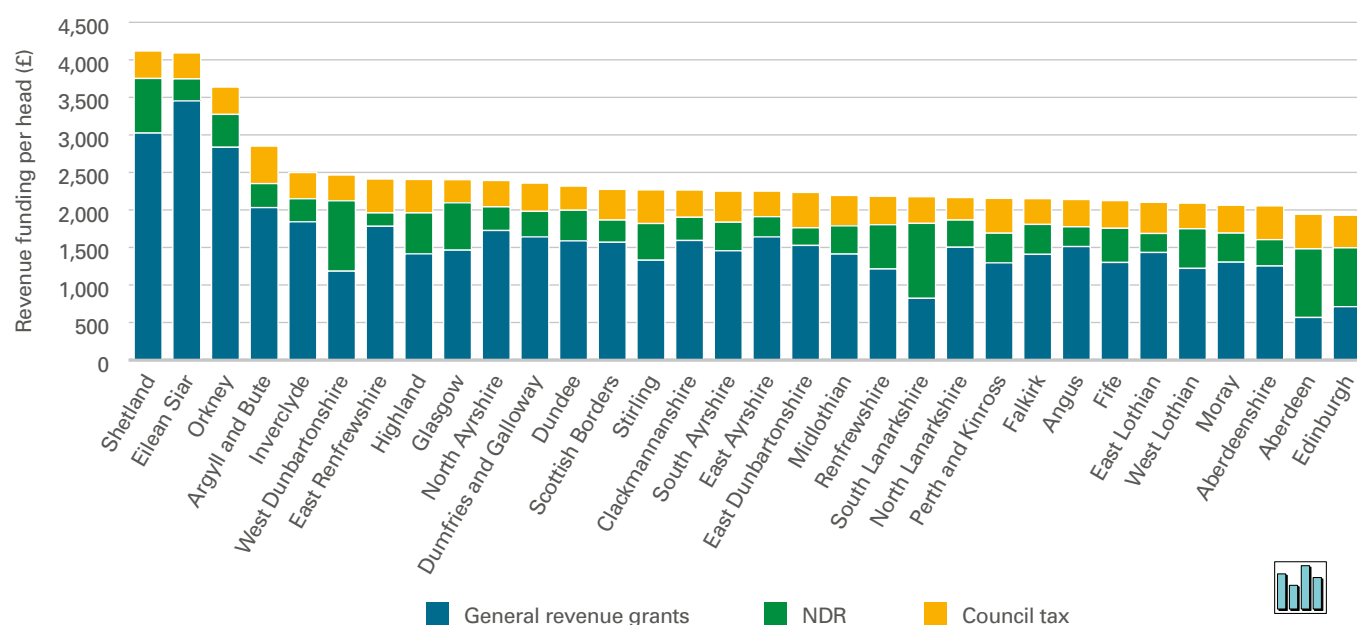
22. Councils collected 95.7 per cent of council tax in 2015/16. This was up from 95.3 per cent in 2014/15. Collection rates ranged from 93.6 per cent in Dundee City Council to 98.5 per cent in Perth and Kinross Council. We will look in more detail at councils' performance in collecting council tax and the associated costs in our March 2017 report.

23. The funding available to councils from Scottish Government general revenue grants, NDR and council tax varies widely. For Scotland, this equated to £2,232 per person in 2015/16. This is around £14 (0.6 per cent) higher in real terms than in 2014/15 and around £214 (8.8 per cent) lower than in 2011/12. The highest revenue funding per person was in Shetland Islands Council, around £4,118; and the lowest was around £1,928 in City of Edinburgh Council ([Exhibit 3](#)). The variation in funding per head between councils can impact upon both their financial performance and financial position.

Exhibit 3

Revenue funding from general grants and taxation, 2015/16

Revenue funding per head varies significantly by council.



Note: General revenue grant funding allocations for individual councils are decided by a needs-based formula that takes into account a variety of factors including rurality (including an allowance for island authorities) and levels of deprivation.

Source: Councils' audited accounts for 2015/16; and General Registrar of Scotland mid-year population estimate for 2015

Councils are raising an increasing proportion of their income through fees, charges and specific grants

24. Councils' 2015/16 accounts show income from fees and charges and other specific grants income totalled £4.8 billion. In real terms, this was £324.0 million (7.2 per cent) more than in 2014/15 and represents the largest growth area in council income. Service income increased in a number of areas, including education, roads and transport. The most significant increase was within social work and social care services, reflecting how councils have accounted for funds provided by Integration Authorities for delivering services.³ Service income from other areas, including environmental and planning and development services, fell in real terms.

25. Councils' accounts do not show how much of their income is specifically from service charges. In 2013, the Accounts Commission highlighted that councils need to be clear about how their charging policies affect local citizens.⁴ Charges should not be set in isolation. Any decision to vary or introduce charges to generate income should take account of the council's priorities. We will be looking at this again in our future work programme.

Capital income increased in 2015/16, reflecting earlier Scottish Government decisions about capital funding

26. In 2015/16, councils' total capital income was £0.9 billion. This represented a real-terms annual increase of £50.4 million (5.8 per cent). £856.3 million of this capital income came from Scottish Government grant funding. Between 2010/11 and 2015/16, capital funding from the Scottish Government increased by three per cent in real terms.

27. As part of its 2011/12 Spending Review, the Scottish Government rescheduled some of councils' planned capital grant funding for 2012/13 and 2013/14 by two years. As a result, capital allocations in 2014/15 and 2015/16 were around 50 per cent more than originally planned. Scottish Government capital funding in 2016/17 has fallen to £597.9 million owing to the Scottish Government again rescheduling capital funding (£150 million) to later years.

28. When councils borrow, it is mainly to finance assets such as buildings, schools and houses. Councils' current and planned capital expenditure therefore impacts upon what they borrow, their total levels of debt and the level of reserves they hold. In [Part 2 \(page 19\)](#), we examine the financial position of councils and how debt and reserves directly affect this.

Councils' spending on services increased in 2015/16 but is lower than five years ago

29. In 2015/16, councils spent £19.5 billion (revenue and capital). This real-terms increase of £708.9 million on 2014/15 was driven by increased spending in 22 councils. Although councils spent £0.6 billion more than their income, this can be attributed in part to accounting adjustments that councils must make in their annual accounts.

30. Councils' spending included pensions and interest on borrowing, but the vast majority (94.2 per cent) was spent on providing services to their communities. At £18.3 billion, this was a real-terms increase of £756.6 million (4.3 per cent) on 2014/15.



Is income from fees and charges clearly reported?

What increases in fees and charges are planned and how will these affect your citizens? Do you consider local economic impacts?

How do your fees and charges compare to other councils?

Is your capital investment programme appropriately funded?

31. Twenty-six councils own council houses. In 2015/16, these 26 councils spent £1.3 billion on council housing, around 6.5 per cent of total local government spending. This ranged from three per cent of total spending in Shetland Islands Council to 19.2 per cent of spending in Aberdeen City Council.

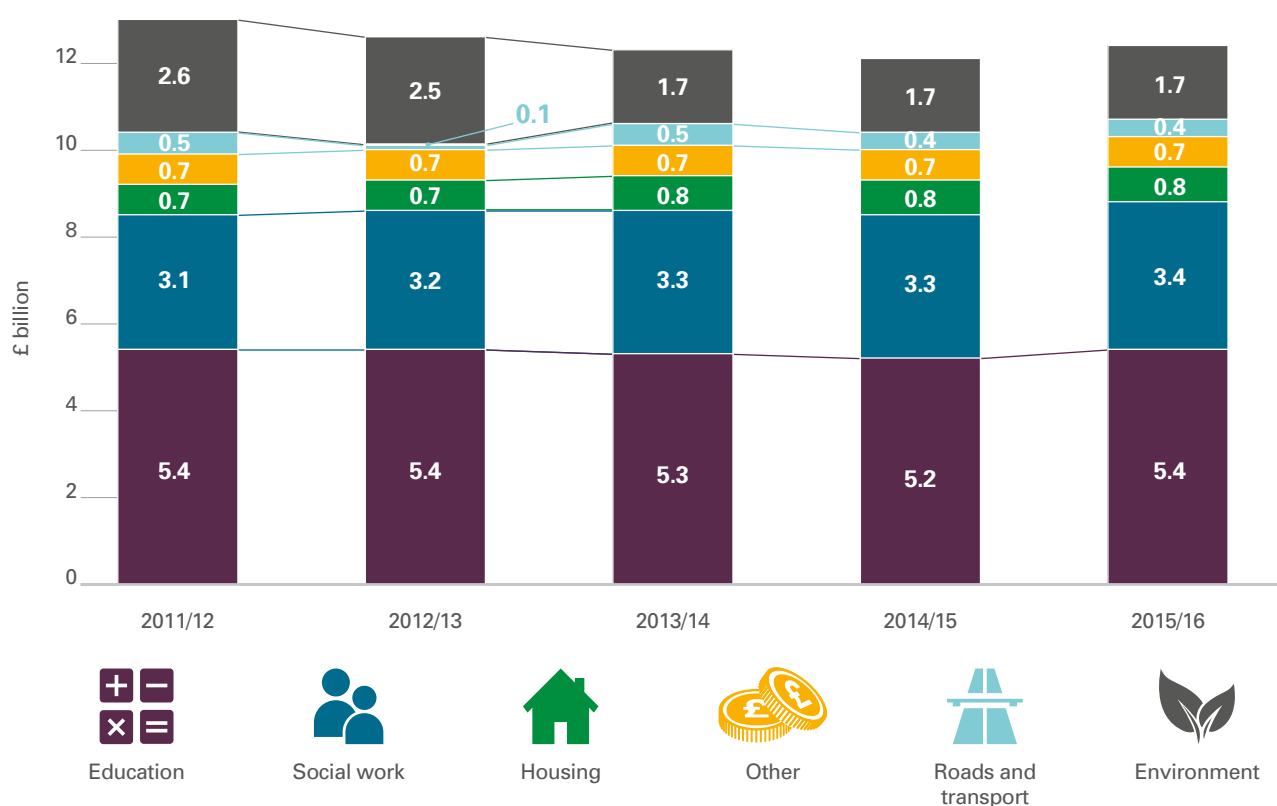
32. Overall, council expenditure remains 1.4 per cent lower than in 2011/12. Councils have managed financial pressures by controlling net spending (spending minus service income) over time. However, net service spending in 2015/16 was higher than in 2014/15, at £12.4 billion. The increase in 2015/16 included a real-terms increase of £217.3 million in net spending on education, driven by additional funding from the Scottish Government to support national educational priorities.

33. Real-terms spending on other services, such as roads and housing, has been maintained or reduced over time. The exception to this is social work and social care, where net spending has increased by £268 million (8.6 per cent) since 2011/12 ([Exhibit 4](#)). This reflects the increasing demand from a growing elderly population, which presents a huge challenge for both health and social care.⁵

Exhibit 4

Council spending on main services, 2011/12 to 2015/16 (at 2015/16 prices)

Councils have reduced or maintained real-terms net spending in a number of service areas, but there have been annual increases within social work.



Notes:

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

Source: Councils' audited annual accounts, 2011/12-2015/16



Councils spent around £2.4 billion on capital projects in 2015/16, with around a quarter of this spent on council housing projects

34. Of the £19.5 billion that councils spent in 2015/16, £2.4 billion (12 per cent) was on investing in capital projects such as buildings, roads and equipment. Just over a quarter of this capital spending (£632 million, 27 per cent) was on council housing projects. Capital spending ranged from £13.8 million in Shetland Islands Council to £191.9 million in City of Edinburgh Council.


35. There is a wide range in the scale of councils' capital investment programmes relative to their other expenditure. For example, less than seven per cent of total spending in East Ayrshire Council was on capital projects, while it was over 20 per cent of total spending in Highland Council. Capital investment will be driven largely by the condition of councils' current estate and their local priorities. Capital investment can reduce ongoing revenue expenditure and generate income, but it also incurs long-term costs that impact on councils' revenue budgets.

36. The majority of councils (28) underspent significantly against their combined General Fund and Housing Revenue Accounts (HRA) capital budgets in 2015/16. Common reasons for this were project delays and project slippage where spending did not progress as expected. Where possible, councils attempted to offset this by bringing projects scheduled for later years forward into 2015/16. For example, Angus Council spent £48.3 million on its General Fund capital programme in 2015/16, £4.0 million (eight per cent) less than budgeted. This was after the council offset some of the forecast shortfall by bringing forward two education projects and beginning them in 2015/16 rather than in 2016/17.



Do you know what slippage there has been in capital projects and why? Are you assured that appropriate action is being taken?

Over two-thirds of councils remained within their overall budgets in 2015/16 but there were variations within individual services

37. Councils are required to submit their annual budget and expected expenditure (provisional outturn) to the Scottish Government. Like the budgets presented to councillors, these are prepared on a funding basis and this differs from the figures in the annual accounts ([Supplement 1](#)  outlines the differences).

38. Throughout the year councils will revise their initial budget estimates to take into account factors such as extra funding. Our analysis of annual accounts and the information councils provide to the Scottish Government indicates that provisional outturns were relatively accurate when compared to actual spending, with actual expenditure being within two per cent in most cases. ([Exhibit 5, page 17](#)).

39. While over two-thirds of councils have remained in line with their overall budgets in 2015/16, there are significant variations in how different services have performed within councils. Where some services are significantly overspending, this may be offset by underspends elsewhere and result in a council remaining within their overall budget.

40. Our review of councils' annual audit reports has highlighted a number of service areas where councils commonly over- or underspent against their budgets. Around a third of the reports highlighted overspending in social work or elements of social work services. Aberdeenshire Council, for example, overspent against its adult social work budget by £2.0 million, with a £2.7 million overspend on care packages being the main contributor to this. A number of councils, including Clackmannanshire, Dundee and Falkirk, reported overspending relating to fostering services and residential school placements.

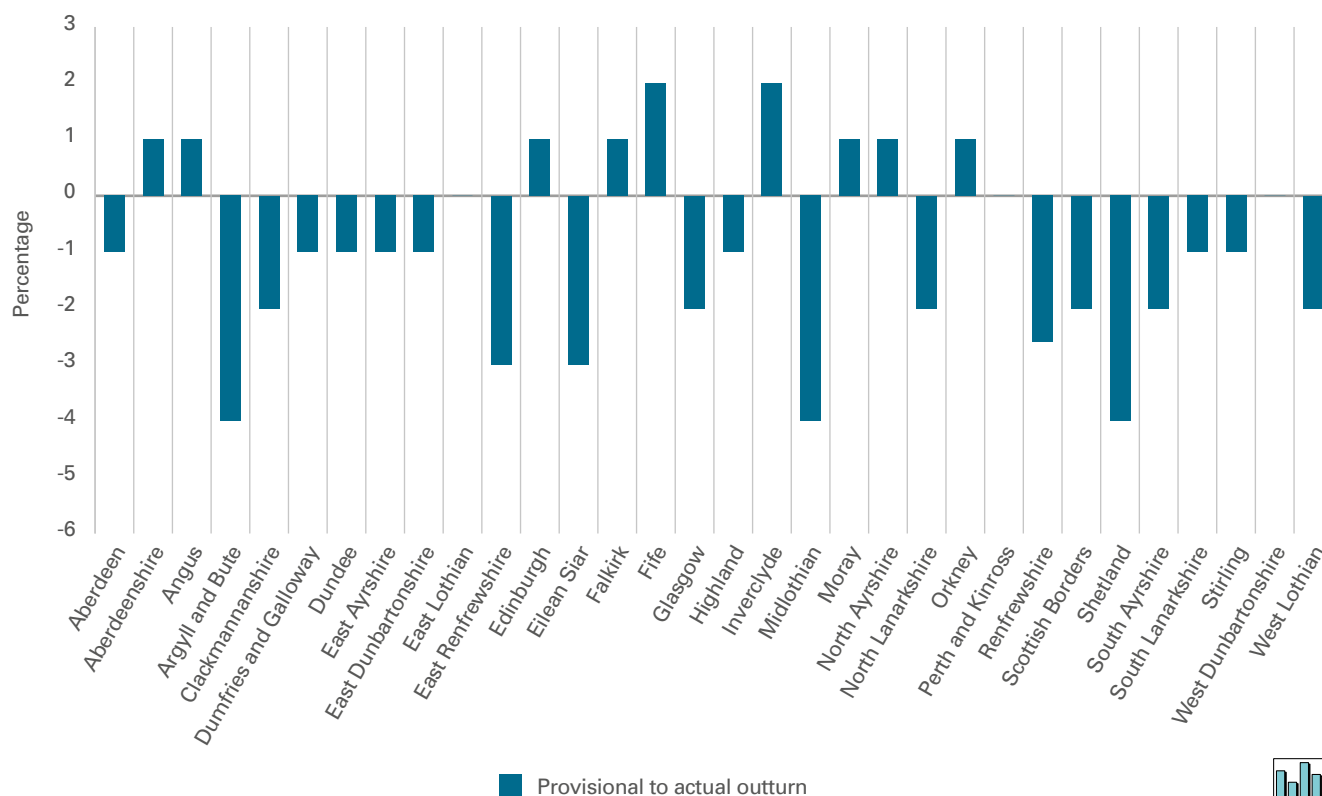
Do service budgets reflect your priorities?

Are potential overspends highlighted to you as they occur and before year-end?

Exhibit 5

Councils' provisional and actual net service expenditure, 2015/16

Only a few councils spent significantly more or less than they estimated near the end of the year.



Note: Budget figures that councils submit to the Scottish Government are prepared on a funding basis ([Supplement 2](#)). While there is no corresponding figure in the annual accounts, we are able to adjust the figures from the accounts to allow final service spending from the accounts to be compared to councils' provisional outturns.

Source: Councils' audited accounts 2015/16; and Provisional Outturn and Budget Estimate Statistics 2015/16, Scottish Government

41. Conversely, around a third of councils reported underspending against their education budgets or elements of these, and several councils underspent against their social work budgets. Last year, we reported that City of Edinburgh Council overspent its health and social care service budget by £5.9 million owing to demand pressures. In 2015/16, the service received additional funding of £9.8 million to provide additional short-term support and underspent its total budget by £3.4 million.

42. 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. Where services have been found to consistently overspend, 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. The impact of current spending approved by councillors on the financial position can only be accurately assessed if budgets are robust.



Are there services where you are consistently over or under spending against your budget? Are such variances adequately explained?

Councils continue to generate savings through reducing their workforce

43. Councils have continued to reduce their workforces to make recurring savings. In doing so, they incur significant initial costs, typically lump sum payments for redundancy or early retirement, and additional payments to pension schemes if employees are offered enhanced benefits or early access to their pension. Councils' decisions on reducing their workforce numbers through exit packages are supported by business cases which set out the associated costs and potential savings. Councils will typically expect to recoup the costs and start making savings within a few years.⁶

44. In 2015/16, 2,246 staff left councils through exit packages at a total cost of £79.7 million. This represents an average cost of around £35,500 per package. In the last five years, just over 13,000 staff have left councils through exit packages at a cost of £518.5 million (at 2015/16 prices) (**Exhibit 6**). We will consider how councils are managing their workforces in more detail in our March 2017 report.






Are exit packages supported by business cases setting out the total estimated costs and savings?

Exhibit 6

Number and cost of staff exit packages, 2011/12 to 2015/16

Over 13,000 staff have left via exit packages since 2011/12 at a cost of £518.5 million at 2015/16 prices. The average cost per package has been reducing since 2012/13 and is less than £40,000 over the period.

2015/16 prices	2011/12	2012/13	2013/14	2014/15	2015/16	Total
 Number of packages	4,070	2,407	2,373	1,933	2,246	13,029
 Cost of packages (£m)	156.9	112.7	94.2	75.0	79.7	518.5
 Cost per package (£)	£38,555	£46,818	£39,681	£38,798	£35,504	£39,797

Source: Councils' audited accounts 2011/12-2015/16



Equal pay claims impact on councils' financial position

45. Equal pay remains a substantial issue for local government and continues to be of public interest. Settling claims may require councils to use a significant amount of their usable reserves, influencing their financial position. The Accounts Commission is currently carrying out a performance audit on equal pay and will publish our findings in 2017.

Part 2

Financial outlook



Key messages

- 1** By the end of 2015/16, usable reserves had risen by five per cent across local government and net debt decreased slightly for the second year in a row. Some councils are building up reserves and reducing borrowing in anticipation of further funding reductions.
- 2** Councils' net debt currently stands at £13.72 billion. Councils currently spend around £1.5 billion a year on the associated interest and repayments. The proportion of their income that councils spend on servicing debt varies and this has direct implications for the amount available to spend on services.
- 3** Local Government Pension Scheme (LGPS) deficits decreased from £10.0 billion to £7.6 billion in 2015/16. Despite this, councils and pension funds continue to face challenges from below-target or negative returns on investments and increasing administration costs.
- 4** All councils face future funding gaps and there is significant variation in how well placed individual councils are to address them. Councils will need to make further savings and/or generate additional income as relying on reserves is not sustainable. Opportunities to make savings are partly affected by national policy commitments and the costs of servicing debt. Councils' ability to make savings will also be influenced by the level of savings they have already made and the extent of their plans for transforming how services are delivered. It is therefore important that councils' savings plans are achievable within the timescales required.
- 5** Councils face tough decisions around their finances that require strong leadership and sound financial management. Long-term financial strategies must be in place to ensure council spending is aligned with priorities. Decisions need to be informed by well-developed medium-term financial plans and budget forecasts that allow councillors and officers to assess the impact of approved spending on their longer-term financial position.

all councils should have long-term financial strategies supported by more detailed financial plans

Councils continued to increase their usable reserves and reduced their net external debt in 2015/16

Usable reserves reached £2.5 billion in 2015/16

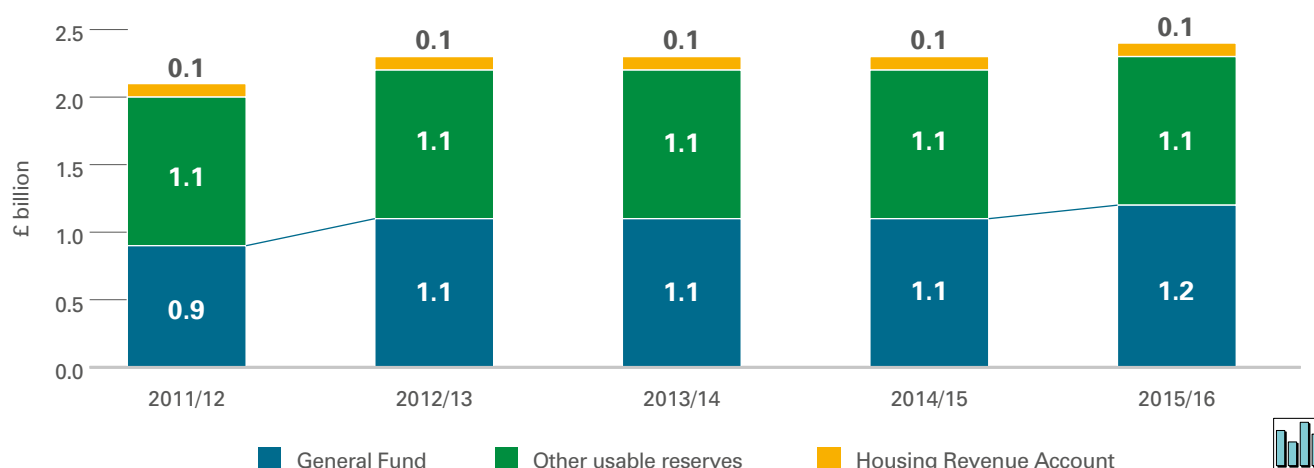
46. Councils' reserves at 31 March 2016 were £18.9 billion. Of these, £2.5 billion (13 per cent) were usable reserves that can be used to support services (these are often referred to as cash-backed reserves). The remainder were unusable reserves (£16.4 billion), which represent accounting adjustments to reflect things such as an increase in the value of council-owned buildings. Continuing the trend in recent years, councils increased both their usable and unusable reserves during 2015/16.

47. Usable reserves comprised £1.9 billion of revenue and £0.6 billion of capital reserves. The General Fund, which can be used to support a wide variety of services, is the largest usable reserve. Together with the Housing Revenue Account (HRA) reserve, these represent over half of usable reserves ([Exhibit 7](#)).

Exhibit 7

Councils' usable reserves, 2011/12 to 2015/16

Usable reserves have increased since 2011/12.



The level of General Fund reserves as a proportion of income from general revenue grants, NDR and council tax income has increased slightly since 2011/12.

2011/12	2012/13	2013/14	2014/15	2015/16
7.6%	8.8%	9.2%	9.4%	9.8%

Note: Other usable reserves are primarily attributable to Orkney and Shetland Islands holding large reserves relating to oil, gas and harbour related activities.

Source: Councils' audited accounts 2011/12-2015/16

48. Twenty-three councils increased their General Fund reserves in 2015/16, resulting in an overall increase of £58.0 million (5.2 per cent) to £1.2 billion. This is equivalent to about nine per cent of councils' available revenue income from

Scottish Government grants, NDR, council tax and council house rents. Half of the 26 councils with council houses increased their HRA reserves. This resulted in HRA reserves increasing by £11.9 million (9.2 per cent) overall to £141.8 million.

49. While usable reserves can be used to support services, councillors must consider how and when these are used as they can only be used once. Use of reserves must comply with the council's annually reviewed reserves policy. This should be clearly linked to financial plans and consideration must be given to the impact on future financial position. Using reserves to support services in the short term is not sustainable unless they are used to support service transformation and generate future savings. A significant proportion of usable reserves held by councils have already been allocated for specific purposes and so will not be available for other uses.



Do you know what levels of reserves are needed and why?

Do you think reserves are being used effectively?

Net debt decreased again in 2015/16, but is set to rise as councils use their reserves to fund services

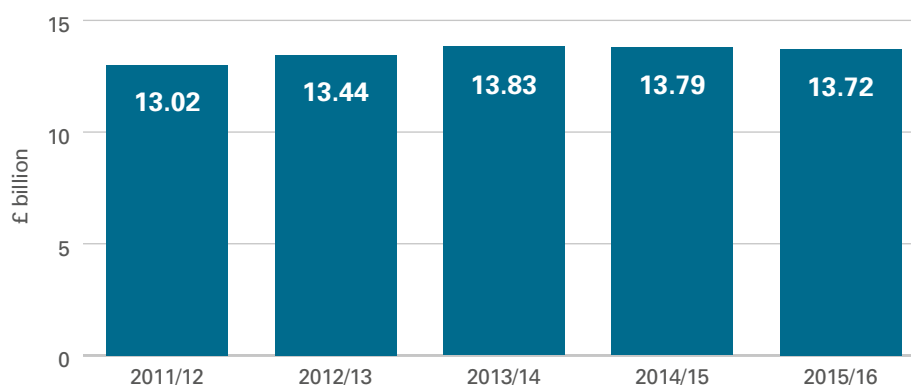
50. In 2015/16, Scotland's councils owned physical assets worth £38.3 billion. Councils can borrow from both external and internal sources to fund capital investment in new assets, such as building a school. Councils' assess the affordability of borrowing decisions under CIPFA's Prudential Code and it is up to individual councils as to what they borrow to invest in assets. External borrowing involves a council borrowing from another public sector body, from the financial markets or entering into a public-private partnership. Internal borrowing is when a council temporarily borrows from funds it has available, such as its reserves. This can delay it having to borrow externally. By doing this, a council will avoid paying costs to a lender but will also forego interest it could receive by investing its reserves.

51. For the second year in a row, councils' net debt (total external debt minus investments) decreased in 2015/16. The fall in net debt is largely a result of councils having higher levels of usable cash reserves that they can either invest or use to finance the capital expenditure for which they would otherwise have to borrow. Councils now have debt of around £15.2 billion and investments of around £1.5 billion. This means net debt is £13.72 billion, a reduction of £69 million (0.5 per cent) since 2014/15 ([Exhibit 8](#)).

Exhibit 8

Councils' net external debt, 2011/12 to 2015/16

Councils' net external debt has been falling but remains higher than in 2011/12.




Note: Orkney and Shetland Islands councils hold large reserves and investments related to oil, gas and harbour activity so are excluded from this analysis of net debt.

Source: Councils' audited accounts 2011/12-2015/16



52. We estimate value of internal borrowing across councils is about £0.9 billion. Interest payable on external debt is higher than the interest a council can receive on investments and so councils are utilising more internal borrowing to save money.

53. A key treasury management decision for councils will be when to borrow rather than use their cash reserves to fund projects. This will be influenced by councils' capital investment plans, the extent to which reserves are needed to support service spending as cost pressures increase (which means councils will need to borrow externally to replace the reserves used for internal borrowing) and whether any forecast change in interest rates makes external borrowing more attractive. The link between capital plans and debt is important and councillors must have a clear understanding of how changes in capital programmes will affect their council's debt position. Our report [*Borrowing and treasury management in councils*](#)  outlines this in more detail.⁷

Councils spend around £1.5 billion on servicing debt each year

54. Councils' external debt comprises borrowing from a variety of sources:

- the Public Works Loan Board (PWLb), which is a UK Government agency
- long-term liabilities from assets acquired under public/private partnerships, including the Public Finance Initiative (PFI), Public/Private Partnerships (PPP) or the Scottish Government's newer Non-Profit Distributing (NPD) model ([paragraphs 58 and 59](#))
- lender option/borrower option loans (LOBOs) ([paragraph 60](#))
- other market loans.

55. Within councils' accounts, debt is categorised by when it has to be repaid and not by source. It is also discounted to take into account factors such as when it has to be paid and interest payments. The source and value of councils' external debt in 2015/16 is shown in [Exhibit 9 \(page 23\)](#).

56. The presentation of local government accounts mean that it is not always possible to identify whether a council's debt is related to its HRA or its General Fund. This is an important distinction, as the cost of servicing HRA debt will affect council house rents, whereas the cost of servicing General Fund debt will need to be met from general revenue grants, NDR and council tax that are typically used to fund services.

57. The capital finance requirement included in councils' accounts, a measure of what council debt still needs to be financed, can be split between the HRA and General Fund. Using this split, we have apportioned debt to both the HRA and General Fund [Exhibit 10 \(page 23\)](#). This shows considerable variation.

58. Most council debt takes the form of traditional fixed interest rate loans, providing certainty over future interest payments. The exception to this is PFI/PPP/NPD debt and LOBOs. The cost of PFI/PPP/NPD debt is generally acknowledged to be more expensive than traditional borrowing, as repayments are usually inflation-linked. Councils should have considered this in their value for money assessments. Councils with a high proportion of PFI/PPP/NPD debt will have to make more complex affordability assessments for future borrowing. [Exhibit 11 \(page 24\)](#) shows levels of General Fund debt relative to the size of council, with the debt split between borrowing and other long-term liabilities (PFI/PPP/NPD and finance leases).



Are there clear links between the capital programme and treasury management strategy?

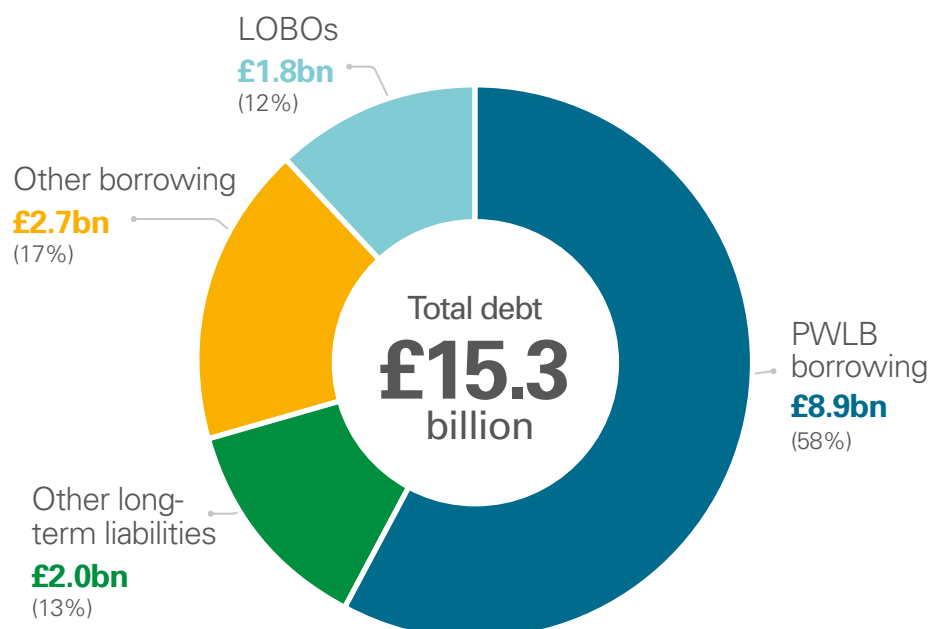
Do you know the implications that different types of borrowing options have on future revenue budgets?

Do you know the split in debt between General Fund and HRA (where applicable)? Is this reported within your management commentary?

Exhibit 9

Sources of councils' debt, 2015/16

Over half of council debt is borrowing from the PWLB.



Note: Total figure subjects to rounding.

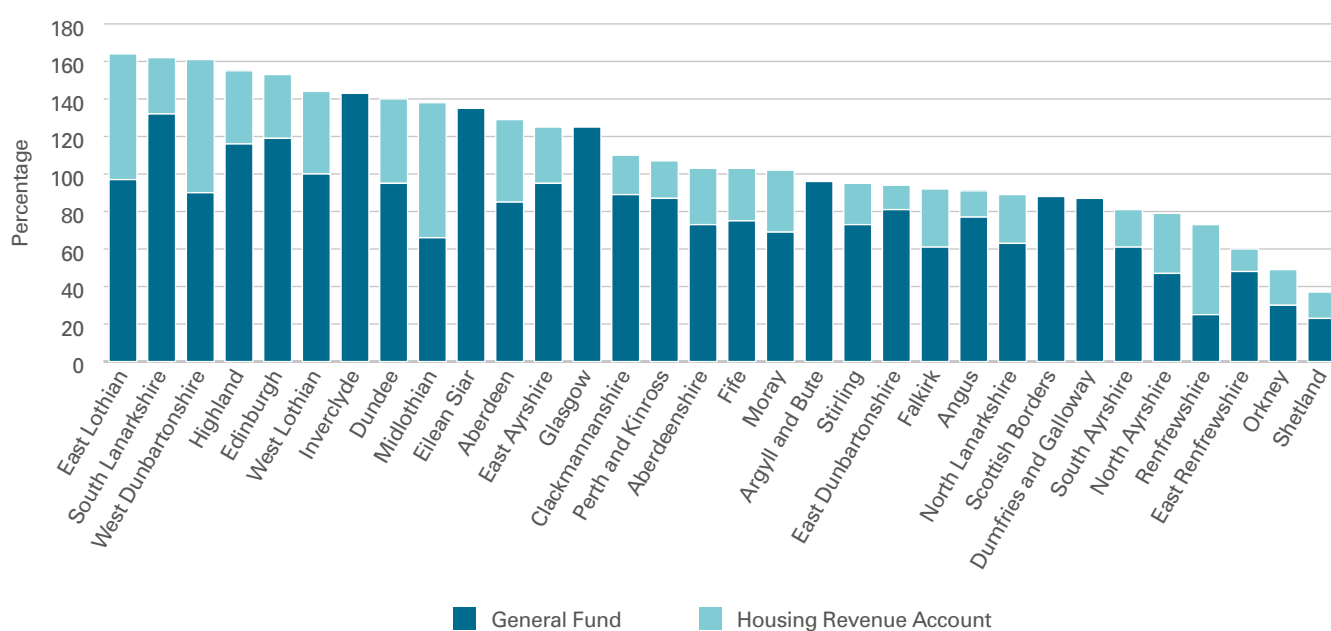
Source: Councils' audited accounts 2015/16 and auditor returns



Exhibit 10

Councils' total debt as a proportion of their annual income, 2015/16

Councils' debt varies from less than half to more than one and a half times their annual income.



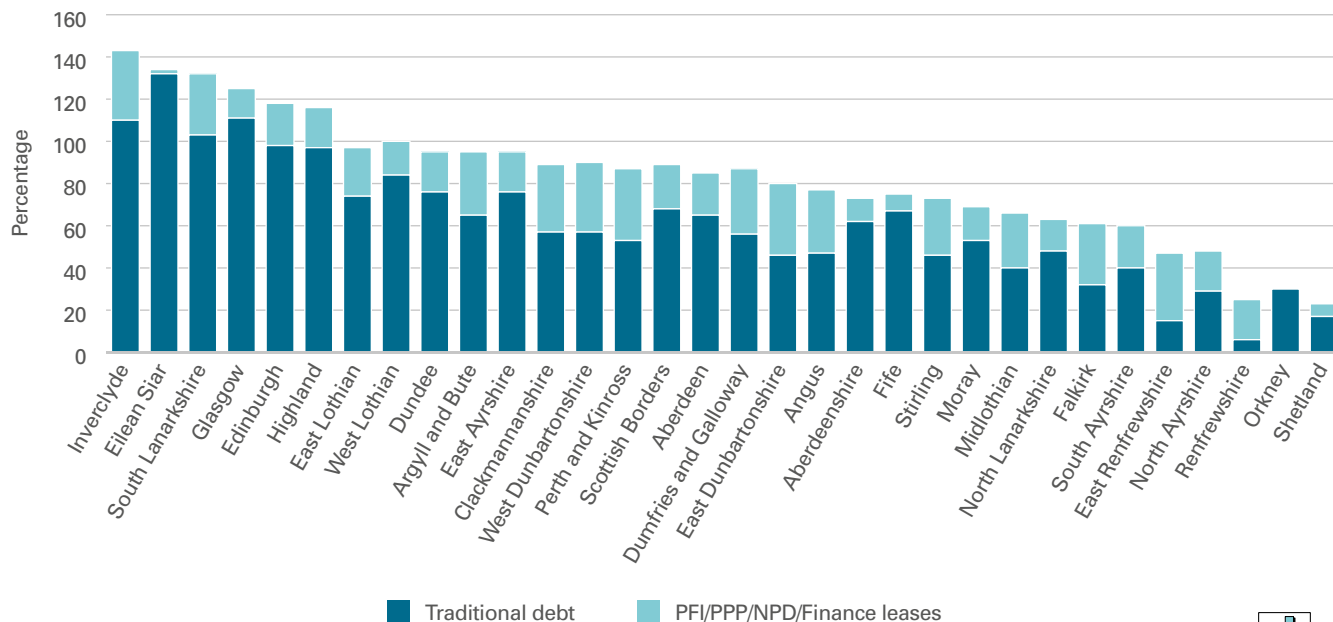
Source: Audit Scotland's analysis of councils' audited accounts 2015/16



Exhibit 11

Councils' General Fund debt, 2015/16

Councils with more debt relating to PFI/PPP/NPD projects and finance leases may face higher costs.



Source: Audit Scotland's analysis of councils' audited accounts 2015/16



59. As well as the debt and debt repayments associated with public/private partnerships, there are also significant revenue costs associated with these projects. Under the terms of the contracts, councils make annual repayments (unitary charges). Around 90 per cent of annual unitary charges relate to schools projects. The charges are made up of three elements: debt repayment, interest costs (both of which are included in debt servicing costs) and an annual service charge (included within the relevant service revenue spending). Councils' annual unitary charge payments are around £500 million per year. As councils' revenue budgets decrease, and the repayments increase in line with inflation, the proportion of revenue budgets being used to service the revenue elements of these contracts will increase.

60. LOBOs offered councils borrowing at lower interest rates than were available for fixed or variable interest loans but, at fixed intervals, a lender can decide to change the interest rate. As such, the long-term cost of servicing LOBOs is uncertain. While councils benefited from lower interest rates offered by LOBOs, their use has attracted public interest owing to the financial risk to which councils are exposed from the potential change in the interest rate.

61. The cost of servicing debt (repaying debt and interest costs) will depend on the mix of borrowing a council has, the interest rates secured at the time loans were taken out and the amounts it requires to set aside to repay debt. In 2015/16, this cost councils around £1.5 billion, equivalent to 12 per cent of their available funding from general government revenue grants, NDR, council tax and council housing rents. The percentage of this funding that councils use to service debt varies significantly, from 19.2 per cent in Comhairle nan Eilean Siar to 4.3 per cent in Orkney Islands Council. Aberdeenshire Council, with 7.1 per cent, is the council with the next smallest percentage of income used to service debt ([Exhibit 12, page 25](#)).

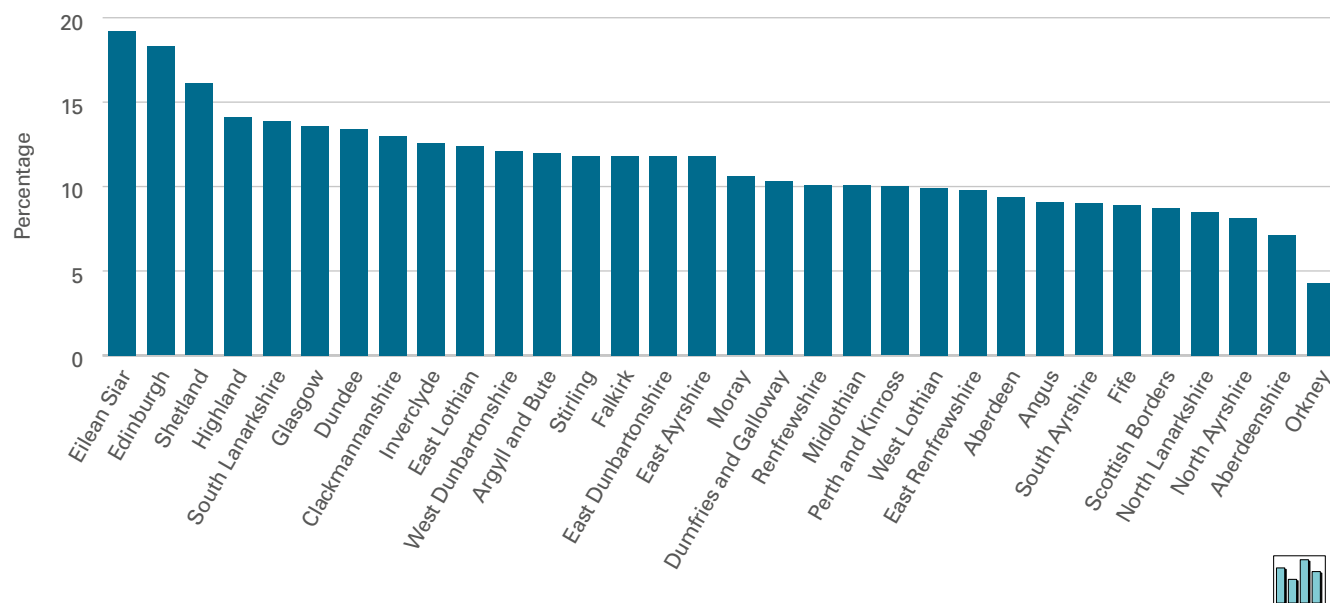


Do you know how debt repayments affect what money is available to spend on services?

Exhibit 12

The percentage of income used to service debt, 2015/16

Twenty-two councils spend ten per cent or more of their revenue income on servicing their debt.



Source: Councils' audited accounts 2015/16

62. The cost of servicing debt directly impacts upon council spending on services. However, councils can elect to reduce their debt by making extra repayments or by repaying loans early. Councillors must satisfy themselves that any accelerated debt repayment represents an appropriate use of funds, balancing the future savings against the current impact on council services.

Local government pension deficits decreased in 2015/16, mainly owing to estimated changes in long-term liabilities

63. Councils have long-term commitments regarding pensions. They are required to include a pension liability on their balance sheets for the Local Government Pension Scheme (LGPS) but not for the Scottish Teachers Superannuation Scheme (STSS).

64. The size of council pension liabilities varies significantly and depends on factors including:

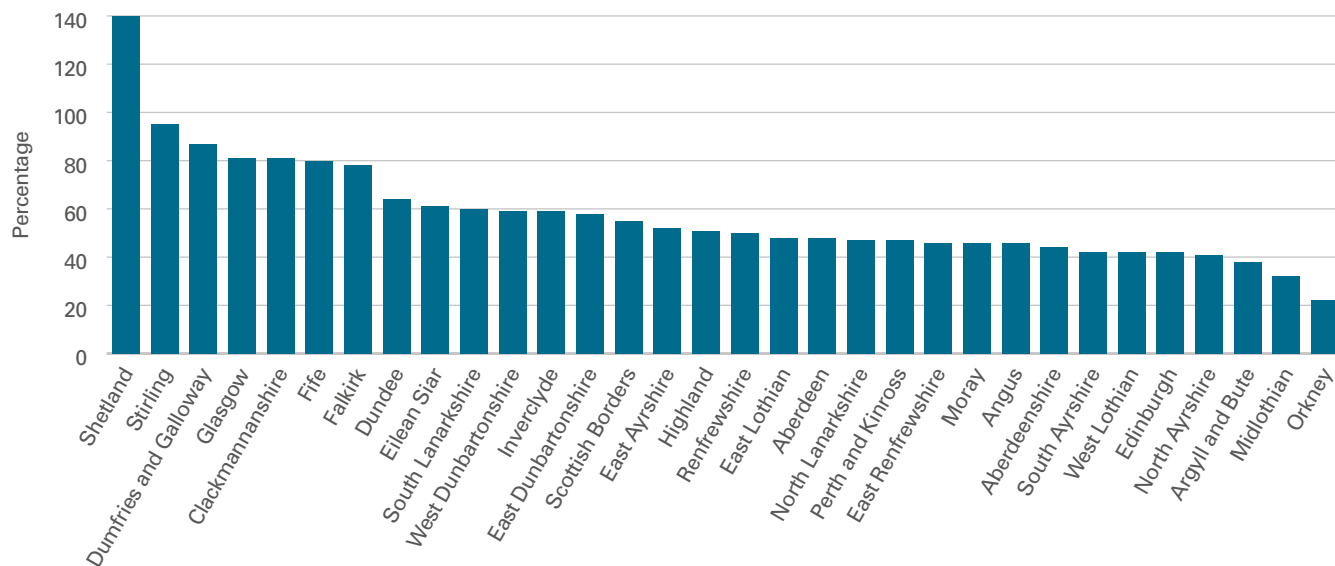
- performance of the pension funds of which they are members
- assumptions made by actuaries of the various funds
- the maturity of the council's membership (average age of pension scheme members)
- decisions made by councils to award discretionary benefits to staff retiring early.

65. Councils with larger pension liabilities will tend to have higher annual costs. The scale of the challenge for each council in meeting these costs can be illustrated by considering their pension liability in relation to their annual income ([Exhibit 13, page 26](#)).

Exhibit 13

Council pension liabilities (LGPS and discretionary benefits awarded), 2015/16

Councils' pension liabilities range from around 1.4 to 0.2 times their annual revenue incomes.



Source: Councils' audited accounts 2015/16

66. The LGPS is a funded pension scheme, where employers' and employees' contributions are invested to meet the cost of future benefits. For most councils, the estimated value of employees' benefits exceeds the current value of investments, leading to a net pension deficit. Councils' pension deficits reduced from £10.0 billion to around £7.6 billion during 2015/16 ([Exhibit 14, page 27](#)). This reduction is primarily due to actuarial calculations discounting the current value of what the funds will need to pay in the future. The factors contributing to this decrease include assumptions around inflation and salary increases decreasing and the discount rate increasing significantly.

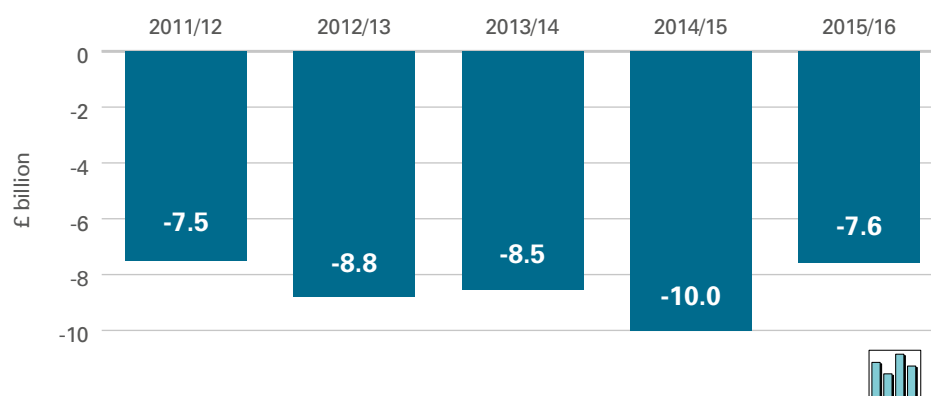
67. With increasing life expectancy, pension contributions have risen to help meet the increased cost of providing pension benefits. Employer contributions in respect of teachers increased by two per cent to 17.2 per cent in October 2016. Councils' contributions to the LGPS are reviewed every three years and will next be reviewed in 2017.

68. In 2015/16, the new 2015 LGPS was introduced. This sees pensions based on average career earnings and the pension retirement age linked to the state retirement age. The scheme includes a cost-sharing mechanism that limits employer costs to ensure it remains affordable. This cap is set by considering the cost associated with active members and will come into force when these reach a maximum of 17.5 per cent for the whole of the scheme (rather than for individual employers).

Exhibit 14

Pension deficits on councils' balance sheets, 2011/12 to 2015/16

Councils' pension deficits decreased in 2015/16, mainly owing to actuarial calculations discounting the value of future commitments.



Source: Councils' audited accounts 2011/12-2015/16

69. Alongside changes to the LGPS, pension auto-enrolment for existing and new employees is now in place. Traditionally there is high pension scheme membership among council staff but there will be additional costs associated with existing and new staff joining the pension scheme.

70. The councils that administer the 11 LGPS funds in Scotland have coped well with these changes. However, the scheme changes, combined with workloads associated with councils reducing their staffing costs through voluntary severance and having to administer added year payments, means there are ongoing administrative pressures.

71. We comment on the 11 LGPS funds, their accounts, governance and performance in a supplement to this report ([Supplement 2: Local Government Pension Funds 2015/16](#) )

Good financial planning and management are required to ensure the impact of spending decisions is fully understood

72. Councils are developing their financial strategies and plans in an increasingly complex environment. 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.

73. The Commission recognises that the Scottish Government providing funding settlement figures for a single year (as in 2016/17 and 2017/18) presents challenges to councils updating medium-term financial plans and ensuring they have long-term financial strategies in place. Although we recognise changes in Scottish Government funding may alter assumptions in both the long and medium terms, the absence of indicative funding should not prevent councils projecting future income and spending, and planning accordingly.

74. Fourteen councils currently have long-term financial strategies in place while 15 others have at least a medium-term financial strategy (three to five years) linking their spending plans to their wider strategic priorities. Three councils (East Renfrewshire, Glasgow City and Highland) do not have a financial strategy covering the medium or long term.



Do you have a long-term financial strategy covering five to ten years?

Are there clear links between the financial strategy and the vision for the future?

Is the long-term financial strategy supported by detailed plans covering a minimum of three years?

75. Twenty-nine councils have either medium-or long-term financial plans that set out planned spending, the savings required and how they intend to use reserves to support spending. Two councils have financial plans covering less than three years (Falkirk and Glasgow City). Orkney Islands Council does not have a financial plan but has a medium term financial strategy and a change programme is in place to deliver the medium-term savings identified.

76. There should be very clear links between a council's medium-term financial plan and the annual budgets that councillors approve. Although councillors approve only the budget for a single year, this should be supported by indicative future spending plans that forecast the impact of relevant pressures for councils. Presenting a budget for a single year in isolation does not allow councillors to fully scrutinise the implications of spending decisions.

77. There is variation across councils in how they presented indicative future budgets to councillors alongside their 2016/17 budget. Twenty-three councils presented budgets up to 2018/19; four (Glasgow City, North Ayrshire, South Ayrshire and West Lothian) presented budgets up to 2017/18; and five (Aberdeen City, Angus, Dundee City, Orkney Islands and Renfrewshire) presented budget figures for 2016/17 only.

Councils face significant funding gaps over the next three years

78. We asked auditors to provide information about budgets for 2016/17 and indicative plans for 2017/18 and 2018/19 that were presented to councillors when the 2016/17 budget was being approved ([Appendix \(page 34\)](#)). We focused on the largest elements of councils' budgets: the General Fund revenue budget; the level of approved savings within this budget; and the potential impact of this upon councils' General Fund reserves.

79. Within our analysis we have made several simplifying assumptions. We have only adjusted for savings approved in 2016/17 and further savings will have been identified. When approved these savings will offset future funding gaps. We have also assumed that any identified funding gaps will be met from General Fund reserves when councils' can also use other usable reserves to support spending. Finally, we have assumed that all General Fund reserves are available to close identified funding gaps when a significant proportion of these reserves may have already been allocated.

80. Where councils did not provide information to their auditors about their forecast General Fund budgets in 2017/18 and 2018/19, we made some assumptions from available information. Most councils that provided information up to 2018/19 are forecasting a continued reduction in revenue funding from the Scottish Government but with increases in council tax receipts. They are also forecasting that spending will increase. In particular, they anticipate rising demand on key services through demographic changes and generally assume wage inflation of between 1.0 and 1.5 per cent in both 2017/18 and 2018/19.

81. At the time of setting the 2016/17 budgets, councils anticipated an £87 million in-year shortfall between General Fund revenue income (excluding any use of reserves) and expenditure (after approving savings of £524 million). They planned to bridge the gap by using seven per cent of existing General Fund reserves, reducing them from £1.2 billion to around £1.1 billion by the end of 2016/17.

82. All councils have adequate reserve cover in 2016/17, meaning at the end of the year they will still have General Fund reserves they can use in future. The



Is the long-term financial strategy supported by detailed plans covering a minimum of three years?

Do financial plans set out the implications of different levels of income, spending and activity?

Is there a clear link between the council's revenue plans and the budget information you are asked to approve?

Do financial plans identify the differences between income and expenditure for the next three years?

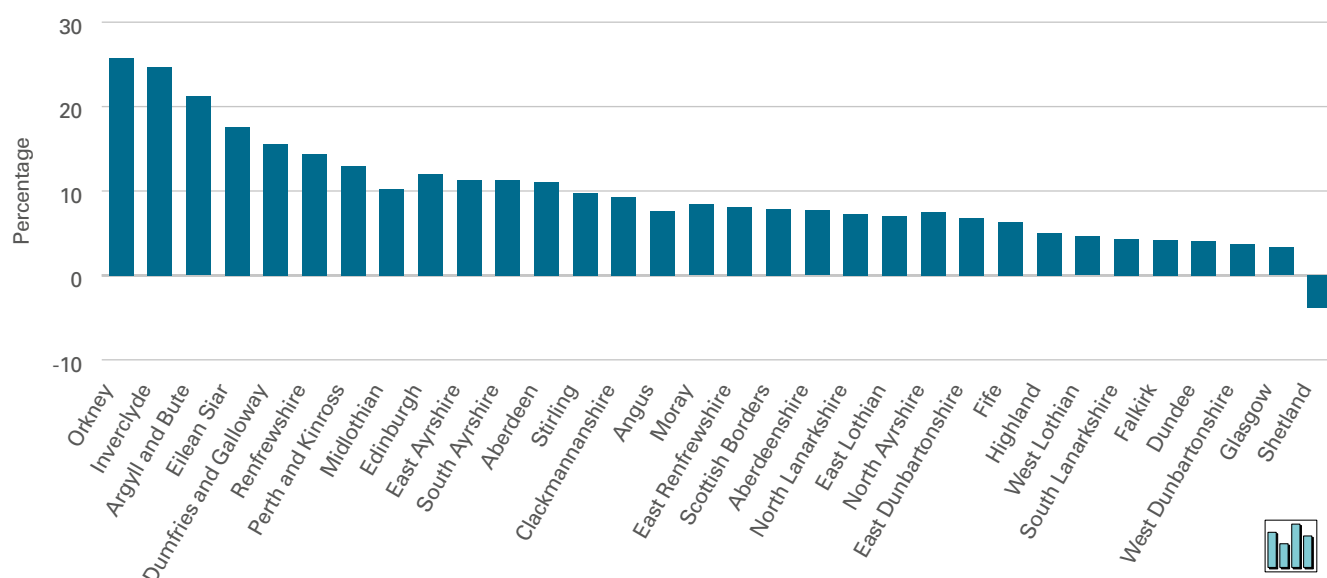
Do you know the actions being taken to close the funding gap?

exception is Shetland Islands Council, but only because of the way it classifies its sizeable reserves as opposed to any financial difficulties or it approving an unbalanced budget. General Fund reserves at the end of 2015/16 were equivalent to nine per cent of councils' overall income from the Scottish Government, NDR, council tax and council housing rents ([paragraph 48](#)). Adjusting for reserves that councils planned to use in 2016/17 reduces this to just over eight per cent ([Exhibit 15](#)). Councils will also have already allocated a proportion of their available reserves for specific purposes, and therefore what remains available as a contingency to support services will be significantly less.

Exhibit 15

2015/16 General Fund reserves as a percentage of councils' income, adjusted for planned reserve use in 2016/17

The level of reserves held as a percentage of income varies widely among councils.



Note: Shetland Islands Council classifies its reserves differently. This is not an indication of financial difficulties or an unbalanced budget.
Source: Councils' audited accounts 2015/16 and auditor returns

83. Seventeen councils planned to use reserves to balance their budget in 2016/17. This ranged from Angus Council planning to use 23 per cent of reserves to Dumfries and Galloway Council intending to use less than one per cent.

84. Excluding Shetland Islands Council, two councils (Falkirk and South Lanarkshire) forecasted a funding gap in excess of their General Fund reserves in 2017/18. A further 11 councils currently forecast a funding gap in excess of their General Fund reserves in 2018/19. Our analysis therefore indicates that by 2018/19, over a third of councils will face a funding gap that exceeds their General Fund reserves. We recognise that since setting their 2016/17 budgets this position will have changed as councils have continued to identify other savings to address funding gaps.

Exhibit 16

Council budget information for 2016/17, 2017/18 and 2018/19

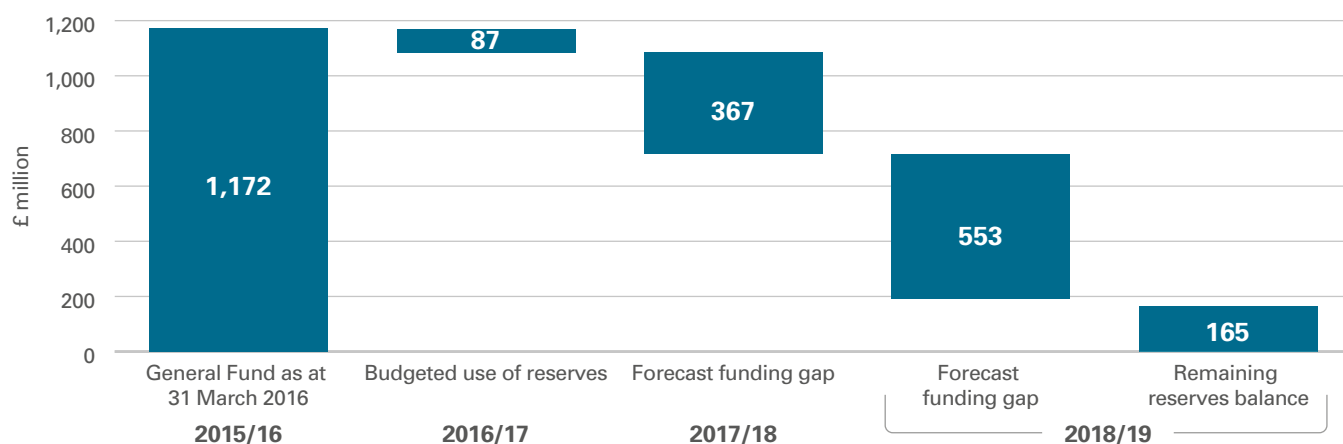
Councils planned to use £87 million of reserves in 2016/17 and forecast significant funding gaps in the following two years. There were significant forecasted funding gaps across the 23 councils that approved their 2016/17 budgets accompanied by indicative plans for the next two years.

	2016/17 (32 councils)	2017/18 (27 councils)	2018/19 (22 councils)
	Budget	Forecast funding position	Forecast funding position
Income	£11.94 billion	£10.32 billion	£7.85 billion
Expenditure	£12.02 billion	£10.65 billion	£8.25 billion
Budgeted use of reserves/ Forecast funding gap	£87 million	£323 million	£402 million

After applying assumptions derived from completed returns to estimate the position for councils that did not provide information for all three years, we estimated the following position:

	2016/17	2017/18	2018/19
	Budget	Forecast funding position	Forecast funding position
Income	£11.94 billion	£11.82 billion	£11.72 billion
Expenditure	£12.02 billion	£12.18 billion	£12.27 billion
Budgeted use of reserves/ Forecast funding gap	£87 million	£367 million	£553 million

The potential impact on General Fund reserve balances is illustrated below, assuming that further savings are not approved and funding gaps are met from General Fund reserves. A proportion of these reserves, however, will have already been allocated for other purposes.



Source: Councils' audited accounts 2015/16 and auditor returns



85. The level of General Fund reserves as a percentage of General Fund revenue expenditure would fall from 9.1 per cent at the end of 2016/17 to 1.2 per cent at the end of 2018/19 if all funding gaps had to be met from General Fund reserves. This reflects the need for councils to draw on a significant proportion of reserves if further savings are not identified and approved ([Exhibit 16, page 30](#)).

Councils need to appraise all possible options to address forecasted funding gaps

86. Councils need to make significant savings to address forecasted funding gaps without significantly reducing reserves in the next three years to support recurring spending. Councils' ability to make savings will be influenced by a range of factors, including:

- the level of savings they have already made and the extent of their plans for transforming how services are delivered
- national policy commitments for example, around education
- demographic changes increasing demand for services such as social care
- the costs of servicing debt, such as PPP/PFI/NPD revenue payments relating to school buildings.

87. In total, net spending on education, social work and interest payments on external debt equates on average to almost 75 per cent of local government income from general revenue grants, NDR, council tax and council housing rents. The variation across councils is shown in ([Exhibit 17, page 32](#)). Councils with a higher proportion of spending on education, social work and debt repayment may face greater challenges in generating their required savings, and potentially face making more significant savings in other areas. This highlights the importance of councils appraising all possible options for delivering their broad range of services. Recent Best Value audits have shown councils relying on incremental savings rather than considering service redesign options. The Commission is of the view that this is neither sufficient nor sustainable given the scale of the challenge facing councils.

Councillors should understand how the plans and budgets they are approving will affect the financial position of their council

88. Throughout this report, we ask councillors and officers to be clear about how their financial strategies, plans and agreed budgets affect their council's financial position. We would expect the following to form part of an assessment of the short and medium-term financial sustainability:

- confirmed and indicative changes in Scottish Government funding to councils
- how to avoid any short-term budget pressures, such as significant overspending in services that could result in the financial position of councils deteriorating
- whether future financial plans provide sufficient spending information to be considered when approving budgets.

89. In the medium to long term, we would also expect the presence of long-term financial plans, and the assumptions these make, to be taken into account alongside the following factors:



Do you know what plans there are to redesign services and deliver savings?

Are savings plans realistic within agreed timescales?

Are all savings clearly identified and categorised as recurring or non-recurring (i.e. one off) savings?

Is the council reliant on non-recurring savings?

Do you know what will happen to the reserves if savings are not made?

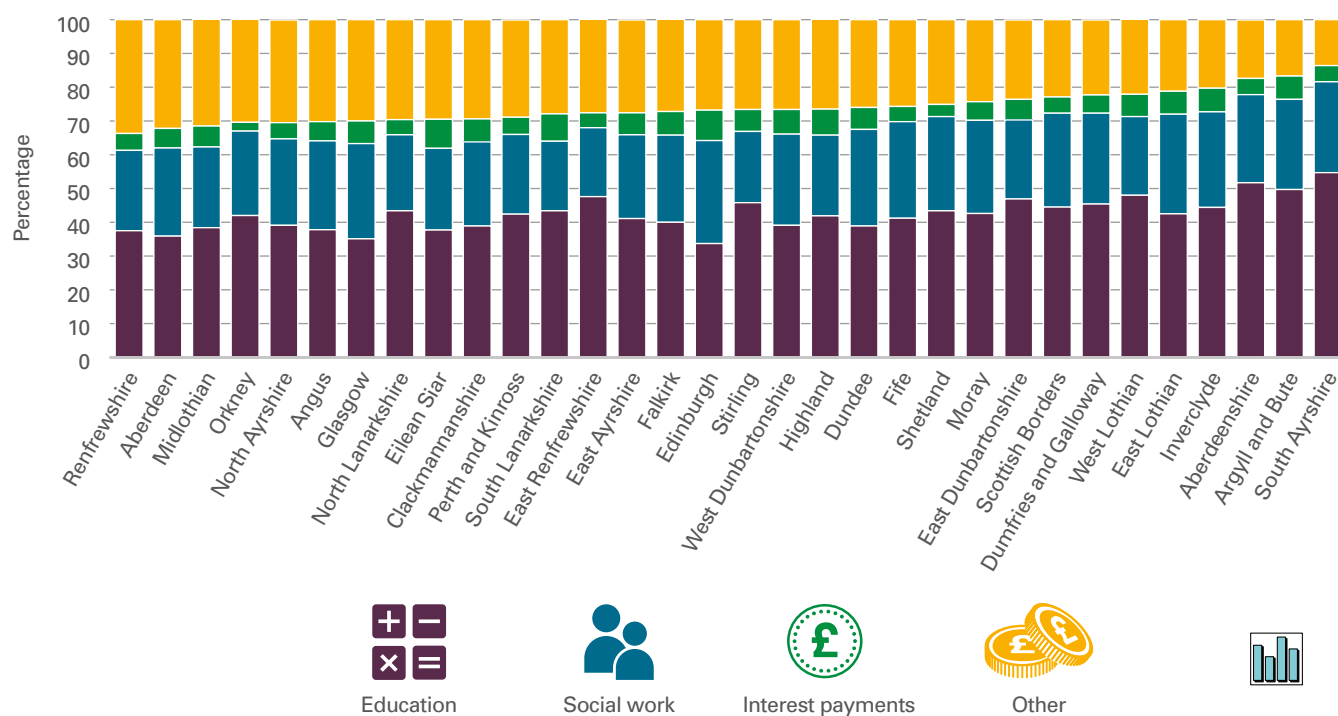
Do you feel you have the knowledge and expertise to scrutinise your finances effectively?

- current reserve levels and how these will be used to support service transformation and delivery while continuing to provide a suitable level of contingency
- expected demand and ongoing cost pressures, including councils' pension obligations, and how these are likely to impact on the services councils need to deliver
- the impact options for investing in assets (such as buildings) will have on both councils' debt and available income, taking into account ongoing servicing costs.

Exhibit 17

Percentage of councils' income spent on education, social work and interest payments, 2015/16

Savings may be more difficult to identify where councils devote more spending to education, social work and paying interest on their external debt.








Notes: 1. Figures are from councils' accounts and include interest payments totalling £814 million, including annual interest costs associated with PFI/PPP/NPD projects. 2. The £1.5 billion debt servicing costs quoted elsewhere are on a funding basis and are not directly comparable for the purposes of this analysis and includes the annual repayments of debt related to PFI/PPP/NPD projects. 3. For the purposes of this analysis net spending on social work services includes money directed to and from Integration Authorities.

Source: Councils' audited accounts 2015/16

Endnotes



- ◀ 1 Most of the increase in service income is due to a £371 million increase in social work and social care income because of how councils have accounted for money being returned to councils from the new Integration Joint Boards (IJBs) which are now responsible for local health and social care.
- ◀ 2 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. From 2013/14, revenue funding includes payments for council tax reduction, replacing council tax benefit previously coming from the UK Government.
- ◀ 3 Councils contribute to Integration Authorities (IAs), and receive money back to provide services on behalf of the IA. Social Work income in the accounts may be inflated depending on how councils have recorded this income received from the IA.
- ◀ 4 [*How councils work: an improvement series for councillors and officers – Charging for services: are you getting it right?*](#) , Audit Scotland, October 2013.
- ◀ 5 [*Health and social care integration*](#) , Audit Scotland, December 2015; and [*Social work in Scotland*](#) , Audit Scotland, September 2016.
- ◀ 6 [*Managing early departures from the Scottish public sector*](#) , Audit Scotland, May 2013.
- ◀ 7 [*Borrowing and treasury management in councils*](#) , Audit Scotland, March 2015.

Appendix

Methodology of funding gaps analysis



There are challenges in analysing budget information for individual councils to provide a comparative picture across local government. This is mainly due to variations in the way councils prepare and present budget information and the terminology used to define funding gaps. In discussions with local auditors and wider stakeholders we have designed our approach to try and address these challenges.

To allow a more consistent comparison among councils, we have revised how we define a funding gap. Previously the Commission identified a budget shortfall as the difference between income and expenditure, and a funding gap to be any remaining difference once savings approved by councillors have been taken into account (for example, service redesign, approved savings or use of reserves). Feedback from auditors and wider stakeholders suggested these definitions did not accurately reflect how councils refer to a funding gap.

As part of our 2015/16 audit work, we issued an information request to auditors. This focused on councils' General Fund revenue budgets for 2016/17, their budgeted use of reserves and forecasted differences between income and expenditure. We also requested information about approved savings and the main assumptions in respect of the forecasted figures.

In this analysis, we have focused on councils' General Fund budgets and the difference between income (excluding income drawn from reserves) and expenditure (reduced only for approved savings). This allows us to report on the budgeted use of reserves in 2016/17. Forecasted differences between income and expenditure in 2017/18 and 2018/19 then represent the forecasted funding gap, better reflecting the feedback we received about how this term is generally used.

The revised approach provides greater clarity about each council's plans and of the current position of the sector. We asked auditors to provide the level of savings formally approved by councils as part of the 2016/17 budget-setting process. This will include specific savings as well as general efficiencies. While it is expected that councils will continue to identify and approve further savings, the forecast funding gaps for 2017/18 and 2018/19 represent what councils currently forecast they will need to reduce expenditure by or finance from their reserves, ahead of formally approving further savings for these years.

We have applied common assumptions to allow the position of all 32 councils to be reported for years where individual councils did not supply information. Using information supplied by the other councils, we derived and applied:

- a reduction in income of 1.10 per cent and an expenditure increase of 1.16 per cent in 2017/18
- a reduction in income of 0.89 per cent and an expenditure increase of 0.66 per cent in 2018/19.

Local government in Scotland

Financial overview

2015/16

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How councils work

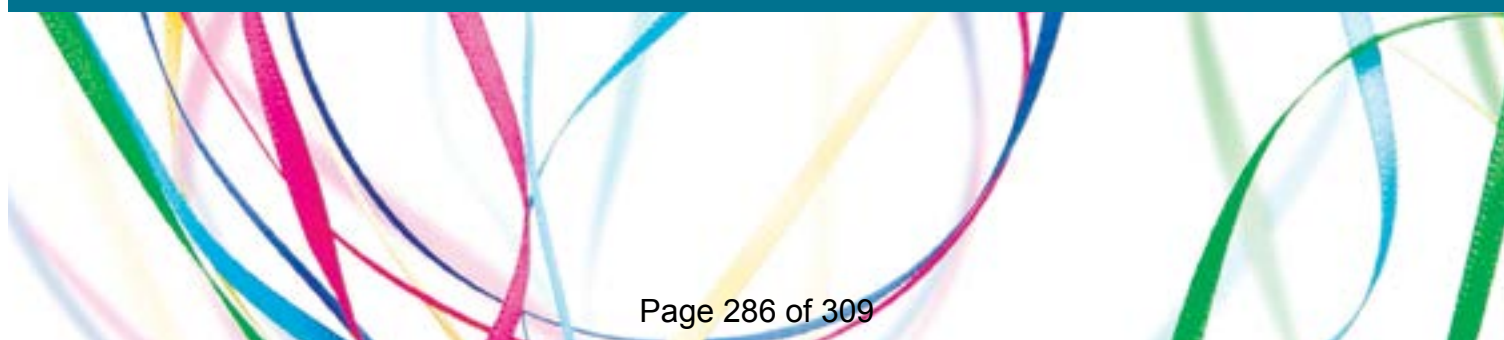
Follow-up messages for councils

Roles and working relationships in councils -
Are you still getting it right?



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
November 2016




The Accounts Commission

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

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

Our work includes:

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

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

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

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Web link

How councils work

Are you still getting it right?

1. The Accounts Commission's 2010 *How councils work. Roles and working relationships: are you getting it right?*  (HCW) report set out the importance of good governance in councils. This requires good working relationships, and members and officers being clear about their respective roles and responsibilities. As the Commission said at the time, getting these things right has a significant bearing on how well councils perform in delivering vital public services for local people and communities, and ensuring that public money is used wisely.

2. The report highlighted the complex and demanding role that councillors have in representing their constituents, providing strategic direction for the council, and scrutinising policy decisions and service performance. The Commission also drew attention to the increasing role of councillors on external bodies and partnerships such as health integration joint boards, arm's-length organisations, voluntary sector organisations and police and fire committees. The report stressed the importance of training and development to support councillors with the skills and tools to carry out their role.

3. Many, if not all of the recommendations in that report still stand. That is unsurprising as they were founded on core principles of good governance: clarity about roles and responsibilities; a culture of trust; and the application of good conduct and behaviour. However, since its publication in 2010, the context in which local government operates has changed markedly. The Accounts Commission has therefore decided to re-visit some of the report's key messages in the light of these changes.

4. The Commission hopes that this report will be a useful tool to support councillors and officers in their complex and evolving role. It aims to help them review their practice and to take any necessary actions to ensure that their council's governance arrangements remain fit for purpose.

Purpose of this report

5. Alongside its role as the local government public spending watchdog, the Accounts Commission also aims to help councils improve. The How councils work series of reports and this follow-up report focus on supporting councils in their drive for improvement.

6. In this report the Accounts Commission revisits the themes in its 2010 HCW report on roles and working relationships. It highlights issues that are important to the governance of councils in the current climate. The Commission hopes that this report will support councillors in their difficult and challenging role. It should also help councils to consider their current governance arrangements and make any necessary changes, including their preparations for the new intake of councillors following the May 2017 local government elections.

7. The messages highlighted in this report centre on the main themes of the original HCW of:



- clear roles and responsibilities and arrangements for governance that are up to date
- effective working relationships, with councillors and officers demonstrating appropriate behaviours
- councillors having the skills and tools to carry out their complex and evolving role.

8. Councils need to put in place systems for governance that fit their particular ways of working. There are however broad principles of good governance that all councils must observe. The 2007 CIPFA/ SOLACE Delivering Good Governance in Local Government Framework sets out six core principles which provide a useful context for this report:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

9. The checklists throughout the report are designed to help councils assess their governance arrangements taking these principles into account.

10. The [References](#) section provides links to other useful guidance material prepared by bodies including the Association of Public Service Excellence, the Centre for Public Scrutiny, the Chartered Institute of Public Finance and Accountancy, the Improvement Service, the Society of Local Authority Chief Executives and Senior Managers, and the Standards Commission.


11. As part of its research for this report, the Accounts Commission hosted two Round Table discussions to explore how the current local government context impacts on governance in councils. These were attended by senior officers and members from Scottish local authorities and leading local government policy experts and academics. Summaries of those discussions can be accessed here [Round Table 1](#) , [Round Table 2](#) . In addition to the round table discussions, the Commission has drawn on its own audit work in councils, and also wider research from those bodies identified in [references](#).

12. The following sections set out significant issues that the Accounts Commission believes are important to effective governance in the changing local government climate.


The changing local government operating environment

13. Councillors and council officers are working in an increasingly complex and challenging environment. Councils face continued financial constraints along with demand pressures in areas such as older peoples' care. Councils are having to rethink many of the ways in which they have done things in the past. This has implications for councillors and officers, and how they work together to lead change and improve services. Some of the major changes in the local government environment are summarised below:

- Continuing resource constraints, against a backdrop of increasing demand and rising public expectations about the quality of public services.
- The integration of health and social care, which is fundamentally changing the governance arrangements for this significant area of public service delivery.
- The increasing complexity of service delivery (ALEOs, Trusts, special-purpose vehicles, charities, etc.), often in partnership with others (other public bodies, the third and private sector, or communities themselves).
- The re-emphasis on Community Planning and the Community Empowerment Act, which has the potential to fundamentally change the relationship between councils and local communities.
- The City Region Deal programme, which is giving councils a more prominent role in leading the development of the local economy.
- The Community Justice (Scotland) Act 2016, which gives community planning partnerships responsibility for the strategic planning and delivery of community justice.
- The potential impact on councils of the Scottish Government's Programme for Government.
- The implications on local government of the United Kingdom's decision to leave the European Union.

14. The councillor role, while rewarding, can be challenging and stressful. Councillors play an increasingly important role in enabling communities to meet their aspirations. But at a time of financial constraint, they must also take difficult service decisions that may impact on the communities they serve. A report by the Association of Public Service Excellence (APSE) [*The future role of elected members in Scotland*](#)  illustrates these points well.

15. Councils need to take major decisions over how they provide services to meet current cost and demand pressures. The Accounts Commission has found that councils are implementing incremental changes to services, for example through introducing service charges or reducing employee numbers. But these approaches are not sufficient or sustainable given the scale of the challenges ahead.

16. In its 2016 report, [*An overview of local government in Scotland*](#) , the Commission emphasised that councils need to consider fundamental changes to cope with these pressures. A more strategic approach is needed with longer-term planning and a greater openness to alternative forms of service delivery. This requires both strong leadership and effective engagement with communities.

17. Good governance lies at the heart of how councils manage change and deliver improvement. But, governance has become more complex since the Accounts Commission's 2010 How councils work report because of a range of factors, including:

- the shift from single party council administrations to coalitions, where no single party has overall control
- the shift from traditional service-based committees to the executive or cabinet model, bringing a clearer separation between decision-making and scrutiny
- the increasing prominence of partnership working, including health and social care integration, and service delivery through alternative models such as arm's-length organisations
- the introduction of leaner management structures within councils, with executive directors holding wider service remits.

18. Many councils are taking measures to scale-down their management structures and reduce their workforces. Streamlining management and becoming more efficient is an important aspect of delivering Best Value, but the Commission has emphasised that councils need to retain sufficient leadership capacity to deliver effective services for the future. This means having the people in place with sufficient knowledge, skills and available time.

Checklist 1

Keeping governance up to date



As a councillor:

How effective is governance in your council?

Have your views been sought over the effectiveness decision-making and scrutiny, coalition working arrangements, or multi-member ward working for example?

Do you think councillors provide strong and effective leadership?

Do you feel that the council's senior management team has the capacity and capability to deliver the council's priorities?

Cont.

As a chief officer:

Have you consulted with councillors over the effectiveness of the council's governance arrangements?

Do you regularly review governance, eg schemes of delegation, standing orders and working protocols?

How well has the council adapted its governance to take into account significant changes such as health IJBs and its use of arm's-length companies?

Does your annual governance statement address significant issues and identify areas for improvement?

Councillors and officers must be clear on their roles

19. Governance can be described as the systems for directing and controlling an organisation's activities. Put simply, it's about being clear about what the council is trying to achieve and who is responsible for doing what. The 2010 HCW report emphasised that clear governance, particularly officer and member roles and responsibilities, is essential to delivering effective public services. That fundamental principle is as valid now as it ever was.

20. It is important that councillors actively support and contribute to the effective governance of the council itself. For example taking fair and objective decisions and providing constructive scrutiny. The Accounts Commission's Best Value work has shown how difficult it is for councils to make progress where councillors do not support, or may even obstruct their council's governance processes.

21. Councillors are required to observe the Councillors Code of Conduct. This sets out core requirements around the role of councillors and their conduct, for example around declaring interests and taking decisions. The McIntosh report into local government and the Scottish Parliament, June 1999 highlighted the distinct roles and responsibilities for councillors and officers.

- The full council (comprising all councillors) is the governing body of the council that determines policy. It is ultimately responsible for ensuring the quality of service delivery.
- Councillors are elected to determine policy, not to engage in the direct operational management of services – this is the responsibility of council officers.
- Officers advise and serve the whole council. The council has a right to expect advice which is candid, expert and impartial.

22. It found that these distinctions are often easier to state than to carry out consistently into practice. For example the distinction between policy development and management is notoriously difficult to draw up at the margin. In addition, the changed framework within which councillors and officers operate in cabinet or executive systems of governance call on a new level of skills on the part of officers who are required to work directly to both the executive leadership group and to the council as a whole.

23. Coalition administrations are now the norm for local government in Scotland, but these can bring less certainty over decision-making. It can take more effort from both councillors and officers to work effectively in a coalition. It also requires a more sophisticated or nuanced approach to balance different interests across political groups.

24. Some council administrations use coalition agreements to set out the joint expectations of the administration parties. These can be used to set out their shared vision and commitments, arrangements for budget setting, decision-making and scrutiny, and arrangements for resolving any differences. Coalition agreements can also be a useful focus for officers to help clarify the goals they need to work to. If managed well coalition working can lead to better decisions through testing policy proposals more widely.

25. Councils should also consider developing more specific local guidance or protocols to help clarify roles and responsibilities in their council. Examples include protocols for multi-member ward working; member-officer engagement; and employee conduct. [References](#) outline further guidance available to councillors.

Checklist 2

Clear roles and expectations



As a councillor:

How well do you understand and observe the roles expected of you?

Do you need further guidance on how to fulfil your role, for example protocols for member-officer working?

Do you actively contribute to effective governance in the council, as well as fulfilling your representative role as councillor?

Are officers accessible – and to what extent do they provide the right balance between supporting the administration and supporting the council as a whole?

Where your council is led by a coalition, are the working arrangements clear?

Where your council uses the executive or cabinet system, are the roles of the executive and non-executive groups clear?

As a chief officer:

Do you feel you provide the right balance between supporting the administration and supporting the council as a whole?

Have you reviewed the council's governance documents including schemes of delegation, guidelines and protocols to ensure they are clear and easily understood?

Do you think all councillors are clear on their roles and have the necessary skills, and have you taken steps to support them?

Scrutiny is an essential part of effective decision-making

26. Good governance involves councils being accountable and accessible to the communities they serve. Councils must be transparent about the decisions they make and the quality of the services they provide. The council's leadership must be scrutinised and held to account for its plans and performance. This requires a culture that recognises the importance of scrutiny and is open to candid discussions about risks.


27. Putting effective scrutiny in place can be particularly difficult in complex partnerships or where there is an uncertain and changing environment. Whatever system of governance is used, it is crucial to know who is asking questions over risk and resilience. A prerequisite for effective scrutiny is that councillors must regularly attend committee or board meetings and actively take part in scrutiny when they do so.

28. Councils must have good systems for decision-making, audit and scrutiny if they are to operate effectively. Scrutiny and audit are both important, but their distinction is not always clear. Blurring these roles can weaken governance.

29. In broad terms, scrutiny questions whether councils are doing the right thing and questions policy proposals and the performance and quality of services. Audit examines the regularity of governance and financial management including how the council has applied its resources to achieve its objectives. Councillors' involvement in discussion and debate at the start of the decision-making process is an important element of good policy making and effective scrutiny.

30. The Accounts Commission believes that effective and transparent scrutiny is best achieved where the chair of the scrutiny or audit committee is not a member of the political administration. Scrutiny and audit committees must have clear terms of reference that set out their independent role in scrutinising the councils decisions and its performance and practice. They should have adequate support and be given access to independent advice. Members of these committees must have the necessary skills and training to do their job.

31. Councils should give careful consideration to the design of their scrutiny arrangements, and review their effectiveness on an ongoing basis. The cabinet or executive model of governance makes a clearer distinction between decision-making and scrutiny. Where councils use this approach they should be clear on the powers that rest with executive members and the means by which non-executive members can hold the executive to account.

32. In its [overview of local government in Scotland](#)  report, the Accounts Commission' emphasised the importance of robust scrutiny over councils' strategic service delivery choices, noting that "it is increasingly important that councillors are able to challenge and scrutinise decisions and performance, and fully assess options for new and different ways of delivering services within their reducing budgets".

33. The Commission's Best Value work in councils has highlighted that scrutiny works best where councillors receive good quality information on which to base their decisions. But, councillors also need to be proactive and assure themselves that they have sufficient evidence before decisions are made. The information they receive should be balanced, comprehensive and understandable. If things go

wrong it is not enough for councillors to say 'I wasn't told', or 'we weren't given the information'. Where scrutiny fails the public interest is not met; the most graphic example being the failure in scrutiny by councillors in Rotherham MBC in relation to the sexual exploitation of children.

34. The 2015 Community Empowerment Act gives communities a much stronger say in how public services are to be planned and provided. The legislation provides a real opportunity for councils to develop imaginative ways of involving communities in local decisions and in scrutinising local services. Councils must use the opportunity that this new legislation presents to strengthen community engagement and participation to drive improved outcomes in local services.

Checklist 3

Effective scrutiny



As a councillor:

How open is your council to scrutiny – is scrutiny encouraged as a means to improve services and make better decisions?

Have you received training and support in your scrutiny role?

Do you actively engage in scrutiny and ask constructive and challenging questions?

Do you feel able to ask candid questions, for example about risks?

To what extent does scrutiny take into account service user and community views?

Are the chairs of the audit and scrutiny committees sufficiently independent?

Do you get sufficient information to make balanced decisions, for example on the best options for delivering services?

Does your council's scheme of special responsibility allowances reflect the importance of the scrutiny and audit functions?

As a chief officer:

Do you periodically review the effectiveness of scrutiny – including its impact on decision-making?


Are effective scrutiny and audit arrangements in place for services delivered through local partnerships or arm's-length bodies?

Do you provide councillors with comprehensive information on services, costs and risks?



Have you taken measures to engage service users and communities in scrutiny?

The governance of partnerships and arm's-length bodies needs to be considered at the outset

35. Councils and their partners must give careful consideration to the governance arrangements for partnerships, joint boards, and arm's-length organisations. Issues such as councillor representation, scrutiny and public accountability need to be considered at the outset.

36. Where the council jointly leads a service with other partners it is important that they share a common culture and purpose. The Accounts Commission's Best Value audit work found that community planning partnerships for example are most effective where they have a shared culture of trust. But, the integration of health and social care is an example of the complexities involved in achieving this. Our December 2015 report on [Health and social care integration](#)  highlighted the need for members of IJBs to understand and respect differences in organisational culture between councils and the NHS and to build a common understanding of the roles and responsibilities of board members.

37. There has been steady growth in councils' use of arm's-length organisations. First seen as sports trusts in the 1980s, ALEOs are now also widely used for property, transport, and economic development. More recently, ALEOs have been used for core services such as older people's care. This can mean councillors taking positions on the boards of companies and charitable trusts and brings particular demands to their already diverse role.

38. The councillors Code of Conduct sets out principles that councillors must follow when taking a role on outside bodies. The Standards Commission's Advice Note for Councillors on ALEOs provides supplementary guidance to help clarify this complex area of the Code. The Accounts Commission and COSLA's [Following the Public Pound Code](#)  (FPP) and the Accounts Commission's [How councils work](#)  reports on ALEOs also set out guiding principles for councils in this complex area.

39. These reports emphasise that councils should consider carefully the representation on arm's-length organisations. The key question is what skills are required of the board and who is best placed to meet these. Where councillors or officers take such roles they should be clear of their responsibilities and have the right mix of skills and experience.

40. There are risks of conflicts of interest where councillors or council officers take board positions. The Companies Act and Charities Act requires board members or trustees to act in the best interests of the company or trust on which they serve, and to put these interests first. But there may be times where this requirement may conflict with a councillors' duties to the council. This can be a difficult balance where councillors and council representatives may be privy to certain information, but are prohibited from sharing or acting on it because of their role. Examples could be council policy decisions that impact on local services and the funding provided to ALEOs.

41. There is an ongoing debate around the advantages and disadvantages of having councillors as board members. On the plus-side, councillors bring their status as democratically elected community representatives and their knowledge of the council and its services; on the minus-side, there are potential conflicts of interest between their council and ALEO roles. It is interesting to note that in England it tends to be the exception rather than the rule for councillors to be members of ALEO boards.

42. Councils should consider wider options to limit the risks of conflicts. For example, some councils have chosen not to use council representatives as board members for this reason. Alternatively, council representatives can take advisory or non-decision making roles in the ALEO. In all cases, and in line with FPP, councils should ensure that the performance of ALEOs is regularly reported and monitored by the council and reported to committee.

Checklist 4



Partnerships and arm's-length bodies

As a councillor:

Do you think the governance arrangements for local partnerships, the health IJB, and the council's arms-length bodies are clear and fit for purpose?

Do you have the necessary skills and abilities to undertake your role?

Do you receive support and training on your roles and responsibilities in relation to any partnership or arms-length body that you sit on?

Does your training specifically cover your legal responsibilities as a member or trustee in relation to the company or charitable trust that you are a member of?

Do you make a strong contribution through your attendance and engagement at board meetings?

Are the different aspects of the role clear eg providing strategic direction, scrutiny, audit, and representing the council or community?

Is the performance of the local body or partnership sufficiently monitored and reported to council?

Does the IJB have a common culture and purpose – is there a clear vision for improving care?

As a chief officer:

Does your council provide sufficient training and support to councillors in their roles on local partnerships and boards?

Does the council understand and observe the Following the Public Pound guidance? (eg setting clear criteria for funding, audit access, and monitoring)

Does the council have a clear rationale for council representatives having a role on outside bodies and partnerships?

Are you satisfied with the governance of the IJB including how its decisions are reported to the council?

Statutory officers need to have sufficient influence

43. Statutory officers have specific duties and discharge their role as part of their wider responsibilities within their council. They have an important, independent role in promoting and enforcing good governance and for making sure councils comply with legislation. [Exhibit 1](#) summarises the core roles of statutory officers.

44. The Accounts Commission believes that statutory officers must have sufficient influence and experience to undertake these important roles. It has found in its Best Value audit work that in some cases the role of monitoring officer can be undermined because of a lack of trust and respect between councillors and officers.


45. The 2010 HCW report found that councillors are not always clear on the purpose of the statutory officer roles. Council schemes of delegation should set out what these roles involve and why they are important, and the role of statutory officers should feature in induction schemes for all newly councillors. Councillors and committees should know when to seek advice from statutory officers to ensure that they operate legally and responsibly.

46. The chief executive is responsible for ensuring that statutory officers have sufficient access and influence to carry out their roles. This could mean for example their being a member of, or attending the senior management team. As such the chief executive may need to balance the benefits of having statutory officers as full members of the senior management team, with any intentions to operate slimmer executive management structures.

Exhibit 1

Statutory officer roles

Statutory officer post	Core duties
Head of paid service (the chief executive) <ul style="list-style-type: none"> established under the Local Government and Housing Act 1989 	The head of paid service (the chief executive) is responsible to councillors for the staffing of the council and ensuring the work in different departments is coordinated.
Monitoring officer <ul style="list-style-type: none"> established under the Local Government and Housing Act 1989 	The monitoring officer ensures that the council observes its constitution and operates legally. This includes reporting on the legality of matters, mal-administration, and the conduct of councillors and officers.
Chief financial officer <ul style="list-style-type: none"> established under the Local Government (Scotland) Act 1973 	The chief financial officer (section 95 officer or the senior financial officer) is responsible for the financial affairs of the council.
Chief social work officer <ul style="list-style-type: none"> established under the Social Work (Scotland Act) 1968 	Councils are required to appoint a professionally qualified chief social work officer to provide members and senior officers with effective, professional advice about the delivery of social work services.
Chief education officer <ul style="list-style-type: none"> established under the Education (Scotland) Act 2016 	Councils are required to appoint a suitably qualified and experienced chief education officer to carry out the authority's education functions as defined by the Education (Scotland) Act and other enactments.

47. Our report [Social work in Scotland](#)  highlights that the role of the chief social work officer (CSWO) has changed significantly as a consequence of health and social care integration. This has created risks that in some councils the CSWO may have too many responsibilities and insufficient status to enable them to fulfill their statutory responsibilities effectively. This is one example of the challenges councils face in putting effective governance in place at a time of ongoing change.

Checklist 5

The role of statutory officers



As a councillor:

Do you understand the roles of statutory officers, and do you have confidence in their abilities and contribution? (eg, monitoring officer, chief social work officer, chief finance officer)

Have you received sufficient training on the roles and responsibilities of statutory officers?

Do you / your committee understand how and when to consult with statutory officers?

As a statutory officer:

Do you have sufficient influence to ensure the council operates effectively?

Are you seen to be accessible in the support that you provide throughout the council?

Do you have a constructive relationship with the senior management team?

Are your views sought, and do you provide advice and direction to councillors and senior officials?

Are the responsibilities of the statutory officer roles adequately set out in the council's governance documents?

Good conduct and behaviours are crucial

48. Culture is set from the top and a positive culture is essential for any organisation to operate effectively. The Accounts Commission has stressed the importance of councillors and officers working well together. This means good working relationships built on trust, openness and mutual respect between all parties. Where these are absent it is difficult for any organisation to make progress.

49. Councils should reflect on whether their working relationships are constructive and productive. Councils operate in an often highly politicised environment and this can lead to tensions. The Standards Commission has noted increasing incidences of complaints against councillors. This can damage the reputation of councils and distract them from their purpose to provide people with vital services.

50. The Accounts Commission's Best Value work in councils has found instances where working relationships have broken down between political groups, or where there are tensions between members and officers. For example where

members lack confidence in officers and the information they provide to them. Social media and instantaneous communications are also becoming an increasing area of risk for councillor conduct.

51. Councillors and officers should send clear signals over how their people should behave and interact. Councillors should observe the ethical standards and behaviours set out in the councillors' code of conduct. Monitoring officers also have a role to help them with this. Exit interviews for councillors are seldom undertaken but they can provide useful reflection on how councils are run.

52. The 2010 HCW report noted the benefits of using cross-party meetings to help foster good communication and working relationships between political groups. Similarly, member-officer working groups can be useful to for members to work more closely with officers. These meetings should not be used for decision-making, observing the principle for council decisions and discussions to be taken in public.

53. Ultimately, actual behaviours are more important than rules – which can be worked around or ignored. It can be difficult for monitoring officers to challenge personal behaviours and this takes confidence and experience. Monitoring officers need to know how to act, and when. It is important that they address issues at an early stage, nipping potential problems in the bud to prevent poor behaviour becoming an accepted part of how the council runs itself.

Checklist 6

Conduct and working relationships



As a councillor:

To what extent do you think councillors work constructively together and show mutual trust and respect?

Is there a culture of trust and openness between councillors and chief officers?

Are you made aware of the behaviours and conduct expected of you?

Are cross party or group meetings and member-to-officer working groups used and do they work well?

As a chief officer:

Is sufficient guidance on roles and expected conduct available to both councillors and officers /employees?

Do you have positive and constructive working relationships with officers?

Are sufficient opportunities in place for cross party / group meetings, and for members to work with officers?

Are such meetings constructive, and do they respect the principle for public debate and decision-making?

Does the council undertake exit interviews for councillors and learn from them?

Councillors need the skills and tools to carry out their role

54. Local government in Scotland is a significant undertaking on any measure, involving annual expenditure of £20 billion and employing over 240,000 people. The increasing complexity of the local government environment, highlighted in this report, underlines the crucial importance of councillors having the skills, knowledge and confidence to provide demonstrable leadership, to undertake a much wider variety of roles, and to manage this complexity effectively.

55. It is essential that councils practice effective scrutiny, and decision-making to make sure that every pound they spend is spent wisely. There is an over-riding need for good governance and this can be especially challenging as service delivery arrangements become more complex.

56. Many councils carry out training needs analysis and put in place personal development plans for councillors. But evidence from Best Value audits indicates that councillors' take up of training is at best variable and sometimes they have poor perceptions of the training they receive.

57. Despite the importance of skills development there is no requirement in the Councillors Code of Conduct for councillors to participate in training. However, all councils provide compulsory training for the quasi-judicial roles in regulatory functions such as planning and licensing.

58. This is in contrast to the position in the health service where health boards have a duty to provide non executive directors with the necessary information and training to ensure that they are able to discharge their corporate responsibility to their highest standards. The approach recommends mandatory training and development for new non executive directors of a health board relevant to their governance committee membership or as identified through the performance development process.

59. It is also important to draw attention to the requirement in the Following the Public Pound (FPP) code for councils to properly advise members and officers of their responsibilities in relation to ALEOs, including declarations of interests. Councils should consider the role of their training and development programmes in meeting this requirement. This is not only in the public interest but in the best interests of councils themselves.

60. The Accounts Commission urges councils to go further and ensure that councillors receive training in the essential areas of scrutiny, audit, and financial decision-making.

61. Involving councillors in the design of training programmes can help to make them more relevant to their needs. Drawing on the views of newly elected and longer-serving members can help ensure that training and development, particularly induction training, is appropriate and effective. This can help to overcome the 'you don't know what you don't know' challenge where councillors may not be aware of skills and knowledge gaps until they have been in the job for some time. There is also a role for peer-to-peer training so councillors can learn and benefit from others' experience.

62. Training and development should be an ongoing process, not just a one-off induction. Newly elected councillors can be overloaded at the start of their term.

Councils should consider wider options such as training in the transition period before councillors take office; or a second wave of training once councillors have settled into their roles and are in a better position to apply new learning.

63. It is also important that officers provide ongoing support to councillors including good quality advice and information to help them in their various roles. This includes the opportunity to learn from good practice in other councils – another recurring theme of Best Value audits. The overall focus needs to be on continuing personal development.

Checklist 7

Councillors skills



As a councillor:

How well do you understand your role in relation to the council, local community, and on partnerships and outside bodies?

Is training and development sufficient for you to do your job?

Are you able to make an effective contribution to scrutiny, audit, and financial aspects of council business?

Do you take up training opportunities and make the most of advice and support from officers?

As a chief officer:

Do you ensure that training and development opportunities are available to councillors?

Does training include essential skills in areas such as scrutiny, audit and financial decision-making

Do you give sufficient support, information and guidance to councillors across their diverse roles, including partnerships and arm's-length companies?

Do you tailor training to the individual needs of councillors make it available on an on-going basis?

Do you seek feedback on the effectiveness of training and act on this?

Has the council reviewed the facilities and support provided to councillors to help them make the best use of their time and skills?

References

Accounts Commission/Audit Scotland

[*How councils work. Roles and working relationships*](#) , Audit Scotland, August 2010.

[*How councils work. Arm's-length external organisations \(ALEOs\)*](#) , Audit Scotland, June 2011.

[*The following the Public Pound Code \(Accounts Commission and COSLA\)*](#) , Audit Scotland, March 2004.

[*An overview of local government in Scotland 2016*](#) , Audit Scotland, March 2016.


Other references (as in October 2016)

[Councillors' Code of Conduct \(The Standards Commission\)](#) .

CIPFA/SOLACE [Delivering Good Governance in Local Government: Framework \(2016 Edition\)](#) .

[Advice for councillors on arm's length external organisations](#)  (The Standards Commission).

[Improvement Service learning materials](#) , eg Elected Member Briefing Notes & Guidance (CPP board guidance, continuous professional development, induction, briefings etc.)

Scottish Parliament Information Centre (SPICe) Financial Scrutiny Unit Briefing, [Subject profile – local government in Scotland](#) , (includes councillor roles and council powers / functions).

[The role of the chief financial officer](#) , CIPFA.

Association of Public Service Excellence (APSE) report: [The final piece of the jigsaw: elected members, everyday politics and local democracy in Scotland](#) .

Local Government Association information on being a councillor: <http://beacouncillor.co.uk/> .

Scottish Government: [On Board: A Guide for Board Members of Public Bodies in Scotland](#) .


How councils work

Follow-up messages for councils

Roles and working relationships in councils
- Are you still getting it right?



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Summary Checklist

Questions for councillors and officers to consider



Keeping governance up to date

As a councillor:

How effective is governance in your council?

Have your views been sought over the effectiveness decision-making and scrutiny, coalition working arrangements, or multi-member ward working for example?

Do you think councillors provide strong and effective leadership?

Do you feel that the council's senior management team has the capacity and capability to deliver the council's priorities?

As a chief officer:

Have you consulted with councillors over the effectiveness of the council's governance arrangements?

Do you regularly review governance eg schemes of delegation, standing orders and working protocols?

How well has the council adapted its governance to take into account significant changes such as health IJBs and its use of arm's-length companies?

Does your annual governance statement address significant issues and identify areas for improvement?

Clear roles and expectations

As a councillor:

How well do you understand and observe the roles expected of you?

Do you need further guidance on how to fulfil your role, for example protocols for member-officer working?

Do you actively contribute to effective governance in the council, as well as fulfilling your representative role as councillor?

Are officers accessible - and to what extent do they provide the right balance between supporting the administration and supporting the council as a whole?

Where your council is led by a coalition, are the working arrangements clear?

Where your council uses the executive or cabinet system, are the roles of the executive and non-executive groups clear?

As a chief officer:

Do you feel you provide the right balance between supporting the administration and supporting the council as a whole?

Have you reviewed the council's governance documents including schemes of delegation, guidelines and protocols to ensure they are clear and easily understood?

Do you think all councillors are clear on their roles and have the necessary skills, and have you taken steps to support them?

Effective scrutiny**As a councillor:**

How open is your council to scrutiny – is scrutiny encouraged as a means to improve services and make better decisions?

Have you received training and support in your scrutiny role?

Do you actively engage in scrutiny and ask constructive and challenging questions?

Do you feel able to ask candid questions, for example about risks?

To what extent does scrutiny take into account service user and community views?

Are the chairs of the audit and scrutiny committees sufficiently independent?

Do you get sufficient information to make balanced decisions, for example on the best options for delivering services?

Does your council's scheme of special responsibility allowances reflect the importance of the scrutiny and audit functions?

As a chief officer:

Do you periodically review the effectiveness of scrutiny - including its impact on decision-making?

Are effective scrutiny and audit arrangements in place for services delivered through local partnerships or arm's-length bodies?

Do you provide councillors with comprehensive information on services, costs and risks?

Have you taken measures to engage service users and communities in scrutiny?

Partnerships and arm's-length bodies**As a councillor:**

Do you think the governance arrangements for local partnerships, the health IJB, and the council's arms-length bodies are clear and fit for purpose?

Do you have the necessary skills and abilities to undertake your role?

Do you receive support and training on your roles and responsibilities in relation to any partnership or arms-length body that you sit on?

Does your training specifically cover your legal responsibilities as a member or trustee in relation to the company or charitable trust that you are a member of?

Do you make a strong contribution through your attendance and engagement at board meetings?

Are the different aspects of the role clear eg providing strategic direction, scrutiny, audit, and representing the council or community?

Is the performance of the local body or partnership sufficiently monitored and reported to council?

Does the IJB have a common culture and purpose – is there a clear vision for improving care?

As a chief officer:

Does your council provide sufficient training and support to councillors in their roles on local partnerships and boards?

Does the council understand and observe the Following the Public Pound guidance? (eg setting clear criteria for funding, audit access, and monitoring)

Does the council have a clear rationale for council representatives having a role on outside bodies and partnerships?

Are you satisfied with the governance of the IJB including how its decisions are reported to the council?

The role of Statutory officers

As a councillor:

Do you understand the roles of statutory officers, and do you have confidence in their abilities and contribution? (eg monitoring officer, chief social work officer, chief finance officer)

Have you received sufficient training on the roles and responsibilities of statutory officers?

Do you/your committee understand how and when to consult with statutory officers?

As a statutory officer:

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Do you tailor training to the individual needs of councillors make it available on an on-going basis?

Do you seek feedback on the effectiveness of training and act on this?

Has the council reviewed the facilities and support provided to councillors to help them make the best use of their time and skills?



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