

**Audit Scotland Report: An Overview of Local Government in Scotland 2015
(Audit Scotland, March 2015)****Report By: Kenneth Lawrie, Chief Executive****1 PURPOSE**

1.1 To provide Audit Committee with a summary of the Audit Scotland report, '*An overview of local government in Scotland 2015*' and the Council's position in relation to the report's findings.

2 BACKGROUND

2.1 Each year the Accounts Commission produces an overview of issues that have arisen from their local authority audits. The overview assists councils in identifying and planning for pressures that they may face in the coming year and the 2015 report explores the financial and service pressures currently faced in Scotland and the future pressures that will impact upon services.

2.2 ***An overview of local government in Scotland 2015*** was published by the Accounts Commission in March 2015. The report is based on the local government audit work in 2014 and provides a high level, independent view on the progress councils are making in managing their finances and in achieving Best Value. The overview report highlights key findings that are common to Local Authorities, for example, financial position, reform agenda, demands for services and leadership and governance. The key messages identified for councillors in 2015 are:

1. Councils face increasingly difficult financial challenges.
2. Many councils are now reporting gaps between their income and the cost of providing services.
3. Public performance reporting is getting better but councillors need better financial and service information to help them set budgets and scrutinise performance.
4. Councils are considering ways of delivering services more efficiently and need to get better at using local data and involving service users and local communities in developing options to improve services and help save money.
5. Councils need to ensure that the way they manage and control their work keeps pace with the quickly changing circumstances in which they operate.

2.3 The report states that in the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms (allowing for inflation), to £10.3 billion. Also noting that reductions in the Scottish budget are likely, particularly in 2016/17 and 2017/18 and against this context demand is rising because of population changes, in particular demand for services for older people. Alongside this, councils deliver national policies such as those relating to school class size targets and housing quality

standards and by deciding to freeze council tax levels. Other matters noted which potentially place pressures on councils' finances include, increasing borrowing costs, equal pay claims and welfare reforms. The report advises that almost all councils are now predicting a gap between their income and the cost of providing services.

2.4 Part 1 of the Audit Scotland report reviews the financial context (noted above) within which councils operate. It highlights the overall financial position and pressures on budgets including:

- Council's funding is decreasing in real terms; so it is important that they consider options to increase their income, whilst recognising that Council's have relatively limited scope to increase their income
- Council's have many commitments to manage within reduced budgets with over half of council's spending on education and social work and the Council's decisions about how they deliver national and local policies affecting their financial commitments
- Most councils are reporting funding gaps and though Reserves are available, councils can only use this money once. With further budget reductions expected, demands for services increasing and an increasing proportion of councils' budget being required to repay debts and other financial commitments, there are a range of other matters affecting councils' finances with further changes expected.

2.5 The report considers how councils are addressing some of the challenges and notes that in order to manage the financial challenges councils have reduced staff numbers and paid out £352 million in voluntary severance since 2010/11. Also noting that the increased risk that reductions in staff numbers, and the associated loss of skills and experience, will affect essential support services. However the report recognises that despite reductions in funding, available data indicates that councils have continued to improve or maintain services but that sustaining improvement is becoming more challenging and councils face increasingly difficult decisions about providing services.

2.6 The report further notes that effective financial and performance management has helped councils to relieve pressures through, for example, targeting resources at their priority areas, and identifying better ways to provide services. Highlighting however that councils need to take more account of service users' priorities and get better at using local data and involving communities in planning and delivering services. Whilst recognising that effective planning and budgeting helps councils target resources, the report notes that there is limited evidence of longer-term financial planning, which can limit how well they understand the full implications of their spending and borrowing.

2.7 The report states that governance needs to keep pace with changes in staff, management and political structures, particularly in community planning and where councils and health boards are working to implement health and social care integration fully by April 2016. In addition the report highlights the need for Councillors to have clear information to help them scrutinise services and make effective decisions as well as Councillors ensuring that they get the training and support they need to help them fulfil their demanding roles.

2.8 Part 2 of the report looks at how councils are managing the financial challenges and highlights what councils and their partners need to do to help deal with the ongoing and increasing pressures (noted above) they will face in 2015/16 and following years and states that strong financial management and good governance are critical to making changes successfully. Key issues noted include:

- Whilst savings plans are in place, councils will need to consider more fundamental changes as decisions on how to reduce spending become even tougher
- Councils are reviewing and changing the way they deliver services with almost all councils having reduced staff numbers to help deliver savings and available data indicates that councils maintained or improved service performance in 2013/14 however pressures on services are increasing and there is an increasing risk that reductions in staff numbers will affect essential support services, such as HR and finance
- Councils are consulting with service users and communities but need to involve them more in planning and delivering services and have good information for decision-making
- Effective planning and budgeting helps councils target resources, but there is limited evidence of longer-term financial planning though some councils are taking a priority-based approach to budgeting
- Governance arrangements must be kept up to date and fit for purpose with good information supporting decision-making, governance arrangements also need to reflect changes in structures and services. Councillors need clearer information to help them scrutinise services more effectively and training to help them set budgets and scrutinise performance

3 REPORT RECOMMENDATIONS

3.1 The Report noted the following 7 recommendations stating what Councillors should do, the text in italics that follows each recommendation is how Midlothian Council is currently addressing or planning to address each of them:

1. Assess whether they have appropriate knowledge and expertise, in areas such as assessing financial and service performance, to carry out their role effectively.

Elected members currently have access to a collective development programme and individual development discussions which cover a range of topics, including specific training for those members on scrutiny committees such as Audit. In addition, at the request of members, as part of their development discussions for 2015, a further financial session is planned in the scheduled Elected Member Development Programme.

2. Ensure that council officers provide high-quality financial and performance information to support effective scrutiny and decision-making.

Further improvements to the information provided to members as part of the existing governance arrangements for scrutiny is expected as part of the ongoing review of the Planning and Performance Management Framework with refreshed reporting expected during the 2015-16 performance cycle.

3. Ensure that councils, when developing their priorities, use local socio-economic data and work with service users and local communities to understand their needs and explore ways of meeting them. Council budgets should then be targeted towards agreed priorities, including those designed to prevent or reduce service demand in future

Midlothian currently works with its Community Planning Partners to identify and agree its priorities which are informed by an annual strategic risk assessment, a review of Midlothian's profile and its annual citizen's survey. This approach will form an integral part of the proposed 'Delivering Excellence' framework (to be presented to Council in June) which should provide a cohesive and robust review of services, with customers at its core, and ensure that financial options and decisions are informed and supported in a joined up and effective way.

4. Ensure that they consider all practical options for delivering services to meet the needs of service users and local communities, within the resources available.

This recommendation should be more fully addressed by the adoption of the 'Delivering Excellence' framework noted above.

5. Ensure that their council has financial plans covering the short term (1-2 years), medium term (3-5 years) and longer term (5-10 years).

Whilst the 'Delivering Excellence' framework will certainly further address and support the short to medium term financial planning, further consideration, by the Strategic Leadership Group, will need to be given to the longer term period given the number of challenges and variables which come in to play when looking to project over a 5-10 year period.

6. Review their council's governance arrangements following significant changes in staff, management and political structures.

Leadership capacity, and the supporting governance arrangements during an ongoing period of change was noted as a key challenge for the Council by our Auditors in their Audit Plan presented to Audit Committee in March 2015. This recommendation will therefore be addressed as part of the planned audit actions which include a review the governance arrangements put in place to support the new senior management structure, and delivery of the Single Midlothian Plan and monitoring the effectiveness of political governance arrangements.

7. Ensure their council has a comprehensive workforce strategy

The recent People Strategy presented to and approved by Council in March 2015 included Midlothian's workforce strategy and a key element of the 'Delivering Excellence' framework will ensure that both current and future workforce requirements inform planned service reviews.

- 3.2 A self-assessment tool, designed to help councillors review progress in implementing the recommendations in the report was published with the report and is included as Appendix 1 to this report.

4 Report Implications

4.1 Resource

There are no direct resource implications as a result of this report.

4.2 Risks

There are no additional direct risks to be considered as a result of this report.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

4.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

- Early years and reducing child poverty
- Economic Growth and Business Support
- Positive destinations for young people

This report does not directly impact Midlothian Council's key priorities.

4.5 Impact on Performance and Outcomes

Whilst not directly impacting Midlothian Council's and wider partners performance and outcomes the report does ensure consideration is given to the wider strategic planning and objectives as part of Midlothian Council's response to Audit Scotland's findings for the areas noted in the report.

4.6 Adopting a Preventative Approach

This report does not directly impact actions and plans in place to adopt a preventative approach.

4.7 Involving Communities and Other Stakeholders

This report does not directly relate to involving communities and stakeholders, but Audit Scotland's findings in relation to this area are supported by examples of Midlothian Council's activities supporting the wider community and stakeholder involvement.

4.8 Ensuring Equalities

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

4.9 Supporting Sustainable Development

The recommendations in this report support Midlothian Council's position in relation to Audit Scotland's findings for the wider overview of local government in Scotland and therefore support ongoing sustainable development.

4.10 IT Issues

There are no direct IT implications arising from this report.

5 RECOMMENDATIONS

The Committee is asked to:

5.1 Note the Audit Scotland report and the position of Midlothian Council in relation to the report's recommendations.

Appendix 1 – An Overview of local government in Scotland 2015 – Self-assessment tool for councillors

BACKGROUND PAPERS

An Overview of local government in Scotland 2015; Accounts Commission, March 2015

http://www.audit-scotland.gov.uk/docs/local/2015/nr_150305_local_government_overview.pdf

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An overview of local government in Scotland 2015

Self-assessment tool for councillors

Prepared by Audit Scotland

March 2015

This self-assessment tool is designed to help councillors review progress in implementing the recommendations in our report, **An overview of local government in Scotland 2015**. They should consider each issue listed and decide which statement most accurately reflects their current situation. This approach will enable them to identify what actions need to be taken.

The last column in the checklist can be used to record sources of evidence, supplementary comments to support the assessment or to highlight actions to take forward.

Assessment of current position (continued)						
Issue	No action needed	No but action in hand	Yes in place but needs improving	Yes in place and working well	Not applicable	Comments
Skills and expertise (paragraphs 97 to 99)						
<ul style="list-style-type: none"> Councillors review and update their own training needs and identify areas where they require further training. 						
<ul style="list-style-type: none"> Councillors work together with officers to ensure the 						

<p>council provides or arranges relevant training for them in appropriate areas, including assessing financial and service performance.</p>						
<ul style="list-style-type: none"> • Councillors ensure they get support from officers when they identify gaps in knowledge and understanding. 						
<p>Financial and performance information (paragraphs 90 to 96)</p>						
<ul style="list-style-type: none"> • Officers are working to improve the way they report financial and performance information to councillors to make it clearer and easier to understand. 						
<ul style="list-style-type: none"> • Officers provide councillors with relevant, up to date performance data, including benchmarking the council's performance with other relevant organisations or services. 						
<ul style="list-style-type: none"> • Officers report performance information to the public in a way that helps them 						

understand the council's performance.						
<ul style="list-style-type: none"> Officers make councillors aware of future funding gaps and provide them with information to help make decisions on how to close the gaps. 						
<ul style="list-style-type: none"> Officers make councillors aware of changes to the proportion of the council's budget that will be required to repay debt. 						
<ul style="list-style-type: none"> Officers make councillors aware of the financial impact of national and local policies (eg, taxes on land and buildings transactions, waste disposal to landfill and the implications of the Smith Commission agreement). 						
Using local data and working with communities (paragraphs 53 to 61)						
<ul style="list-style-type: none"> The council uses local socio-economic data and works in close co-operation with service users to 						

<p>understand their needs, explore ways of meeting them, and deliver the services.</p>						
<ul style="list-style-type: none"> Officers make councillors aware of population trends in the area and the implications for service demand and capital budgets. 						
<p>Service delivery options (paragraphs 62 to 68)</p>						
<ul style="list-style-type: none"> The council is reviewing all practical options for delivering services in new ways to help save money and improve services. It is identifying the benefits and risks of each option and monitoring the impact of the option chosen, including the risks associated with change 						
<ul style="list-style-type: none"> Councillors are aware of what actions the council has taken so far to make savings and the extent of staff reductions to date, and 						

the impact of these on service delivery.						
<ul style="list-style-type: none"> The council is investing in preventative approaches to help manage future demand for services 						
<ul style="list-style-type: none"> The council has a comprehensive workforce strategy to help plan and manage the impact of staff reductions 						
Financial planning (paragraphs 69 to 73)						
<ul style="list-style-type: none"> The council has financial plans for the short (1-2 years), medium (3-5 years) and long term (5- 10 years). 						
<ul style="list-style-type: none"> The strategies set out financial commitments, identify problems with affordability of services and allow members to understand whether the financial position is sustainable over an extended period. 						
<ul style="list-style-type: none"> The council's budget targets 						

resources effectively at its priorities, including shared priorities identified with partners in the Single Outcome Agreement						
Governance arrangements (paragraphs 74 to 89)						
<ul style="list-style-type: none"> The council reviews governance arrangements following significant changes in staff, management or political structures. 						
<ul style="list-style-type: none"> The council's senior management team has the skills and capacity to provide effective leadership and management of finances, services and improvement programmes. 						
<ul style="list-style-type: none"> Councillors understand the role and statutory responsibilities of the S95 officer, the monitoring officer and the chief social work officer. 						
<ul style="list-style-type: none"> The scrutiny or audit 						

<p>committee has:</p> <ul style="list-style-type: none">- a chair who is not a member of the political administration- clear terms of reference- adequate support and access to independent advice- members who have the necessary skills and training.						
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