

453rd meeting of the Accounts Commission for Scotland
Thursday 10 January 2019, 10.15am
in the offices of Audit Scotland, 102 West Port, Edinburgh

Agenda

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 10 and 11 in private (* see note).
4. **Minutes of meeting of 6 December 2018**
5. **Audit Scotland Board update:** The Commission will consider a verbal report by the Chair and Secretary to the Commission.
6. **Update report by the Secretary to the Commission:** The Commission will consider a report by the Secretary to the Commission.
7. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit providing an update on his recent activity.
8. **Annual Assurance and Risks Report:** The Commission will consider a report by the Controller of Audit.
9. **Briefing: the 2019/20 Budget:** The Commission will consider a draft report by the Director of Performance Audit and Best Value.

The following items are proposed to be considered in private:*

10. **Strategic Scrutiny Group update:** The Commission will consider a report by the Director of Performance Audit and Best Value.
11. **Commission business matters:** The Commission will discuss matters of interest.

* It is proposed that items 10 and 11 be considered in private because:

- Item 10 presents an update on discussions with strategic scrutiny partners which may include confidential policy matters that the Commission would wish to discuss in private before proceeding.
- Item 11 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.

The following papers are enclosed for this meeting:

| Agenda Item | Paper number |
|--|---------------------|
| Agenda Item 4: Minutes of meeting of 6 December 2018 | AC.2019.1.1 |
| Agenda Item 6: Report by Secretary to the Commission | AC.2019.1.2 |
| Agenda Item 8: Report by Controller of Audit | AC.2019.1.3 |
| Agenda Item 9: Report by Director of Performance Audit and Best Value | AC.2019.1.4 |
| Agenda Item 10: Report by Director of Performance Audit and Best Value | AC.2019.1.5 |

MEETING: 10 JANUARY 2019

MINUTES OF PREVIOUS MEETING

Minutes of the 452nd meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday 6 December 2018, at 10.15am

PRESENT: Graham Sharp (Chair)
Andrew Burns
Alan Campbell
Andrew Cowie
Sophie Flemig
Sheila Gunn
Ronnie Hinds
Stephen Moore
Sharon O'Connor
Tim McKay
Pauline Weetman
Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
Carol Calder, Senior Manager, PABV [Items 12 and 14]
Antony Clark, Audit Director, PABV [Item 12]
Stuart Dennis, Corporate Finance Manager [Item 13]
Gemma Diamond, Senior Manager, PABV [Item 11]
John Gilchrist, Manager, Procurement, Audit Quality and Appointments (AQA) [Item 13]
Graeme Greenhill, Senior Manager, PABV [Item 12]
Fiona Kordiak, Director, Audit Services, [Item 11]
Mark MacPherson, Senior Manager, PABV [Item 12]
Ashleigh Madjitey, Senior Auditor, PABV [Item 14]
Kathrine Sibbald, Audit Manager, PABV [Item 14]
David Sim, Benefits Auditor, Audit Services Group [Item 11]
Owen Smith, Senior Manager, Procurement, AQA [Item 13]
Claire Sweeney, Audit Director, PABV [Item 14]
Rikki Young, Business Manager, PABV [Item 12]

Item No Subject

1. Apologies for absence
2. Declarations of interest
3. Decisions on taking business in private
4. Minutes of meeting of 8 November 2018
5. Minutes of meeting of Financial Audit and Assurance Committee 22 Nov
6. Minutes of meeting of Performance Audit Committee 22 Nov
7. Audit Scotland Board update
8. Update Report by the Secretary of the Commission
9. Update report by the Controller of Audit
10. Statutory performance information
11. The future of housing benefit performance audit
12. Rolling work programme annual refresh
13. 2018/19 audits – local government fees
14. Local government overview: emerging messages
15. Commission business matters

1. Apologies for absence

It was noted that no apologies for absence had been received.

2. Declarations of interest

The following declarations of interest was made:

- Sheila Gunn, in item 11, as Vice-Chair of the Wheatley Group, in relation to references to housing matters.
- Geraldine Wooley, in item 11, given a close family member is an adviser and commentator in relation to poverty matters; and in item 12, as an owner of a property in a flood risk area.

3. Decisions on taking business in private

It was agreed that items 13 and 14 be considered in private because:

- Item 13 requires the Commission to consider a report by the Corporate Finance Manager on the local government fees, which may require the Commission to discuss confidential matters with the author.
- Item 14 requires the Commission to consider a report by the Director of Performance Audit and Best Value which will require discussion of draft report messages before publication of the report.

No business was notified by members for item 15 and thus the Chair advised that the item would not require discussion.

4. Minutes of meeting of 8 November 2018

The minutes of the meeting of 8 November 2018 were approved as a correct record, subject to noting that, in relation to item 6 (third bullet point), the matter was also raised by Sheila Gunn.

Arising therefrom:

- In relation to item 6 (third bullet point), in response to a query from Sophie Flemig, advice was noted from the Director of PABV that he would provide further information on matters around rent arrears and Universal Credit.

Action: Director of PABV

- In relation to item 6 (fourth bullet point), in response to a query from Tim McKay, advice was noted from the Director of PABV that he would provide further information on the implications of the UK budget on English local authority funding, and he would consider how such information might feature in his briefing on the Scottish budget, to be considered by the Commission at its January meeting.

Action: Director of PABV

5. Minutes of meeting of Financial Audit and Assurance Committee of 22 November

The minutes of the meeting of 22 November 2018 were approved as a correct record.

6. Minutes of meeting of Performance Audit Committee of 22 November

The minutes of the meeting of 22 November 2018 were approved as a correct record.

7. Audit Scotland Board Update

The Commission noted a report by the Secretary providing an update on the business of the Audit Scotland Board.

8. Update report by the Secretary to the Commission

The Commission considered a report by the Secretary providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

During discussion, the Commission:

- In relation to paragraph 10, and in response to a query from Ronnie Hinds, noted advice from the Secretary that further information on the error in the Controller of Audit report would be included in the briefing paper for those members meeting the council (which is also available to other members on request).

Action: Secretary

- In relation to paragraph 20, and in response to a query from Tim McKay, noted advice from the Secretary that he would liaise with Audit Scotland's New Financial Powers team to ensure appropriate briefing of the Commission of the passage of the Scottish Crown Estate Bill.

Action: Secretary

- In relation to paragraph 21, and in response to a query from Sheila Gunn, it was agreed that further information be provided on the Planning Bill once it is approved as an Act by the Scottish Parliament.

Action: Director of PABV

- In relation to paragraph 41, and in response to a query from Stephen Moore, noted advice from the Secretary that he would provide further information on levels of full-day nursery care in Scotland.

Action: Secretary

- In relation to paragraph 77, and in response to a query from Geraldine Wooley, noted advice from the Director of PABV that he would provide further information on any potential impact in Scotland of current financial difficulties being experienced by Allied Healthcare.

Action: Director of PABV

- In relation to paragraph 80, and in response to a query from Sophie Flemig, agreed that the Director of PABV consider, through the work of the appropriate policy cluster teams, matters associated with support for children with special educational needs and disabilities, with a view to informing work programme refresh activities.

Action: Director of PABV

9. Update report by the Controller of Audit

The Commission noted a verbal update from the Controller of Audit on his recent activity.

During discussion, it was agreed:

- To note advice from the Secretary that he would update the Commission on progress with the Scottish Government and CoSLA Local Governance Review.

Action: Secretary

- That the Controller of Audit provide information from the Audit Scotland discussion on lessons to be learned from matters associated with the financial difficulties experienced by Northamptonshire County Council.

Action: Controller of Audit

10. Statutory Performance Information Draft 2018 Information

The Commission considered a report by the Secretary advising of the outputs from the stakeholder consultation undertaken on the draft Statutory Performance Information (SPI) Direction, and proposing a SPI Direction for publication by the end of December 2018.

The Secretary undertook a presentation setting out the outputs from the stakeholder consultation.

During discussion, the Commission agreed:

- The terms and content of the SPI Direction 2018, subject to revisions agreed in discussion, to be agreed between the Chair and the Secretary.

Action: Secretary

- That the SPI Direction be published before the end of December 2018.

Action: Secretary

- That it consider at a future meeting the audit approach in relation to monitoring and reporting of progress by councils in relation to the SPI Direction.

Action: Secretary and Controller of Audit

- To note advice from the Secretary that he would respond to all stakeholders who took part in the consultation.

Action: Secretary

- That the Secretary discuss with the Board of the Local Government Benchmarking Framework how best to promote the shared interests between the Commission and the Board in the Direction.

Action: Secretary

11. The future of housing benefit performance audit

The Commission considered a report by the Director of Audit Services setting out proposals changing the approach to housing benefit performance audit.

During discussion, the Commission:

- Endorsed the proposed general approach.
- Agreed in particular the importance of themes around overpayments, resourcing and customer service activities.
- Agreed further in this regard a desired focus on advice services, to be reflected in the new approach.
- Agreed that Audit Scotland make preparations to move to a new approach.
- Agreed that Audit Scotland bring forward a final report on the proposed approach for approval in the first quarter of 2019/20 after discussion with DWP.

Actions: Director of Audit Services

12. Rolling work programme annual refresh

The Commission considered a report by the Secretary presenting proposals from the Director of PABV for the annual refresh of the Commission's five-year rolling work programme.

During discussion, the Commission:

- Approved a proposed draft work programme incorporating detailed proposals for 2019/20 and 2020/21, subject to incorporating the following changes agreed in discussion, as a basis for consultation with stakeholders:
 - That, specifically, for a performance audit in 2020/21, waste management be agreed in preference to flood risk management.
 - That the Director engage in discussion with appropriate strategic scrutiny partners in relation to potential collaborative activities around flood risk management and emergency resilience.
 - That further discussion take place about potential areas of coverage for a series of local government service-specific audits in the years 2021/22 to 2023/24.
 - Not to programme a *How Councils Work* report in 2019/20.
 - That further discussion take place on potential subjects for the next in the series of *How Councils Work* reports in 2020/21, including the potential of a summary of all reports published in the series so far.
 - That the Commission's significant interest in community empowerment matters be underlined as part of the work programme and articulated accordingly to stakeholders.

Actions: Secretary and Director of PABV

- Noted the activities around the diversity and equality implications of the work programme.
- Approved the proposed stakeholder consultation arrangements, including engaging with the third sector.

Action: Secretary

- Noted that the Secretary would report back on the outcome of the consultation.

Action: Secretary

- Noted that the Performance Audit Committee would receive regular updates on progress with the programme, including updates on programme development activity.

Action: Director of PABV

13. 2018/19 audits – local government fees

The Commission considered a report by the Corporate Finance Manager providing details of expected audit fees for the local government sector for the 2018/19 audit year.

Following discussion, the Commission noted the fee levels for the local government sector 2018/19 audits.

14. Local government overview 2019: emerging messages

The Committee considered a report by the Director of PABV proposing the emerging messages for the local government overview 2019 report.

During discussion, the Committee agreed:

- To endorse the emerging messages, subject to a small number of revisions and other points to be addressed by the report team in conjunction with the report sponsors, Graham Sharp and Ronnie Hinds.
- That the emerging messages form the basis of the report for the Local Government in Scotland Overview 2019.
- That a draft audit report be brought to the Commission meeting in February 2019, prior to publication in March 2019.
- The proposed publication and promotion strategy be considered at its meeting in February 2019.

Actions: Director of PABV and Secretary

15. Commission business matters

The Chair advised that this meeting would be the last formal meeting for Alan Campbell. The Chair thanked Alan for his commitment and hard work in his appointment of eight years, and wished him well for the future.

The Chair then having advised that there was no further business for this item, closed the meeting.

MEETING: 10 JANUARY 2019

REPORT BY: SECRETARY TO THE COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee also receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the extranet site, which provides more detailed news coverage in certain areas.
3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business

Publications

4. On 29 November the Accounts Commission published [Local government in Scotland: Financial overview 2017/18](#). The report found that Scottish Government funding to councils reduced in 2017/18 by 2.3 per cent in real terms, that councils have managed funding gaps of four per cent in 2017/18 mainly through use of savings and planned use of reserves, and that councils have increased spending in education and social work and reduced spending in other services.
5. On 5 December the Accounts Commission published [Social work in Scotland – Impact report](#). The report found that the audit had been well received by stakeholders and received a good level of media attention, that the report was considered by a council and / or Integration Joint Board in 21 council areas, and that there has been activity to address key messages but that progress against these remain ongoing.
6. Audit Scotland collects [media coverage](#) on all the reports published by the Accounts Commission. Audit Scotland also provides a weekly summary of the [key media stories regarding local government](#). Both are available through Audit Scotland SharePoint, on the Accounts Commission Members' Extranet.
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8. The download statistics of the reports published over the last 12 months (as at 14 December) are set out in the **Appendix**.

Other business

9. At the Commission meeting on 6 December and in relation to paragraph 41 of the Secretary's Report, Stephen Moore requested more information on levels of full-day nursery care in Scotland. According to the [Fair funding for our kids report](#), the breakdown for childcare provision across Scotland is as follows:
 - 48 per cent council nursery half day places
 - 30 per cent private partnership places
 - Nine per cent council nursery extended hours
 - 13 per cent council nursery full day places
 - <1% other council model.
10. In my previous report, I advised that the Controller of Audit had made some adjustments to the figures in our Best Value Assurance Report: Dumfries and Galloway Council. He reported to the Commission that the underlying budget gap to 2020/21 was £47 million and agreed savings measures were £16.8 million. For the sake of clarity, revised figures in the published report, following final checks by the audit team, are that the underlying budget gap to 2020/21 was £47.7 million and agreed savings measures were £17.5 million (the budget gap requiring new savings measures remained at £30.2 million).
11. The Chief Executive of East Lothian Council wrote on 20 December to confirm that on 11 December the council agreed to note the [Best Value Assurance Report: East Lothian Council](#) and to approve an improvement plan to address the recommendations made in the report. The council also noted that progress on implementing the improvement plan would be presented to council during 2019.
12. On 18 December the Commission published its [Statutory Performance Information Direction](#). The Direction sets out the performance information that the Commission requires councils to publish. It applies for the three years from 1 April 2019. Council chief executives have been advised accordingly.
13. On 19 December Commission Members Ronnie Hinds, Andrew Burns, Sheila Gunn, and Stephen Moore, along with Paul Reilly, Secretary and Joanne Brown, Director, Audit, Grant Thornton LLP (appointed auditor), met with Dumfries and Galloway Council to discuss the [Best Value Assurance Report](#) of the council which was published on 22 November. The council was represented by councillors Elaine Murray, Leader of the Council, Rob Davidson, Depute Leader of the Council, Jane Maitland, Leader of the Independent Group, Ian Carruthers, Leader of the Dumfries and Galloway Conservative and Unionist Group, Gavin Stevenson, Chief Executive, Derek Crichton, Director Communities, Alistair Speedie, Director Economy Environment and Infrastructure, Gillian Brydson, Acting Director Children, Young People and Lifelong Learning, and Heather Carnochan, Performance and Improvement Manager.

Auditor General for Scotland

14. On 20 November the Auditor General published [The 2017/18 audit of the Scottish Police Authority](#). The report found that improvements had been made in key areas, with many of the concerns highlighted in previous audit reports now being addressed. It also found that continuous progress had been made, and that significant changes to leadership teams should bring stability.

15. On 27 November the Auditor General published [The 2017/18 audit of Community Justice Scotland](#). The report concluded that Community Justice Scotland had a challenging first year in terms of governance, and that the auditor has been asked to monitor progress and report following the 2018/19 audit.
16. On 6 December the Auditor General published [The 2017/18 audit of NHS Tayside](#). This is the fourth consecutive report to the Parliament on NHS Tayside. These reports have highlighted a series of significant concerns, covering financial, performance and governance issues. The report found that NHS Tayside's financial position has been unsustainable since 2013/14. It has received £50.2 million of brokerage since 2012/13, and further brokerage will be required.

Audit Scotland

17. On 30 November Audit Scotland published its [Environment and sustainability annual report 2017/18](#), which looks at progress being made within the organisation to lower carbon emissions. The report found that Audit Scotland has continued to reduce CO2 emissions in 2017/18 and that emissions are lower than the target. Savings achieved in 2017/18 came from reducing energy consumption, reducing waste emissions, and reducing the total kilometres travelled.

Issues affecting local government

Scottish Government

18. On 28 November the Scottish Government announced that Paul Gray, the [chief executive of NHS Scotland and director general of health and social care for the Scottish Government since 2013, will leave](#) the posts in February 2019 before a successor is appointed. Chief Executive of NHS Tayside Malcolm Wright will take over on an interim basis.
19. In December the Scottish Government published [Teacher Census figures](#) and [teacher vacancy statistics](#). The data showed that there were nearly 4,000 new student teachers in Scotland in the last year, and that permanent full and part time vacancies in primary schools fell from 309 in 2017 to 204 in 2018, and from 507 to 402 in secondary schools. The Educational Institute for Scotland union observed that while teacher numbers have increased, the large increase in the number of pupils mean that [pupil-teacher ratios remain unchanged](#).
20. On 6 December the Scottish Government [announced the creation of a £140,000 fund aimed at recruiting more people from ethnic minorities into careers in early learning and childcare](#). The announcement comes as part of a wider programme to increase and diversify the early learning and childcare workforce. Other groups being encouraged to consider careers in early learning are men, people with disabilities, and those with additional language skills.
21. On 12 December the Scottish Government published its draft [Scottish Budget 2019-20](#). In addressing the chamber, the Cabinet Secretary Derek Mackay framed the budget in the context of continued UK Government austerity and uncertainty over EU withdrawal. He highlighted spending increases on affordable housing, education, employment and welfare. The proposals which would affect local government include:
 - A real-terms increase of revenue and capital funding for councils, bringing the local government budget to £11.1 billion

- A real-terms increase to education spending including £180 million to raise standards in schools. Almost £500 million has also been committed to the expansion of early learning and childcare provision
- Public sector pay increases of three per cent for those earning up to £36,500
- A £730 million increase in funding of health and care services. Much of this is being passed on through 'Barnett consequentials' to reflect spending commitments made by the UK government in England.

Scottish Parliament

22. On 28 November the Scottish Parliament Information Centre (SPICe) published a briefing on [The UK's departure from the European Union – An overview of the Political Declaration](#). It provides an overview of the Political Declaration agreed between the EU and the UK Government which was endorsed by the European Council on 25 November 2018.
23. On 29 November Scottish Labour's Finance spokesperson James Kelly MSP commented on the Accounts Commission's report [Local government in Scotland: Financial overview 2017/18](#), saying that 'this report shows once again the shocking extent of SNP cuts to lifeline services'. The Scottish Greens local government spokesperson Andy Wightman MSP also commented on the report, saying that 'local government funding needs a complete overhaul'. Scottish Liberal Democrat leader Willie Rennie referred to the report to urge the Scottish Government to ease financial pressure on local authorities.
24. On 29 November the Scottish Labour leader Richard Leonard raised the Accounts Commission's report [Local government in Scotland: Financial overview 2017/18](#) during First Minister's Questions. He used it to argue that cuts to Local Government funding are having a negative impact on the services delivered by councils, including education. The First Minister responded that there had been a real-terms increase in spending in the 2018/19 financial year, and that education expenditure in 2018/19 increased in real terms.
25. On 29 November the Cabinet Secretary for Health Jeane Freeman provided a written answer to Scottish Conservative MSP Michelle Ballantyne's question about the action the Scottish Government is taking to implement the recommendations in the Auditor General's report [NHS in Scotland 2018](#), stating that decisive action is being taken to deliver the recommendations.
26. On 29 November SPICe published [Earnings in Scotland – 2018](#). It reported that in April 2018 the median gross salary in Scotland for all employees was £23,833, which is slightly below the UK figure of £24,006. For Scotland, this represents a 0.9 per cent increase in real terms over the previous year.
27. On 5 December the Scottish Parliament [voted to reject the UK Prime Minister's EU withdrawal deal](#), passing a cross-party motion by a margin of 92 to 29. The Conservatives voted against the motion.
28. On 6 December Scottish Labour spokesperson Monica Lennon MSP made a comment in relation to the Auditor General's report [The 2017/18 audit of NHS Tayside](#), referring to it as 'another damning report on NHS Tayside'. Scottish Liberal Democrat spokesperson Alex Cole-Hamilton also commented on the report, arguing that new leadership was needed to 'turn around the organisation'.

29. On 6 December Cabinet Secretary for Justice Humza Yousaf provided written answers to several questions posed by Scottish Conservative MSP Liam Kerr about the Auditor General's [2017/18 audit of the Scottish Police Authority](#).
30. On 10 December SPICe produced its briefing [Pro-Poor or Pro-Rich? The social impact of local government budgets, 2016-17 to 2018-19](#). It found that 69 per cent of local government spending is on pro-poor services, which are services which tend to benefit poor people more than they do rich people. 11 per cent of spending is on 'neutral' services and two per cent on 'pro-rich' services. The briefing also concluded that the spread of expenditure means that councils normally have to make most of their savings from services which are used more by lower income groups.
31. On 12 December SPICe published [Labour market update: December 2018](#), which provides an overview of the Scottish labour market from the latest regional market statistics and UK labour market statistics. It reported that the unemployment rate for Scotland is 3.7 per cent, compared with 4.1 per cent for the UK as a whole. It also reported that the Scottish employment level and rate are the lowest since comparable records began in 1992, and currently sits at 75 per cent. This is the fifth consecutive quarter where employment has decreased.
32. On 13 December SPICe published [Tax In Scotland: 2019-20 Infographic](#), which looks at the Scottish Fiscal Commission's forecasts for Income Tax, Land and Building Transaction Tax (LBTT) and Scottish Landfill Tax revenues in 2019-20.
33. On 13 December SPICe published [Scottish Budget: 2019-20 Infographic](#), which provides headline figures from the budget and outlines changes from 2018-19 in cash and real terms.
34. On 14 December SPICe produced its briefing [Scottish Budget 2019-20](#). It noted that the Cabinet Secretary referred to an overall real-terms increase in the total local government settlement in real terms, but also observed that combined General Revenue Grant, and Non-Domestic Rates funding fell by 3.4 per cent in real terms between 2018-19 and 2019-20. The difference comes from increases in funding from specific revenue grants and capital grants and revenue funding in other portfolios.

Parliamentary Committee News

Local Government and Communities Committee

35. At its meetings on 28 November and 5 December the committee took evidence from a range of stakeholders on the Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill at stage 1.
36. At its meeting on 28 November the committee also considered the negative instrument The Charities Accounts (Scotland) Amendment Regulations 2018 and agreed to make no recommendation in relation to the instrument. Negative instruments are usually signed by a Minister before they are laid before the Parliament and come into force 28 days after being laid.
37. At its meeting on 12 December the committee took evidence on the Accounts Commission's [Local government in Scotland: Financial overview 2017/18](#) From Chair of the Accounts Commission Graham Sharp, Controller of Audit Fraser McKinlay, Audit Director Brian Howarth, and Senior Auditor Ashleigh Madjitey. The committee also requested correspondence regarding a query between Non-Domestic Rates Income and Grant-Aided Expenditure. The Accounts Committee will provide its response by 7

January.

38. On 12 December the committee also considered its work plan and agreed:
- To hold an evidence session on integration joint boards as part of its 2021/21 pre-budget scrutiny
 - To hold an evidence session on staff absences in local authorities as part of its 2020/21 pre-budget scrutiny
 - To hold an evidence session with the Scottish Government on alcohol licensing in Scotland
 - To hold further evidence sessions on city region deals.

Public Audit and Post Legislative Scrutiny Committee

39. On 22 November the committee took evidence on the Auditor General and Accounts Commission's joint report, [Children and young people's mental health](#), from Auditor General Caroline Gardner, Senior manager Leigh Johnston, and Audit manager Dharshi Santhakumaran.
40. On 29 November the committee took evidence on the Auditor General and Accounts Commission's joint report, [The 2017/18 audit of the Scottish Government Consolidated Accounts](#). The committee also took evidence on the Auditor General and Accounts Commission's joint report [Health and social care integration: update on progress](#) from Auditor General Caroline Gardner, Audit Director Claire Sweeney, and Senior manager Leigh Johnston.
41. On 6 December the committee took evidence on the Auditor General's report [The 2017/18 audit of the Scottish Police Authority](#) from Auditor General Caroline Gardner, Assistant Director Stephen Boyle, and Audit Manager Pauline Gillen. The committee also took evidence on [The 2017/18 audit of Community Justice Scotland](#) from the Auditor General, Senior Manager Mark Roberts, and Grant Thornton Director Jo Brown.

Finance and Constitution Committee

42. On 21 November the committee took evidence from a range of stakeholders on the EU Withdrawal Agreement. The committee also agreed its work programme in private.
43. On 29 November the committee took evidence from David Lidington, Minister for the Cabinet Office, UK Government on Article 50 of the EU Withdrawal Agreement.

Other Committees

44. In December the Economy, Energy and Fair Work Committee announced the launch of a [consultation on the construction sector in Scotland](#). This is to support an inquiry which aims to understand the characteristics and challenges of Scotland's construction sector to ensure the sector realises its full potential in contributing to a productive and inclusive Scottish economy. The closing date for the receipt of submissions is 13 February 2019. It is proposed not to respond to this consultation.

Public Policy News

45. On 27 November the Poverty and Inequality commission published [Advice for the Scottish Government on addressing poverty during school holidays](#). The report used evidence from a variety of summer projects and interviews with parents, children and

workers and found a range of issues such as food insecurity and a lack of childcare provision for working parents. The report recommended that:

- An additional cash benefit be introduced during school holidays to match the equivalent cost of school meals
- That a joint local and national government package of support is developed for families during this period
- Existing holiday club provision be built on to ensure it is available to all low-income families.

46. On 7 December Skills Development Scotland announced that it would be [closing Individual Training Account applications months early](#), as demand for the programme was so high that it ran out of money. The programme was introduced to support more people to move into employment and saw a high number of applications as a result of broader eligibility criteria and a simpler applications process compared with previous similar applications. Third sector employability programmes have announced that they are now under threat for the rest of the financial year because of this announcement. They also voiced concerns that the decision will have a negative impact on people who would have used this service if it had not closed.

Improvement Service

47. On 5 December the Improvement Service launched a [programme of support to councils on transformation](#). The programme will be based on the themes of outcome focused service redesign; leadership, people and culture; place and empowerment; and data and business intelligence. 26 councils are working to identify priorities for the programme.
48. On 6 December the Improvement Service published its [Scottish Local Authorities Economic Development Indicators Framework Report 2017/18](#). The report is based on data provided by all Scottish councils and looks at the areas where local authorities are making a significant contribution to the economy of Scotland. The framework was developed to provide consistent data on how councils are contributing to local economic development. The report found made several conclusions, including that in 2017/18 councils levered £1.71 per £1 of council spend on economic development projects, and that councils supported 16,469 participants in employability programmes into a job.

Solace

49. On 3 December SOLACE announced its new office bearers for 2018/19. These are:
- Chair – Annemarie O'Donnell (Glasgow City Council)
 - Vice Chair – Jim Savege (Aberdeenshire Council)
 - Honorary Secretary – Roddy Burns (Moray Council)
 - Honorary Treasurer – Eileen Howat (South Ayrshire Council)
 - Senior Executive Office Bearer – Ross McLaughlin (Argyll & Bute Council)
 - Immediate Past Chair – Joyce White (West Dunbartonshire Council).

By-election results

50. On 6 December SNP candidate Alexander MacInnes was elected to serve as an elected member in Ward Wester Ross, Strathpeffer and Lochalsh, of Highland Council,

following a by-election. The result was an SNP gain from the Liberal Democrats.

51. On 13 December Conservative candidate Pauline Drysdale was elected to serve as an elected member in Ward Dee & Glenkens of Dumfries and Galloway Council, following a by-election. The result was a Conservative hold.

Other Scottish local government news

52. On 29 November Edinburgh Council announced that it had [agreed terms with the construction firm responsible for the 17 Edinburgh schools closed](#) as a result of safety concerns. The schools were closed when the Edinburgh Schools Partnership were unable to give safety guarantees after structural problems were discovered in January 2016 after part of a wall blew off Oxfords Primary. The settlement agreement went before councillors on 4 December.
53. On 11 December NHS Scotland's Information Services Division published its report [Body Mass Index of Primary 1 Children in Scotland 2017/18](#). The report found that a quarter of children in Scotland starting primary one are at risk of being overweight or obese, with 22.4 per cent of primary one children measuring above the healthy weight range. The report also found that 12.9 per cent of the 'most deprived' primary ones are at risk, compared to 6.5 per cent of the 'least deprived' primary ones.
54. On 13 December public sector procurement specialist Scape Procure Scotland produced its report [The future of social homes for rent in Scotland](#). It found that three-quarters of Scottish adults think there is a shortage of homes for social rent. The research also shows that councils have 42 times more people on housing waiting lists than the number of homes available across the country. There are 137,100 households currently on council waiting lists, and 101 social rented homes available at any one time.

Scrutiny, inspection, regulatory and related bodies

Scottish Public Sector Ombudsman (SPSO)

55. [The SPSO's Newsletter - December](#) outlines investigation reports, recent SPSO news and highlights emerging issues. More information on the SPSO's work, including detailed investigations and decision reports, is available on the [Our findings](#) webpage. The Commission's Financial Audit and Assurance Committee will consider more detailed intelligence from the SPSO on a six-monthly basis (Next is at its March meeting).

Commissioner for Ethical Standards in Public Life in Scotland

56. The Commissioner has made no decisions on complaints or members of devolved bodies since my last report.

Standards Commission for Scotland

57. The commission has made no decisions on complaints or members of devolved bodies since my last report.

Care Inspectorate

58. On 27 November the Care Inspectorate published [Early learning and childcare statistics for Scotland](#), which show the availability and quality of early learning and childcare for children across the country. The figures have been updated to 2017 and

show that the number of children registered with early learning and childcare services increased in the most recent year. While the statistics showed that the overall quality of services remains high, it also found that there has been a 2.9 per cent drop in the number of registered early learning and childcare services in Scotland in the last year.

59. On 4 December the Care Inspectorate published its [Joint inspection of services for older people in the City of Edinburgh – progress review](#). The review, carried out jointly with Healthcare Improvement Scotland, found that in some important areas of service delivery the City of Edinburgh Health and Social Care Partnership's performance had deteriorated. This review, which took place in June 2018, was a follow-up on a report published in May 2017 which highlighted significant weaknesses in how services across the city were planned and delivered.
60. On 12 December the Care Inspectorate launched a joint resource with Zero Tolerance, a charity working to end men's violence against women, to [encourage and positively promote gender equal play in early years settings](#). The resource has been developed for people who work in the early learning and childcare sector and aims to boost awareness of the positive benefits of encouraging and supporting gender equality from an early age.

Her Majesty's Chief Inspector of Constabulary Scotland (HMICS)

61. On 13 December HMICS published [HMICS Thematic Review of Police Scotland's approach to the development and operational delivery of the Annual Police Plan \(2018-19\)](#). The aim of the inspection was to establish the effectiveness of the process of identifying and setting policing priorities, how they inform the operational delivery of policing at national and local levels, their alignment to the strategic plan and how they contribute to the safety and well-being of the Scottish population. The report highlights the need for an immediate review of the capacity and capability of analytical services and where they are deployed across Police Scotland.

Scottish Housing Regulator

62. On 29 November the Scottish Housing Regulator published a [summary of the risks it will focus on in its annual risk assessment](#). The risks are chosen to ensure that Local Authorities are delivering good quality homes and services for all tenants and service users, to prove good governance and financial sustainability. The main risks they will focus on are: service quality; homelessness; stock quality; financial health; and governance.
63. On 6 December the Scottish Housing Regulator published its [Lessons from Statutory Intervention report](#). The Regulator has used its statutory intervention powers in 11 registered social landlords (RSLs) since 2014, and in each of these interventions the problems came from weak governance. In almost all of the RSLs there was a failure of leadership, and the cultures in some left them vulnerable to poor behaviours and incompetence.

UK Parliament

General

64. On 6 December the local government secretary James Brokenshire announced that he [would delay the announcement of the provisional local government finance settlement](#), in order to give MPs as much time as possible to participate in the EU withdrawal debate which was scheduled for later in the week.

65. On 10 December the Prime Minister Theresa May announced that she was [delaying the parliamentary meaningful vote on the UK withdrawal agreement from the EU](#). She did not clarify when the vote will now take place.

Scottish Affairs Committee

66. On 29 November the committee launched a one-off evidence session on the proposed scope, provisions and powers in the Fisheries Bill to take place on 9 January 2019. In advance of the session, the committee invited written submissions on these issues by 17 December 2018.

Public Accounts Committee

67. On 3 December the committee announced an inquiry into driving value in public spending. The deadline for submissions was 11 December. The inquiry was launched following a report by the National Audit Office, [Improving government's planning and spending framework](#), which found that although the Treasury is controlling public spending in a relatively effective way and the Cabinet Office is taking steps to improve business planning in departments, the government needs to have a more integrated planning and spending framework across departments. The report also found evidence that over-optimistic, short-term and siloed decision-making could make plans undeliverable and unaffordable.

Other UK Audit Bodies

National Audit Office

68. On 30 November the NAO published its report [Administration of Scottish Income Tax 2017-18](#). The report considered:
- Her Majesty's Revenue Collection's (HMRC) calculation of the income tax revenue attributable to Scotland
 - HMRC's estimation of the 2017/18 income tax revenue attributable to Scotland and the NAO's view on the methodology used to estimate the amount
 - Key controls operated by HMRC in the assessment and collection of Scottish income tax
 - HMRC's approach to assessing and mitigating the risk of non-compliance with Scottish rate provisions.

The report concluded that the outturn of income tax revenue for the Scottish rate of income tax for 2016-17 is fairly stated, that there are limitations with the methodology used to estimate income tax, that HMRC puts in place sufficient procedures to secure an effective check on the assessment, collection and allocation of revenue, and that the amount repaid by the Scottish Government for the year ended 31 March 2018 is fairly stated.

Wales Audit Office

69. On 28 November the WAO published its [Review of Pembrokeshire County Council's Transformation Programme](#). The report concluded that the council has made progress with its transformation plan, but that planned savings targets have not been met and issues remain with clarity, pace and the assessment of outcomes.
70. On 6 December the WAO published [The maturity of local government in use of data](#). The report considered the strategic approach taken by local authorities to make better use of data; local authorities' data protection work and how they are progressing

sharing data with other public bodies; whether local authorities have the skills and capacity to gather, share and analyse data; and how effectively local authorities use available data to agree future priorities and allocate resources. The report concluded that local authorities are slowly developing a culture that values and uses data to its full potential to help improve services and outcomes.

71. On 12 December the WAO published three [reporting in the public interest – failures in financial management and governance](#) reports. They relate to three Community Councils where failures in governance arrangements and inadequacies in financial management have been recorded.

Other general – UK

72. On 22 November the UK Government announced that a bus route between Fife and Edinburgh will be used as one of the [test sites for self-driving vehicles](#). Project CAV Forth will install an Artificial Intelligence driver on five single decker buses. Private company Fusion Processing, Edinburgh Napier University, the University of the West of England and Transport Scotland won a joint bid for the funding. The project will include social behavioural research to explore how driverless technology can integrate into society, and the findings will be applied to the development of future autonomous service models.
73. On 4 December the Local Government Ombudsman Published its report [Under pressure – the impact of the changing environment on local government complaints](#). The report identifies the common themes where change can contribute towards failure. It presents four key areas that councils can particularly look out for when carrying out change work. These are: accommodating longer backlogs, reviewing eligibility criteria, using new partnerships and delivery arrangements, and restructuring and redesigning services. The report highlights the need to continue to conduct business according to guidelines and best practice despite budget pressures that councils face.
74. On 5 December [Liverpool City Council launched Foundations, a housing company which aims to help residents access the housing market](#) through a Rent to Buy scheme which will allow people to pay reduced rent on their properties, allowing them to save the money for a deposit to buy the home they are renting. The company plans to build and renovate 10,000 homes over the next decade in a £1 billion investment programme. Foundations will refurbish and renovate existing properties across the city, as well as developing new builds, and homes will include family homes and apartments.
75. On 6 December consultancy company PwC published [research showing that in the past two years two million hospital beds were unnecessarily occupied](#) because of a shortage of social care workers to support patients ready to be discharged. The research also noted that there are 2,800 unfilled care home manager jobs at any one time.
76. On 7 December the Chartered Institute of Public Finance and Accountancy (CIPFA) published its [Public Libraries Users Survey National Report 2018](#). It found that spending by local authorities on public libraries fell by £30 million in 2017/18. It also found that 127 service points were closed in the last year, and that 712 full time employees were lost.
77. On 11 December the Centre for Public Scrutiny published a discussion paper [Decline and fall: understanding how and why local government fails, what leads to central Government intervention, and what comes after](#). The paper argues for a radical rethink of how failure in local government is approached, arguing that councils experiencing

failure often become more introspective and defensive. The paper also argues that effective mechanisms for oversight, support and intervention should be put in place at a local level to avoid these failures from taking place.

78. On 11 December charity The Kings Fund published its report [Home care in England: views from commissioners and providers](#), which found that the low fees paid to care providers by local authorities are leading private contractors to withdraw from care contractors with local authorities. The report argued that fees paid by councils are too low to maintain quality services.
79. On 13 December Solace UK issued a [statement in response to the 2019/20 provisional local government finance settlement](#). It noted that this year is the final year of a four-year settlement, and that there is a lack of clarity about what future budgets will look like. It also noted that budget cuts mean that councils are currently struggling to provide core services to users and an increasing number of councils are warning that they will soon be unable to deliver more than a minimum statutory offer.
80. On 21 December the Chartered Institute of Public Finance Accountants (CIPFA) published a briefing note stating that it has found that the majority of councils in England are financially stable but 10% to 15% are not. CIPFA has reworked its [financial sustainability indicators](#) used to define financial stability after consulting with the local government sector. The indicators include: 'reserves depletion time', 'level of reserves', 'change of reserves', 'council budget flexibility' and 'council tax to net revenue expenditure'.

Conclusion

81. The Commission is invited to consider and note this report, and in particular not to respond to the consultation by the Economy, Energy and Fair Work Committee on the construction sector in Scotland (paragraph 44).

Paul Reilly
Secretary to the Accounts Commission
20 December 2018

APPENDIX:**Accounts Commission reports in past 12 months - downloads**

| Report | Date | Report downloads | Podcast downloads |
|--|-------------------|------------------|-------------------|
| Social Work in Scotland – Impact report | 5 December 2018 | 85 (+85) | n/a |
| Local government in Scotland – Financial overview 2017/18 | 28 November 2018 | 818 (+454) | * |
| Local government in Scotland – Financial overview 2017/18 - Supplement | 28 November 2018 | 54 (+54) | n/a |
| Dumfries and Galloway Council Best Value Assurance Report | 22 November 2018 | 386 (+107) | * |
| Health and social care integration: update on progress | 15 November 2018 | 3440 (+1084) | 140 (+31) |
| East Lothian Council Best Value Assurance Report | 1 November 2018 | 648 (+64) | 50 (*) |
| Children and young people’s mental health | 13 September 2018 | 3298 (+352) | 180 (*) |
| Community Planning – an update – Impact report | 24 August 2018 | 515 (+52) | n/a |
| Glasgow City Council Best Value Assurance Report | 23 August 2018 | 1174 (+71) | 71 (*) |
| West Dunbartonshire Council Best Value Assurance Report | 28 June 2018 | 952 (+39) | * |
| Maintaining Scotland’s roads: a follow-up report – Impact report | 27 June 2018 | 597 (+39) | n/a |
| Accounts Commission annual report 2017/18 | 7 June 2018 | 515 (+15) | n/a |
| Accounts Commission engagement strategy and plan 2018/19 | 7 June 2018 | 385 (+27) | n/a |
| Accounts Commission Strategy and annual action plan 20018-23 | 7 June 2018 | 477 (+22) | n/a |
| Accounts Commission engagement plan 2017/18 progress | 7 June 2018 | 47 (+<30) | n/a |
| Best Value Assurance Report: East Ayrshire Council | 29 May 2018 | 1472 (+61) | 84 (*) |
| Best Value Assurance Report: Fife Council | 24 May 2018 | 1773 (+54) | 48 (*) |
| Councils’ use of ALEOs | 17 May 2018 | 1619 (+42) | * |
| Local government in Scotland: Challenges and performance 2018 | 5 April 2018 | 4985 (+232) | 95 (*) |
| Local government in Scotland: Challenges and performance 2018 - Supplement | 5 April 2018 | 201 (+<30) | n/a |
| National Scrutiny Plan 2018/19 | 4 April 2018 | 842 (+40) | * |
| Statutory report on Edinburgh schools (Edinburgh City Council) | 3 April 2018 | 1126 (+16) | 137 (*) |
| Statutory report on significant fraud in Dundee City Council | 22 Mar 2018 | 1457 (+19) | 119 (*) |

| Report | Date | Report downloads | Podcast downloads |
|---|-------------|------------------|-------------------|
| Early learning and childcare | 15 Feb 2018 | 6223 (+333) | 305 (*) |
| Early learning and childcare - supplement | 15 Feb 2018 | 502 (+21) | n/a |
| Falkirk Council Best Value follow-up audit 2017 | 1 Feb 2018 | 442 (+19) | 149 (*) |
| Best Value Assurance Report: Clackmannanshire Council | 25 Jan 2018 | 2299 (+45) | * |

Key:

(x) Increase in numbers since last month

* This figure is below 30

n/a Not applicable.

MEETING: 10 JANUARY 2019

REPORT BY: SECRETARY TO THE COMMISSION

ANNUAL ASSURANCE AND RISKS REPORT

Purpose

1. This paper introduces the Annual Assurance and Risks Report by the Controller of Audit.

Background

2. Local authority external auditors are appointed by the Commission under the Local Government (Scotland) Act 1973. The [Code of Audit Practice](#), approved by the Accounts Commission and the Auditor General for Scotland, requires auditors at the conclusion of the annual audit to issue a report summarising the significant matters arising from the year's audit. In local government, these reports are addressed to elected members and the Controller of Audit, and are submitted by 30 September each year. The reports are public and are available on the websites of the audited bodies and [Audit Scotland](#).

Controller of Audit review of annual audit reports

3. The Controller of Audit reviews the annual audit reports to:
 - Identify high-level issues and themes for inclusion in the Commission's annual local government overview reports.
 - Identify specific issues that he may wish to report to the Commission under his statutory reporting powers. In short, these powers are reporting about any matters arising from the accounts of local authorities, or the auditing of those accounts, and in certain specific situations involving illegality or loss.
4. In practice, significant findings from the audits will be known to auditors in advance of the annual audit reports, and reported to the Commission via the Financial Audit and Assurance Committee. Statute allows the Controller of Audit to report formally to the Commission - or the Commission can direct the Controller to report - at any point throughout the audit year. However, including such issues in the annual audit report is the formal starting point for any statutory reporting.
5. In addition to this, in recent years the Controller of Audit has reported to the Commission early in each new year a summary of his review. Last year, in February 2018, this was reported for the first time through the Controller's Annual Assurance and Risks Report (AARR).

Integrated audit

6. The Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. An important principle underpinning the new framework is an integrated approach to auditing and reporting Best Value, in which Best Value is assessed over a five year audit appointment as part of the annual audit. In addition, a Best Value Assurance Report will be published by the Commission for each council at least once in this five year period.

7. The new framework allows the Controller of Audit to report on his conclusions from his review of this new integrated audit approach through his AARR.

Strategic audit priorities

8. In its [strategy and annual action plan](#), the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. Within this, the Commission also sets out five strategic audit priorities (SAPs). These are issues that the Commission considers particularly important to report through audit work. The Commission states that it will use its approach to auditing Best Value to assess how councils are progressing in relation to the following SAPs:
 - Having clear priorities with a focus on outcomes, supported by effective long term planning.
 - Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
 - Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
 - Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
 - Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.
9. The SAPs are considered by all auditors involved in local government work, both locally and nationally. They are considered as an integrated part of the risk assessment, five year Best Value and annual planning processes. Annual audit reports provide an assessment of the council's performance against the SAPs across the five year audit appointments. When these are covered will depend on the risk assessments carried out by local auditors as part of their annual planning processes. Not all SAPs will be reported at every council each year.
10. As part of its new approach to auditing Best Value, the Commission has agreed that the AARR will be used to provide it with assurance over the progress made by councils against its SAPs.

Annual Assurance and Risks Report

11. The AARR allows the Commission to gain assurance about matters arising from the new approach to auditing Best Value. This in turn will help the Commission to:
 - Consider the messages it wishes to convey in its overview reports. The draft local government overview report will be considered by the Commission at its next meeting on 7 February.
 - Consider progress being made against its SAPs, in turn allowing it to consider if it wishes to revise or modify these SAPs. The Commission will consider this at its Strategy Seminar in March and thereafter at its May meeting when it updates its Strategy. The Commission's updated strategy – including SAPs – are used as the basis for audit planning guidance for next year's audit, which is developed in the Autumn.

- Consider any implications for its wider work programme. The Commission will be considering at its February meeting the outputs from its ongoing consultation with stakeholders on the refreshed work programme.

Conclusion

12. The Commission is asked to:

- a) Consider and note the attached Annual Assurance and Risks Report.
- b) Consider any implications for its:
 - i. overview reporting
 - ii. SAPs and strategy
 - iii. work programme.

Paul Reilly
Secretary to the Commission
20 December 2019

Annual Assurance and Risks Report

Local Government



Report by the Controller of Audit
January 2019

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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1. Introduction

Purpose

1. This is my annual report, as the Controller of Audit, to the Accounts Commission about the work undertaken over the past year, on the Commission's behalf. Its purpose is to provide assurance to the Commission that the range of work we undertake provides an effective lens on local government, its performance, issues and risks. It is also intended to help inform the Commission's discussions at its strategy seminar as well as in its consideration of the draft Local Government Overview - Challenges and Performance report (due to be presented to the February 2019 Commission meeting).
2. This report summarises progress, notable practice, areas for improvement and risks identified through our audit work. More specifically, Part 3 summarises all of the work undertaken on the Commission's behalf in the last year. Part 4 looks at the pace and depth of continuous improvement in councils, focusing particularly on BV work. Part 5 provides assurance for the Commission on how auditors are covering the five Strategic Audit Priorities (SAPs). Part 6 outlines some other audit issues that have come through in the year. And Part 7 take a brief look forward at the year ahead.

Background

3. During 2017/18, the Commission and I have overseen the publication of a variety of reports. This has included a range of performance audit reports, annual audit reports in local authorities; Best Value Assurance Reports (BVARs); and s102 statutory reports. The Commission's Financial Audit and Assurance Committee (FAAC) and Performance Audit Committee (PAC) also received several updates and reports during the year.
4. In producing this report, we have drawn on the findings of the range of audit and review work undertaken during the year. The work has included a detailed review of the council AARs and BVARs. We have drawn on the review of wider local government AARs (such as the IJB and pension authority reports) undertaken for the local government overview work and for the Health and Social Care Integration follow-up audit.
5. Audit Scotland's Audit Quality Framework describes our approach to achieving world-class audit quality across all audit work. The framework sets out how Audit Scotland provides the Commission and the Auditor General with robust, objective and independent quality assurance over all audit work referred to in this report.

Strategic audit priorities

6. In its strategy and annual action plan, the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. Within this, the Commission has established five SAPs. These are issues that the

Commission considers particularly important to report through annual and Best Value audit work. The five SAPs set out in the 2018-23 strategy are:

- Having clear priorities with a focus on outcomes, supported by effective long-term planning
 - Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities
 - Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future
 - Empowering local communities and involving them in the design and delivery of local services and planning for their local area
 - Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.
7. The SAPs are considered by all auditors involved in local government work, both locally and nationally. They are considered as an integrated part of the risk assessment, five-year Best Value and annual planning processes. Annual audit reports provide an assessment of the council's performance against the SAPs across the five-year audit appointments. Evidence for these priorities is gathered and reported by auditors as part of their five-year approach to auditing BV and through annual audits. When these are covered will depend on the risk assessments carried out by local auditors as part of their annual planning processes. Not all SAPs will be reported at every council each year in annual audit reports.
8. This report provides the Commission with assurance over the progress made by councils against the SAPs. High level messages identified under each SAP in last year's report and this report are set out at Appendix 1.

2. Summary

9. Councils continue to face an increasingly complex range of challenges and continuing pressures on finances. Demands are increasing across many of the services councils deliver to local communities. Demand must be met against tightening budgets, as well as significant uncertainty stemming from external factors such as EU withdrawal.
10. The [Local Government in Scotland: Financial Overview](#) states that Scottish Government revenue funding to councils reduced in 2017/18 but through increases to council tax and fees and charges the overall budget increased £0.3 billion in cash terms. Councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. The financial outlook is for reductions in Scottish Government revenue funding to councils. This will mean continued and increasing financial pressures on council services, especially those that are not protected. Financial planning is increasingly important, it is positive progress that almost all councils now have medium-term financial planning in place and some have made progress with long-term financial projections.
11. The [Health and Social Care Integration: update on progress report](#) concludes that a lack of collaborative leadership and cultural differences are affecting the pace of change for Integration Joint Board (IJBs). IJBs also face financial sustainability issues and do not have the arrangements in place to demonstrate they are achieving Best Value.
12. Councils understand the challenges facing local communities and have a strategic focus on improving social inequality, particularly in areas of high deprivation. However, councils continue to work on their arrangements to show that outcomes are being achieved.
13. Councils are in the early stages of new or refreshed transformation/improvement programmes. Given the scale of change it is important that progress continues to be monitored and scrutinised. It is important that councils ensure these programmes link to organisational wide workforce planning and identify any gaps early on.
14. While more evidence is emerging of councils collaborating with other public-sector bodies, there remains limited evidence of councils sharing services.
15. Councils are beginning to implement their community empowerment arrangements at a local level. Where councils are undertaking public consultations however, there is little evidence to show that they are taking the results into account when setting the annual budget.
16. Councils have effective performance management frameworks in place. However, public performance reporting ranges in quality, and there is scope for councils to learn from each other to continue to improve the standards of reporting to their communities.
17. The programme of National Performance Audits, 2017/18 Planning Guidance, planned Best Value audits and the revised approach to shared risk assessment will continue to monitor and report on the risks outlined in this report.

-
18. I am assured that this report demonstrates that our audit work is providing good coverage of the Commission's SAPs. It shows that we continue to make good progress with the integrated approach to auditing BV in councils and that councils are responding well to the Commission's Findings and my recommendations in the BVARs. I am also confident that areas of risk are well understood and that there are plans in place to cover these areas through our audit work in future.
19. The Commission revisits its SAPs each year at its strategy seminar in March. Based on the evidence in this report, I would make the following observations in relation to the Commission's SAPs:
- SAP 1 - we highlight that political and managerial leadership will be further tested in future years. The Commission may want to consider making this more explicit in future.
 - SAP 2 - While the focus of the current SAP is options appraisal, most auditors see this as part of wider change and transformation programmes. Given the risk we highlight here in relation to capacity, the Commission may want to consider refocusing this SAP in future.
 - SAP 3 - auditors are presenting strong evidence on workforce planning in councils. However, we are less sighted on issues of staff engagement and learning and development. Again, this may be something the Commission wishes to reflect on.
 - SAP 4 - community empowerment continues to be a developing area and I would welcome a discussion with the Commission on our shared expectations of councils in this important area.
 - SAP5 - it is clear that councils report performance to their local communities, but more could be done to link this more clearly to outcomes. We will also want to agree with the Commission expectations of auditors in relation to the new three SPI Direction.

3. Audit outputs

20. During 2017/18, the Commission and I have overseen the delivery of a range of audit activity. This section provides further information on these audit outputs as well as our work in dealing with correspondence and updates and reports provided to the Accounts Commission committees.

Annual audit reports

21. Local authority external auditors are appointed by the Commission under the Local Government (Scotland) Act 1973. The Code of Audit Practice, approved by the Commission and the Auditor General, requires auditors at the conclusion of the annual audit to issue a report summarising the significant matters arising from the year's audit. In local government, these reports are addressed to councillors and to myself as Controller of Audit. They are submitted by 30 September each year. The reports are public and are available on the websites of the audited bodies and Audit Scotland. The reports are reviewed by myself and my team to:
- Identify high-level issues and themes for inclusion in the Commission's annual local government overview reports.
 - Identify specific issues that I may wish to report to the Commission under my statutory reporting powers.
22. In practice, significant findings from the audits will be known to me in advance of the AARs and reported to the Commission via the FAAC. Statute allows me to report formally to the Commission - or the Commission to direct me to report - at any point throughout the audit year. However, including such issues in the AAR is the formal starting point for any statutory reporting.
23. During the 2017/18 audit year, AARs were published on:
- 32 councils
 - 30 integrated joint boards
 - 11 pension funds
 - 32 other small boards and partnerships
 - 227 registered charities within 75 sets of charity accounts.
24. There were no qualified audit opinions within these reports, however four modified opinions were issued. All four related to trading operations which did not achieve the statutory objective of breaking even over a three-year rolling period.
25. I have recently written to all council Chief Executives and chief officers of the IJBs to highlight key messages from each AAR. For council Chief Executives I took the opportunity to remind them of the importance of the annual audit process, as well as highlighting some key issues

3. Audit outputs

from their annual audit reports. In relation to IJBs, I stressed the need for improvements in the annual accounts process and emphasised the importance of medium to long-term planning.

26. General themes arising from the review of AARs are reflected in the local government overview reports. The local government in Scotland: financial overview 2017/18 was published on 29 November 2018, and the Local government overview – Challenges and performance 2019 is due to be considered by the Commission in February 2019.

Wider audit dimensions

27. The Code of Audit Practice ('the Code') outlines the responsibilities of auditors. The Accounts Commission, the Auditor General and Audit Scotland have agreed four audit dimensions that frame the wider scope audit into identifiable audit areas. These are set out in Exhibit 1. Best Value sits at the heart of the four dimensions. In practice, council auditors report on the councils' delivery of best value, rather than value for money.
28. All AARs include comment on each audit dimension. These generally detail the audit work conducted and provide judgements, conclusions and recommendations on the effectiveness and appropriateness of the arrangements in place. By reporting against each dimension in the AAR, auditors have discharged their wider responsibilities under the Code. I am satisfied that auditors have discharged their wider responsibilities under the Code and can see real progress in terms of the integrated approach to best value auditing in councils.

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

Statutory reports

29. Section 102 of the Local Government (Scotland) Act 1973 provides for the Controller of Audit to make reports to the Accounts Commission about any matters arising from the accounts of local authorities, or the auditing of those accounts, that I think should be considered by the local authority or brought to the attention of the public.

30. Two statutory reports were published under section 102 during 2018:
 - 2016/17 audit of Dundee City Council – [Report on a significant fraud \(March 2018\)](#)
 - 2016/17 audit of The City of Edinburgh Council – [Report on Edinburgh schools \(April 2018\)](#)
31. Another potential case related to Fife Council’s Dunfermline flood prevention scheme. This was taken into consideration during the completion of the Best Value Assurance Report in 2018. The council is currently undertaking legal action. As the 2018 Best Value review considered this matter, there is currently no further audit action planned for 2019. The auditors will, however, continue to monitor progress with the legal case.
32. Other cases which I continue to monitor are:
 - Midlothian Council - Fraud
 - Dumfries and Galloway Council - North West Community Campus
 - Glasgow City Council - Equal Pay.
33. I have also noted that, in October 2018, the Chief Executive of North Ayrshire Council retired. The council planned, and has subsequently implemented, a new more streamlined chief officer structure aligned with the council plan. The council opted not to advertise the chief executive post externally, but to target its recruitment on candidates among its executive directors. The council argues that this approach was in line with its general recruitment practices, in that if a competent “pool” of candidates is available internally, then this should be explored before proceeding to external recruitment. The internal process was followed, and the previous executive director of place was appointed on 27 September 2018.
34. It is my view that a council's chief executive should be appointed following open competition. The Commission may want to consider whether it agrees with this view and, if so, whether it wishes to reiterate its expectations to councils.

Best Value Assurance

35. The Commission agreed the overall framework for auditing Best Value in June 2016. Best Value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a BVAR for each council will be considered by the Commission at least once in this five-year period.
36. I produced six BVARs in 2018/19, in line with the planned work programme, with the Commission making findings on each of them. The BVAR reports published in 2018 were:
 - East Ayrshire council (published May 2018)
 - Fife council (published May 2018)
 - West Dunbartonshire council (published June 2018)
 - Glasgow City council (published August 2018)
 - East Lothian council (published November 2018)
 - Dumfries and Galloway council (published November 2018).

37. A summary of the pace and depth of continuous improvement identified across the two years of BVARs published to-date, is set out in section 4.
38. Aspects of the Best Value arrangements in the remaining councils have been reported in AARs. Based on the risk assessment at each council, the Best Value Assurance Plans (BVAP) will ensure all BV characteristics are covered by audit work in every council over a five-year period. The results of this work are reported in each council's AAR.

National performance reports

39. Audit Scotland carries out a programme of national performance audits on behalf of the Accounts Commission and Auditor General for Scotland. Several performance audits covering local government were reported over the last year including:
 - [Early learning and child care \(joint report - February 2018\)](#) – The report identified that there are significant risks surrounding the Scottish Government's ambition to double early learning and childcare hours by August 2020. Councils are preparing to provide 1,140 funded hours for all 3 and 4-year-olds and eligible two-year-olds. This will require a large increase in the number of childcare staff and changes to premises. The report outlines that this will be a challenge and that the Scottish Government should have started detailed planning with councils earlier, given the scale of the changes required.
 - [Local government in Scotland: Challenges and performance 2018 \(Accounts Commission - April 2018\)](#) – The annual report highlighted that councils were balancing a real terms funding cut of 9.6 per cent over the last eight years with increasing demand, particularly from an increasing older population. The need for decisive leadership is stressed as increasingly critical.
 - [Councils' use of arm's-length organisations \(Accounts Commission - May 2018\)](#) - This report examined how councils are using the estimated 130 arms-length external organisations (ALEOs) and the impact they are making. The report comments on the benefits, including reducing costs, increased uptake in sport and leisure and improved standards of care, however concluded that careful consideration is needed. Councils have strengthened their oversight of ALEOs and are showing improving practice in evaluating them as options but could do more to involve the public and wider stakeholders in those processes. The report also stressed the need to continue to follow the principles of the Following the Public Pound code.
 - [The National Fraud Initiative in Scotland 2016/17 \(Audit Scotland - July 2018\)](#) – The National Fraud Initiative (NFI), coordinated by Audit Scotland every two years, resulted in almost 100 public bodies participating in the exercise. The NFI compares electronic data about individuals held by different public bodies, to help identify fraud or error. NFI matches resulted in an estimated £18.6 million of outcomes since the last report in 2016. The report notes there is strong evidence that most bodies take advantage of the opportunities provided by the NFI, but some could act more promptly to investigate matches, prevent frauds and correct errors.
 - [Children and young people's mental health \(joint report - September 2018\)](#) – This report called for a step change in the way the public sector responds to the mental health needs of children and young people. It identified that a big increase in young people being referred to

mental health services and longer waiting times were signs of a system under significant pressure.

- [Health and social care integration update on progress \(joint report - November 2018\)](#) – A critical report, it concluded that collective effort from the Scottish Government, COSLA, NHS Boards, councils and the Integration Authorities is needed for health and social integration to make a more meaningful difference to the people of Scotland. While, some progress has been made, the remaining challenges are significant. Success will depend on long term integrated financial planning and stable and effective leadership to transform the way services are provided.
 - [Local government in Scotland: financial overview 2017/18 \(Accounts Commission - November 2018\)](#) - The report highlighted that in 2017/18, councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Councils are under pressure to find different ways to fund and deliver services. Overall increases in spend in Education and Social Work were offset by reductions in other services. The report also comments that the majority of IJBs have underlying financial sustainability issues, with 19 incurring deficits or dependent on additional (“deficit”) funding from their partners. While the impact of EU withdrawal is not yet clear, councils need to identify the risks and develop contingency plans to manage these risks.
40. From our review, we found that the majority of councils and where relevant, integration joint boards (IJBs), considered the findings of national performance audit reports. There is evidence that some councils and IJBs self-assess themselves against the recommendations of the report and then identify improvement actions to implement.

Housing benefit reports

41. The [2018 annual update on Housing Benefit Performance audit](#) reported that five councils were issued with housing benefit performance reports. In all five councils, we reported that the level of resources might not be sufficient to maintain or improve on previous claims processing performance levels. Audit Scotland identified weaknesses in the following key areas: Business planning and performance reporting, accuracy and interventions. The social security landscape across Scotland continues to change with the roll-out of Universal Credit continuing and the new Scottish social security agency becoming operational from September 2018.

Local scrutiny plans

42. Local scrutiny plans (LSPs) were published for all 32 councils in May 2018. These describe the audit and scrutiny work planned by scrutiny bodies that make up the local area networks for each council. The results of this scrutiny work are reported on the websites for each scrutiny body and are reflected in annual audit reports and BVARs. A national scrutiny plan which summarises the planned work for all councils was also published in May 2018.

Correspondence

43. Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations, with concerns about an issue within a public body. Neither

the Commission nor Audit Scotland has a statutory duty to consider issues of concern or respond to correspondence, but we do so under our Code of Audit Practice and the Commission is updated regularly on correspondence received.

44. During 2017/18, we received 79 new issues of concern or whistleblowing disclosures relating to the local government sector. These covered 27 councils and a variety of audit themes including financial management, member/officer behaviour, service delivery, planning decisions and governance, accountability and scrutiny. As at 9 November 2018, 40 new issues had been raised during 2018/19.
45. Of the issues received in 2017/18, 30 per cent were already covered by audit work planned at the council, or the issues were sufficiently relevant that auditors felt audit work was warranted as part of the annual audit; a further 38 per cent of issues were redirected as the concern was not within our remit; 25 per cent were used as intelligence to help with the annual audit and risk assessment; and in seven per cent of cases we were unable to provide further assistance.

Accounts Commission committees

46. The Commission's Financial Audit and Assurance Committee (FAAC) reviews matters arising from the annual audit process in each council and joint board. It also reviews intelligence from other bodies concerned with local government such as the Ombudsman, Standards Commission and Information Commissioner. During 2018, the FAAC considered:
 - Four updates on current issues for local authorities' audits;
 - Briefings on the Local Government pension scheme
 - Briefings from appointed auditors on their experience of delivering the annual audit;
 - A number of reports on audit quality, monitoring, development and improvement actions;
 - Updates on accounting and auditing and six-monthly intelligence reports.
47. The Commission's Performance Audit Committee (PAC) reviews policy issues affecting local government. It also oversees scopes and draft reports of individual performance audits, as well as reviewing progress across performance audits as a whole. During 2018, the PAC received:
 - Emerging messages from the national performance audits in children and young people's mental health; councils' use of Arms-Length External Organisations; and How Councils Work - Protecting public money.
 - Policy briefings on the work of the Health, Care and Communities (HCC); Justice, Education and Life-long Learning (JELL); and Public finances, Investment and Economic development (PIE) clusters.
 - Performance audit options on housing and scoping papers on How Councils Work and health and social care integration.
 - Impact reports on [community planning](#), [roads maintenance](#) and [social work in Scotland](#).

4. Pace and depth of continuous improvement in councils

48. In its [strategy and annual action plan 2018-23](#), the Commission states 'our overriding aim is holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. It is for councils to make choices in where they focus their improvement work, but they need to be able to show how they have arrived at such choices'.
49. To reflect the Commission's overarching strategic priority, all BVARs include judgements on the pace, depth and continuity of improvement. Auditors form these judgements based on the evidence available to demonstrate improvement by the council in the BV characteristics and service performance.
50. In BVARs and AARs, auditors have reported a mixed picture on the pace and depth of continuous improvement across Scotland. Extracts of key messages from the 2017/18 BVARs and AARs have been included below, as well as follow up of work on year one BVARs.

Year 2 BVARs

Fife council (published May 2018)

51. The 2009 Best Value report provided a positive overall assessment of the council, and the council has maintained its performance over a period of increasing financial constraints and political change. The council has undertaken a range of improvement work since 2009 including transformation programmes, self-assessment methods, and service reviews.
52. The council and its partners are committed to securing increases in the investment in the Fife economy. They have set out in their 'Plan for Fife' a clear focus in tackling these challenges and articulate their aspirations for Fife. The Plan shows their continuing good record of partnership working: it now needs to be taken forward and supported by targets, actions and performance management arrangements. These improvements highlight that the council is committed to continuous improvement and delivering for the people of Fife.

East Ayrshire council (published May 2018)

53. In 2006, East Ayrshire council had an audit of Best Value and Community Planning. In 2010, it was one of five councils chosen by the Accounts Commission to act as pathfinder audits to test various aspects of its new risk-based approach to Best Value (BV2). Both audits resulted in positive reports.
54. Across this period, the council has continued to perform well and has improved its performance. The council has also addressed areas identified for improvement in the 2010

Best Value report. The challenges facing local government have changed significantly since the 2010 report, and the council has succeeded in maintaining its strong performance. In its findings, the Commission said that this is based upon a record of effective community planning and partnership working, underlined by a genuine commitment by partners to work with and empower local communities.

West Dunbartonshire council (published June 2018)

- 55. The Best Value report in 2007 said that West Dunbartonshire Council had made limited progress in demonstrating Best Value and urgently needed to address weaknesses in the way the council was run. The council has significantly improved the way it manages services since then. A core feature of this progress has been the strong and improved leadership of councillors and officers. Councillors demonstrate a shared commitment to improving the council and they and officers work well together.
- 56. The council is demonstrating continuous improvement in delivering services. It maintains a steady pace of change that has led to improved outcomes in priority areas.

Glasgow City council (published August 2018)

- 57. The council has made steady progress since its last Best Value report in 2009. It has made many changes to help improve services for local people. The Council and its partners have an ambitious vision for the city. The Commission noted the continuing improvement in relation to educational attainment, wellbeing of children and young people, and wider health outcomes.
- 58. However, the Commission reiterated the Controller of Audit's finding that the Council consider the impact of resolving equal pay claims. There are serious concerns about how the potential financial cost of the matter might affect the council's ability to deliver its services, and this will continue to be an area of interest for the Commission.

East Lothian council (published October 2018)

- 59. Since the 2007 report, a number of issues were raised for East Lothian Council to address immediately. An improvement plan was put in place and completed by December 2009. Since then, the council has significantly improved.
- 60. The council shows good self-awareness in its assessment of how it can improve. However, there are substantial risks and challenges faced by the council in dealing with the demands of a rapidly growing population in East Lothian. As some improvement actions are at an early stage, it will require continued momentum to achieve the expected outcomes.

Dumfries and Galloway council (published November 2018)

- 61. The council has made good progress since 2009; the pace of improvement increased from 2014 and now must increase again. There has been a significant programme of improvement activities. Since 2010/11, the council has saved £86 million and generally maintained or improved services.

62. However, the report highlighted that the council has identified that significant future financial savings are required: £79 million by 2022/23. This is a substantial financial challenge which carries inherent risks. It is the Commission's view that the council will need to increase its pace of change. To close this gap, the council will need to address and take difficult decisions about how it provides its services now and in the future. Clear leadership from members and officers will be required to deliver this change.

Follow up of Year 1 BVARs

63. The 2017/18 planning guidance stated that where a BVAR was published in year one, the AARs should include the auditors' findings and judgements on the progress made by the council. Auditors should make reference to the judgement on the pace and depth of continuous improvement included in the BVAR together with an updated overall judgement based on the results of 2017/18 follow up work.
64. All auditors reported on the progress made by councils, although in some cases judgements on continuous improvement could be more clearly articulated. This has been reiterated in the 2018/19 planning guidance and highlighted to the BV team and will be discussed with auditors.
65. All councils have produced some form of an improvement plan in response to the Commission's Findings and recommendations set out in the BVARs. No concerns have been raised by auditors on the content of the plans, stating that they address all recommendations highlighted in the respective BVARs. The majority of councils have included the recommendations from the BVAR as part of their existing corporate improvement plans.

Inverclyde Council (published June 2017)

66. The council has made reasonable progress with its Best Value Improvement Plan. The most recent progress report against the council's improvement plan was presented to its Policy and Resources Committee in September 2018. The 2017/18 AAR states that the council has assessed that four actions are complete, three are classed as on track and three have incurred slight slippage.

Renfrewshire Council (published August 2017)

67. At its meeting in September 2017, the council agreed the seven improvement actions within the BVAR. It also agreed that an update on progress, and on any ongoing best value audit activity, would be reported to its leadership board on an annual basis. Progress in implementing the recommendations continues to be monitored by the corporate management team on a quarterly basis. The 2017/18 AAR concludes that the council is making good progress in implementing the recommendations from the 2016/17 Best Value and Assurance Report.

East Renfrewshire Council (published November 2017)

68. The council's Best Value improvement action plan was approved by the Council in December 2017 and a progress report was presented to its cabinet in April 2018. The AAR states that progress has been made against all five actions. The local audit team have followed up in specific detail three of these recommendations and have confirmed they will follow up the remaining two in the coming year.

West Lothian Council (published November 2017)

69. The council included all relevant recommendations from both the BVAR and the prior year annual report into the council's performance management system, to ensure that progress against the agreed actions were tracked and progress was reported. The local audit team reported that the management assessed that by June 2018, essentially all actions were completed.

Orkney Islands Council (published December 2017)

70. The council is progressing a number of activities in response to the BVAR published in December 2017. The AAR highlights that the council should ensure it can demonstrate what difference it is making in respect of improved outcomes and the realisation of efficiencies. This has been included as a 2017/18 AAR recommendation for improvement agreed with the council, to be realised by March 2019.

Clackmannanshire Council (published January 2018)

71. In March 2018, the council agreed an action plan to progress the four recommendations of the BVAR. In its findings, the Commission requested a further report by the Controller of Audit in June 2019, or earlier if the Controller identifies concerns.
72. The local audit team reported in the 2017/18 AAR that the council has started work to address the recommendations of the BVAR. Leadership and capacity for change was a central theme in the BVAR. The council appointed a new chief executive in July 2018 and is implementing new management and committee structures and is taking steps to introduce a programme management function. The next stage is underway to review services to determine the level at which they are most effectively and efficiently delivered. Consistent with the BVAR recommendation and the Commission's findings, the council has secured a range of external assistance to support improvement.
73. The council has achieved 70 per cent of its savings but delivered services within budget through other savings and by restricting spending. The actual contribution from reserves was therefore less than initially planned. Despite these relatively positive results, the council's financial position remains acute. Based on revised assumptions, a cumulative three-year funding gap of £31.9 million for 2019/20 to 2021/22 has been forecasted. This is an increase of £2.9 million against the comparative position reported last year.

74. The 2017/18 AAR also outlined that the council has secured a range of external assistance to support improvement. Officers are currently working with Stirling University, the Improvement Service and an external change management specialist.
75. The AAR further states that the council now needs to build on this work and take the next steps required to translate structural change into savings and new ways of working that will improve its financial position. The 2019/20 budget will be a crucial test of the council's ambition for transformational change. The local team intend to conduct more detailed follow up work after the budget is agreed, in advance of me reporting to the Commission in June 2019.

5. Strategic audit priorities

76. This section summarises the results of the evidence gathered about progress made by councils against each of the Commission's SAPs.
77. The SAPs are considered by all auditors involved in local government work, both locally and nationally. They are considered as an integrated part of the risk assessment, five-year Best Value and annual planning processes. Annual audit reports provide an assessment of the council's performance against the SAPs across the five-year audit appointments
78. As a reminder and for comparison purposes, last year's AARR findings have been outlined at Appendix 1 under each SAP.

SAP 1 - Having clear priorities with a focus on outcomes, supported by effective long-term planning

Most councils have a strategic focus on reducing inequality within their communities. Councils need to continue to develop and strengthen their arrangements to show that outcomes are being achieved.

79. From our work, we have identified that one of the most common areas of focus for councils is reducing social inequality and promoting inclusive growth. For example:
 - Glasgow City Council – aims to promote human rights and reduce inequalities across Glasgow
 - Fife Council – opportunities for all and inclusive growth and jobs are two of the council's aims for the area
 - West Dunbartonshire Council – overarching aim to reduce inequalities for the people of West Dunbartonshire.
80. East Lothian BVAR stated that the council clearly understands local needs and issues and has used this to develop the vision for the area. The vision is well rounded and aims to improve quality of life, wellbeing, and ensuring growth is sustainable into the future. However, the council could improve the way it reports its performance in tackling the overarching inequality objective.
81. Glasgow City Council's BVAR stated that, while the new strategic plan has a stronger focus on measurable outcomes and targets to show the impact of delivering services, work is still needed in this area. In its recent review of the corporate performance framework, the council recognised the need to develop other indicators and outcomes so that it can better report against the themes in the strategic plan. This work is currently under way.
82. There is also evidence that councils are linking the aim of reducing inequality to the requirements of the Community Empowerment Act. For instance, Stirling's AAR stated that as part of the requirements of the Act, the council is taking steps to focus on improving outcomes within the most disadvantaged communities. Place-based partnerships will develop targeted

Locality Action Plans that set out the specific actions to be taken to close the inequality gaps and promote fairness. The first Locality Action Plan has been produced for Raploch as evidence indicated this area should be treated as the highest priority.

83. All Community Planning Partnerships (CPPs) published a Local Outcome Improvement Plan (LOIP) for the first time in October 2017 setting out their local priorities. LOIPs set out local outcomes which the CPP will prioritise for improvement. Audit Scotland, the Improvement Service and NHS Health Scotland conducted a review in 2018 of LOIPs. Key findings included:
- there is variability in the scale and scope of LOIPs across Scotland, however progress is being made against the expectations of the Act and associated guidance
 - there remains a need for LOIPs to be focused on areas where the CPP can make the biggest impact
 - there are genuine attempts to enhance community engagement and participation, either demonstrated in the development of the LOIP or through further planned work across the CPP
 - a lack of clarity around how CPPs are reaching 'hard to reach' groups or most disadvantaged in the LOIP development process.
84. The importance of continuing to improve the links between outcome priorities, planning and reporting has also been highlighted in a number of our national reports this year. For example, our Early learning and child care report noted that 'the impact of the expansion on outcomes for children is unclear as the Scottish Government did not plan how to evaluate this. There is no evidence that the additional investment has improved the quality of early learning and childcare services... There is a lack of evidence on the impact of the expansion on outcomes for parents' The Children and young people's mental health report also reported that data on performance and outcomes was limited. Our report on ALEOs this year also highlighted the need for councils to improve how they measure the outcomes achieved by ALEOs.
85. In the joint report on Community planning: an update, issued in July 2018, we identified that the Commission and the AGS would like to see the Scottish Government make further progress in developing an approach to evaluating the impact of community planning on delivering public service reform and improving outcomes. We anticipate that these issues will be addressed in the Scottish Government's national review of the overall effectiveness of community planning following the Community Empowerment Act. This is likely to take place in late 2019/2020. This will be an important strategic test of the effectiveness of community planning as a vehicle for delivering change and improvement

Constructive working relationships exist between councillors and between councillors and officers which helps to focus on outcomes. Political and managerial leadership will be tested in the coming months and years as increasingly difficult decisions need to be made.

86. The Dumfries and Galloway BVAR comments that the council has successfully maintained its clear strategic direction through a series of political and structural changes. Effective

leadership and good working relationships from senior officials and councillors have ensure consistency in council priorities and direction over five different political administrations.

87. The Fife Council BVAR also stated that, following the local elections in May 2017, a decision was taken to form a joint administration between 29 SNP councillors and 24 Labour councillors. There are constructive working relationships between the administration groups and an acceptance of the wider case for change. There are signs that the council's joint administration is working well, and the corporate management team provides effective leadership.
88. Councillors and staff at East Ayrshire Council were positive about the Executive Management Team (EMT). It was reported in the BVAR that councillors acknowledged the challenging circumstances facing the council and believed the EMT was providing the necessary executive leadership to continue to deliver appropriate, sustainable services. Staff were similarly clear on the council's challenges and supported senior management's approach. Councillors are confident they can contribute and influence priorities.
89. There were similar messages reported in the Glasgow City and West Dunbartonshire BVARs, where effective leadership and good relationships between officers and members were acknowledged, especially given the recent significant change in councillors and in political leadership.
90. AARs contained evidence that councillors are focusing on strategic priorities and working well together to make decisions. There is evidence that councils focus on strategic priorities when it comes to the annual budget-setting process. For example, the AAR of Stirling Council outlined that the 2017/18 budget was set using the council's priority-based budgeting approach and identified savings options based on future requirements, aligned to the council's priorities. As budget decisions become increasingly difficult - and potentially controversial - political and managerial leadership will be tested further in future.

Councils should build on their medium-term financial planning and develop suitable long-term financial plans

91. Local auditors reported on council priorities and long-term planning in most annual audit reports. Information was also obtained through data returns provided by auditors, and review of the BVARs.
92. The Chair's introduction to the [Local Government in Scotland: Financial Overview 2017/18](#) noted that positive progress has been made with the majority of Councils having medium-term financial planning in place. Councils should now build on these plans and develop suitable long-term financial plans. This would support consistency in financial decisions with corporate priorities and outcome aims, as well as transformation objectives.
93. Sixteen councils do not demonstrate any aspect of long-term financial planning (defined as 5-10 years). The other sixteen councils show different progress or elements of long-term financial planning. Five of these councils have long-term financial plans in place which cover 10 years or more.

94. Financial planning was one of the most common points local auditors highlighted within their respective AAR action plans. For instance, the AAR of Dundee City Council highlights the need to develop a long term financial plan which is aligned to the council's priorities and demonstrate how it will address future budget challenges.
95. The BVAR for Fife Council identified that its long-term financial model which covers ten years is an example of good practice amongst Scottish councils, as outlined in Case Study 1. The council has relatively sophisticated financial models to help forecast long-term expenditure and income.

Case study 1

Fife Council's ten-year long term financial model

Fife Council has developed a long-term financial model to forecast its expenditure and revenue over a ten-year period. The model estimates the cost of services using demographic data from National Records of Scotland, and regular discussions take place with services to identify pressures. It adjusts forecast expenditure on waste and roads services to reflect planned housing developments.

Estimates of revenue over the decade are based on forecasts provided by Fiscal Affairs Scotland and are updated following economic and fiscal events at both UK and Scotland levels. The model includes both pessimistic and optimistic scenarios to ensure councillors have both best and worst-case information. Understanding the scale of future budget shortfalls has enabled the council to make progress with changes to how services are delivered.

Source: Best Value Assurance Report - Fife Council

Integration Joint Boards face significant risks in relation to financial sustainability. The majority do not have medium term financial plans, and none currently have long term financial plans.

96. As reported in the Local Government in Scotland: Financial Overview 2017/18, despite a three per cent cash increase in funding and additional Scottish Government funding to the NHS for IJBs, the majority of IJBs have underlying financial sustainability issues. Many IJBs have struggled to achieve financial balance at the year-end.
97. In November 2018, we published the second of three national reports on the integration of health and social care. It highlighted that the reasons for the deficits incurred vary but include rising demand for services, financial pressures and the quality of financial planning. While all IJBs have short-term financial plans, only a third have medium-term plans and there were no longer-term plans in place at the time of the national report. This has been recognised as a critical gap.
98. In 2017/18, several IJBs needing additional, unplanned allocations from their partners and adding to, or drawing on, reserves as follows:
- 16 needed additional money from NHS boards amounting to £32.8 million

- ten needed additional money from councils amounting to £18.6 million
- eight drew on reserves amounting to £9.1 million
- 14 put money into reserves, amounting to £41.9 million.

99. The level of reserves held by IJBs also vary and not all integration schemes allow IJBs to hold reserves. In total, the level of reserves increased across IJBs in 2017/18. There were several reasons for this, including: late allocation of money, staff vacancies or year-end timing differences where money is received and allocated but unspent. This was not always a planned approach and the ongoing pressures on IJB budgets and the level of savings required to be achieved are significant and therefore this trend is not forecast to continue.

100. In addition to the existing pressures, there will be new financial pressures in coming years. For instance, the six Greater Glasgow and Clyde IJBs will face potential financial risk in 2018/19 as the prescribing risk sharing agreement with NHS Greater Glasgow will no longer be in place. Previously, any over or underspends within the individual IJBs' prescribing budgets were retained within the health board. This allowed the IJB to recognise a breakeven position against its prescribing budget. This will no longer be the case in future.

Councils continue to face financial constraints and the majority of councils have ended 2017/18 with lower levels of usable reserves and increased levels of debt compared to the start of the year

101. The local government in Scotland: financial overview 2017/18, published in November 2018, includes the following key messages:

- In 2017/18, councils managed funding gaps of 4 per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Their outturn at the year-end was better than budgeted. Overall, increases in spend in education and social work were offset by reductions in other services.
- Councils are showing signs of financial pressures. Eighteen councils drew on their usable reserves in 2017/18, however overall by a relatively small amount.
- Some councils have relatively higher levels of debt for their size and there has been a significant increase in their debt positions. Councils' net debt increased in 2017/18 by £0.6 billion to £15.1 billion. 20 councils increased their net debt by a total of £0.8 billion, with another 11 councils reducing their net debt by £0.2 billion.
- Capital expenditure in 2017/18 decreased by 5 per cent in real terms. Housing and education were the main areas of investment. Despite this, the number of social houses provided by councils continues to fall.

Risk identified and future work

102. Based on the above, the main risks identified in this area are:

- Political and managerial leadership will be further tested in future, as more difficult decisions need to be made
- Long-term financial planning is not fully developed

- Councils need to continue to develop and strengthen the evidence to show that outcomes for social inequality are improving
- Integration Joint Boards have financial sustainability risks. The majority do not have medium-term financial plans, and none currently have long-term financial plans.
- Collaborative leadership and cultural differences between the partner bodies is affecting the pace of change for IJBs, which will impact on service delivery.

We are monitoring and reporting these risks through the Local Government in Scotland: Financial Overview, AARs and BVARs. The importance is also reiterated to auditors through the 2018/19 planning guidance and will continue to be reported as a priority in 2018/19 AARs for each council.

SAP 2 – Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities

103. The appraisal of options, is one tool that is used in self-assessment and evaluation of changing how services are delivered. The BV approach assesses whether councils consider a wide range of options when making decisions. Findings have shown that councils have various approaches to decision making. Some councils have an organisational-wide transformation programme while others embed the process of continuous change and improvement into operational service delivery.

Councils show improving practice but scope for more improvement when considering service delivery options such as ALEOs

- 104.** Our report in May 2018, Councils' use of arm's-length organisations, found an improving picture in terms of the use of how councils plan to use ALEOs including detailed business cases. However, few councils have an overall policy for how they should consider options. The report also concluded that councils could do more to involve the public and other stakeholders in the process.
- 105.** The report highlighted that councils can make a stronger business case where the benefits are clearly linked to improved outcomes for citizens and communities. That is, the choice is not based on a narrow financial advantage that may be subject to change. The report also found that the more effective practice was where councils identified risks, and re-evaluated business case assumptions before taking a final decision.
- 106.** The options appraisal and business cases the audit team examined were comprehensive and detailed. Councils used external consultancy expertise in more complex legal and financial matters. They also draw on evidence from similar organisations that have been set up elsewhere.
- 107.** More recent options appraisals presented councillors with a good level of information across a range of options including contracting with private sector or using community enterprises. However, the team also found options appraisals that considered only a narrower set of options and did not explain why options such as outsourcing had not been included.

108. Most of the sample councils undertook options appraisals on a case-by-case basis. Few had guidelines in place to set out the council's overall approach, for example the trigger points for reviewing a service and the criteria to apply when looking at options.
109. In April 2018, Glasgow City Council decided, based on business cases, that services delivered by Cordia (care and facilities management) would be transferred to the council by 30 September 2018. In addition, it decided to terminate the service level agreements with Community Safety Glasgow and to bring the services back to the council by 31 March 2019. These changes will result in the transfer of around 4,300 staff to the council. The expected benefits set out in the business cases that supported the changes are:
- streamlined and improved service delivery
 - refined Council Family structure
 - reduced service delivery costs and maintained or improved service quality
 - realisation of further opportunities for financial savings, for example through reducing duplication.

Councils are in the early stages of new or refreshed 'transformation' programmes. There is a risk that councils do not have the capacity to deliver the scale of change in the timescales required

110. Councils continue to operate in challenging environments with an increased demand for services and ongoing financial constraints. As reported in the [local government in Scotland: financial overview 2017/18](#), over half of councils began a new or refreshed transformation or change programme in the past year. Many are still in the early stages of delivering change. The overview report highlighted that 'the majority of work within transformational or change programmes is focused on service review and improvement work. Cross-organisational themes tend to focus on delivering, for example, staff and management restructures, office and property rationalisations, improvements in HR, payroll and finance systems. ...With funding expected to reduce further in the medium term, councils will need to consider more significant redesigns of how they operate and deliver services.'
111. Renfrewshire Council has established its second Better Council Change Programme (BCCP). This includes a number of separate programmes to redesign services and deliver efficiencies over the period 2017/18 to 2022/23. One of the projects included in this programme; the Enterprise Resource Planning (ERP) intends to combine finance, human resources, payroll and procurement systems into a single integrated application. Implementation of ERP began in July 2016.
112. At West Dunbartonshire Council, the auditors highlighted that the council's Strategic Improvement Framework delivers the transformation agenda, drives continuous improvement and prepares its services for the future. The council has a self-evaluation framework and a three-year rolling programme for services to carry this out. All council services not subject to an external assessment, such as that carried out by the Scottish Housing Regulator or Education Scotland, are part of this programme. The council's Performance Monitoring and

Review Group agreed the timing of the self-evaluations based on risk assessments of each service.

113. However, some 2017/18 AARs highlighted that improvements could be made to reports and the process arrangements around transformation programmes. For example, East Renfrewshire Council's AAR stated that the new framework for transformational change should allow the efficient monitoring of projects against target timescales, support the allocation of resources and track the savings achieved. Following recommendations for improvement to the update reports on the transformation programme in 2017, East Dunbartonshire Council's AAR highlighted further areas for improvement in 2018;
- To improve the clarity of the transformation programme update reports, the year to which the project relates should be included.
 - The update reports also need to specify why some of the estimated savings from the transformation programme have not been included within the council's efficiency savings programme.
 - Given the current scale of change going on across councils, it's important that progress continues to be monitored and scrutinised in this area.

There is more evidence of councils collaborating with other public-sector bodies, however there is limited evidence of councils sharing services

114. The Commission has highlighted the benefits to public sector organisations of working well together. At a national level, the Improvement Service and CoSLA have also worked with local authorities to develop a number of shared initiatives.
115. While there is still little evidence that councils are sharing services, there is increasing evidence that councils are collaborating or sharing practice at a more localised level. The BVAR of West Dunbartonshire Council highlighted this as a positive area and included a number of examples [Case study 2].

Case study 2

West Dunbartonshire Council's commitment to collaborating and sharing services

West Dunbartonshire Council has actively pursued opportunities over the years for sharing services or information with other public-sector bodies, specifically neighbouring councils.

The Strategic Improvement Framework provides a structured and practical approach to help council services to continue to improve. The council has demonstrated a commitment to delivering services differently in West Dunbartonshire and is working well with partners to achieve this. Partnership initiatives include:

- a shared IT data centre with East Dunbartonshire Council
- membership of the Civil Contingencies Service with Renfrewshire, East Renfrewshire and Inverclyde councils
- a communications partnership with Stirling Council.

In addition, the council has entered into a joint venture with Clydeside Regeneration Limited (CRL) to develop the previous John Brown's Shipyard, now known as Queens Quay. The

development will comprise of 1,200 new homes (200 of which are social homes), retail and commercial facilities, a health centre and a council care home.

Source: Best Value Assurance Report - West Dunbartonshire Council

116. The East Ayrshire BVAR reported that community planning partners work well together and that both the council and its partners' plans are aligned to the CPP's strategic themes. There are good examples of partnership working in care, economy and roads, example:
- New care at home service
 - Engagement with the business sector such as challenging secondary schools to establish good links with at least 10 employers, Business Gateway relocated to a more prominent position in Kilmarnock leading to increased visibility
 - The council and the NHS have a well-established partnership, strengthened by the IJB
 - Ayrshire Roads Alliance (ARA) between East and South Ayrshire councils, involves the two councils working together to provide roads-related services.
117. Despite efforts to replicate the success of the Ayrshire Roads Alliance, the roads shared service agreement which initially commenced between East Dunbartonshire Council, Inverclyde Council and West Dunbartonshire Council has not resulted in a shared service. A revised approach has been agreed, involving a shared strategic lead/head of service leading on collaboration across two separate services in two councils (Inverclyde and West Dunbartonshire) as opposed to a shared service. The reasons have primarily been associated with:
- Challenging discussions with trade unions from both councils around protocols for cross boundary working; and
 - Resistance from the workforce in West Dunbartonshire to engage voluntarily in roads and transportation shared service.

Risk identified and future work

118. Based on the above, the main risks identified in this area are:
- That councils do not have the capacity to deliver the scale of change in the timescales required
 - As councils are in the early stages of their transformation and improvement programmes, it is important that progress is continuously monitored and scrutinised.
 - There is limited evidence of successful sharing of services between councils

These are areas which will continue to be monitored and reported in future BVARs and AARs.

SAP 3 - Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future

119. It has been 18 months since the 2017 local government elections, which saw a large number of newly elected councillors. It is now appropriate that councils review their member training

and development programmes to ensure they remain fit for purpose. The 2016 report on [How councils work: Role and responsibilities in councils – Are you still getting it right?](#) stresses the importance of training and development to support councillors with the skills and tools required to carry out their complex and evolving roles.

Training programmes should be tailored to suit the needs of members which would improve attendance rates. Councillors should have personal development plans and take greater ownership for their own development

120. West Lothian Council has provided induction training to all councillors. However, the BVAR suggests that it should consider how it can better structure training so that it is tailored to individual training needs. This is because after the initial induction training, a series of member briefings were provided and although attendance was initially high, it has now started to fall. This was also the case at Dumfries and Galloway Council, where members were offered training on 40 different topics. Ranging from scrutiny planning, participatory budgeting and capital investment, however attendance is low. As at March 2018, average attendance for face-to-face courses was 37 per cent and nine per cent for e-learning courses. The report recommends that the council should work with members to understand the reasons for low attendance at training courses and agree actions to improve current rates.
121. The Stirling Council AAR noted mixed levels of attendance at training. This included some councillors who have attended very few of the training courses offered. A recommendation was made in the AAR that councillors continue to be encouraged to attend training that is relevant to their role in the Council.
122. West Dunbartonshire's induction programme has been followed up by a series of seminars for councillors. There were 11 seminars scheduled in the period to June 2018 and these covered a wide range of areas. For instance, tackling domestic abuse, understanding equality duties, adult support and protection, safeguarding the environment and an ICT drop-in session. There has been good attendance at members' sessions and development workshops, and it was felt that the material the council provided was comprehensive and accessible.
123. The local audit team at Argyll and Bute reported that they reviewed the training provided to new and returning councillors and concluded that it had been appropriately designed and should aid them in exercising their scrutiny responsibilities effectively. An on-going programme of online and conventionally delivered financial training is also provided to councillors.
124. Our report on Councils' use of arm's-length organisations, in May this year, showed progress in the training and development for councillors acting as board members. The audit team saw good examples of training for board members, reflecting the growing maturity of councils' experience in this area.
125. However, there is limited evidence from AARs or BVARs of councils adopting personal development plans for councillors. This would be an important step to encourage councillors to take more ownership for their own development.

Councils have effective arrangements in place to support good governance and accountability. The level of challenge is generally good, with some scope to improve the depth of scrutiny.

126. It is recognised that the training programme is crucial for councillors to be effective in their roles. Equally important are effective arrangements which support good governance and accountability. Some councils, for example Glasgow, took the opportunity of the local government elections to review their arrangements (Exhibit 3).
127. While effective scrutiny and challenge is being evidenced across the councils, BVARs and AARs have highlighted where arrangements can be improved:
- East Lothian Council – Initially, there was a delay of eight months to nominate councillors for two key scrutiny committees. Councillors have also requested changes to certain reports to make them more informative.
 - Angus Council - There are appropriate governance arrangements in place which support the scrutiny of decisions made by the Council. However, it was noted that there could be greater challenge and scrutiny by the scrutiny and audit committee, with a stronger focus on the Council's financial position.
 - Dumfries and Galloway Council – The recently formed audit, risk and scrutiny committee is new and as yet, untested. As the committee is an opposition-only committee, reporting to the partnership administration, there is a potential risk that it is not given sufficient prominence in the council structure. This may impact on future scrutiny at the council.
 - Falkirk Council - An established governance structure through Council and standing committees is in place. However, progress in responding to improvement recommendations, to enhance governance arrangements, has been mixed. There is scope to ensure the audit committee is better sighted on the status of implementation of recommendations in respect of audit and other scrutiny activity.

Case study 3

Glasgow City Council's governance structure

Following a review of its committee structure, Glasgow City Council now operates a business bureau which consists of representatives of the four political parties and agrees how council business is managed. The council is also undertaking a member survey to review the new governance arrangements and to identify any lessons learned in relation to the effectiveness of committees.

Both the Finance and Audit Scrutiny Committee (FASC) and the Operational Performance and Delivery Scrutiny Committee (OPDSC) serve as the two scrutiny committees of the council. Both are well chaired and effectively scrutinise the way the council is managed. In addition, there is evidence that members actively seek opportunities to increase the effectiveness of the committee meetings. For example, OPDSC members met informally to review the operation of the committee, including expectations on format of papers and the direction of committee discussions. The FASC now also circulates a members' Q&A log prior to each meeting. This lists

outstanding questions from the previous committee meeting along with updates from officers. This allows the committee to move more quickly onto the current business agenda.

Source: Best Value Assurance Report 2017/18 – Glasgow City Council

Councils are at various stages in developing organisational-wide workforce planning. Generally, further work is required. In future, our audit work could do more to look at staff engagement and learning and development.

128. Mixed results were reported in relation to councils producing organisational-wide workforce planning which sufficiently address future challenges.
129. The BVAR at Glasgow City Council noted that the council has a comprehensive and coordinated approach to workforce planning. Workforce plans are in place for each service. Forecasting requirements are recorded for the following year or longer where known, with quarterly updates submitted. Returns are collated centrally to identify gaps and surpluses. The council also uses the returns to develop budgeting and resourcing activity plans, including redeployment and retraining opportunities.
130. However, other BVARs reported the following:
- West Dunbartonshire Council - while the council has approved a detailed organisation-wide five-year workforce plan, it should be further developed to include forecasts of workforce numbers, expected shape of the workforce and costs over the planning period. Progress should also be monitored.
 - Dumfries and Galloway Council- There is no organisation-wide workforce plan and it is currently not clear what the workforce will look like in terms of numbers and skills in the medium or long term.
 - Fife Council – Workforce planning has improved since 2009. The current workforce strategy covers the period 2016 to 2020 and is supported by annual corporate and service workforce plans. Since 2009, staff surveys have been run every two years and now form part of the organisational culture improvement programme.
 - East Lothian Council - Cabinet approved the council's updated Corporate Workforce Plan 2018 to 2022 in June 2018. The plan reflects the council's strategic objectives and considers wider issues. The council also recognises that it needs to prepare individual service workforce plans. These will help it consider in more detail how it will manage changes in services and staffing levels.
 - East Ayrshire Council – While the council plans its workforce at a service level, it does not have an overall plan setting out the people and skills it needs to deliver services in future. The council is currently developing its organisation-wide workforce planning arrangements as part of its transformation work.
131. AARs for Councils also commented on workforce planning. Angus Council's AAR followed up on a 2016/17 recommendation that the change programme projects should set out the workforce implications of service redesign along with the anticipated savings. The follow up work concluded that the council has made reasonable progress, however further work was required to link all the projects to the organisational wide workforce plan.

132. Local auditors for Orkney Islands Council commented that a report was presented to the HR sub-committee on 31 May 2018 outlining a number of broad areas for future direction and next steps in implementing a corporate workforce plan. The work will now commence to ensure that plans are developed by March 2019.
133. Local auditors following up 2016/17 BVAR work at Renfrewshire Council noted good progress has made in developing workforce planning arrangements. The council's workforce plan was approved by the Finance, Resources and Customer Service Policy Board in November 2017. In addition, service level workforce plans have been prepared by all service departments.
134. It is likely that the development of organisational workforce planning and ensuring they are fit for purpose will be an area where progress is mixed across councils. This means that it will continue to be a key area of focus for auditors. In addition, we could give greater attention to how councils engage their staff and provide learning and development opportunities for their people.

A lack of collaborative leadership, cultural differences and capacity are affecting the pace of change for Integration Joint Boards

135. The Health and Social Care Integration: update on progress report commented that several significant barriers must be overcome to speed up change. These included: a lack of collaborative leadership and strategic capacity; a high turnover in leadership teams; disagreement over governance arrangements. Local areas that are tackling these issues effectively are making better progress. The report outlines three risks relating to this area and stresses that unless rectified, progress made by IJBs will be limited:
- 57 per cent of integration authorities have had leadership changes in their senior management team.
 - The role and remuneration of Chief Officers' vary significantly which reflects differences in roles and responsibilities, with many holding dual roles in partner organisations. There is also a mix of full and part-time Chief Financial Officers.
 - There is evidence of a lack of support services from partner bodies for integration authorities, such as HR, finances, legal advice, improvement and strategic commissioning.
136. These risks will continue to be monitored by local auditors of IJBs, councils and NHS boards.

Risk identified and future work

137. Based on the above, the two main risks identified in this area are:
- Councillors' training programmes need to be reviewed and tailored to suit individual needs, to improve attendance rates and scrutiny.
 - Further work is needed to ensure councils have fit-for-purpose organisation-wide workforce planning.
 - More audit focus could be given to staff engagement and learning and development

138. We will continue to monitor annual audit plans and reports to ensure local auditors are addressing all BV characteristics throughout the five-year appointment.

SAP 4 – Empowering local communities and involving them in the design and deliver of local services and planning for their local area

139. Annual audit reports and BVARs identified that a variety of approaches are being taken to progress duties under The Community Empowerment (Scotland) Act 2015. The Act gives people more influence over how their councils and their partners plan services. The Commission is clear that community empowerment is a key area of focus. As this is an area of continuing development, we will work with the Commission to agree our shared expectations of councils in this important area.

Councils are beginning to implement their community empowerment arrangements at a local level

140. East Lothian Council BVAR concludes that it has demonstrated a commitment to community participation. It has transferred harbours to community groups and the management of eight community centres to local communities. In addition, guidance has been published by the council on how to apply for a community asset transfer and is trying to identify opportunities for its assets to be transferred to communities through one of its transformation programme workstreams.
141. Similarly, Glasgow City Council has developed the arrangements required to support asset transfers and participation requests. So far, however, there have been very few. The council has also begun to roll out participatory budgeting in some areas, which gives local people a greater say in how the council spends some of its funds. Staff training on the Community Empowerment Act is ongoing and awareness of its implications is increasing after staff surveys identified a need for more knowledge on the subject.
142. The BVAR for West Dunbartonshire Council comments that the council has good foundations for meeting its responsibilities under the Community Empowerment Act. The council has been involved in a number of projects to transfer assets to the community. The focus for the council has been to empower the community through providing local people with skills and confidence and transferring an asset to the community that will provide services based on local needs.
143. Fife Council already had a structure for community asset transfers and had passed ownership of some sites onto community groups. It has now implemented a formal process as well as a dedicated resource to facilitate transfer. It has received 39 enquiries and nine of these have been approved to go forward to the next stage. For those who have not been approved, the council continues to work with them to find alternative more suitable arrangements.

Case study 4

East Ayrshire Council approach to community empowerment

East Ayrshire Council is delivering community empowerment through its Vibrant Communities approach, which began in 2013. It brought together employees from a range of council services. The aim of Vibrant Communities is to move away from the traditional way of working 'for people', to working 'with people' and it focuses on two areas:

- Early intervention and prevention – this is about taking action as soon as possible to tackle problems for children, families and vulnerable people.
- Sustainable communities – this is about empowering and enabling communities to get more involved where they live.

In addition, the council has a community-led action planning where people come together to discuss local needs and priorities and then agree actions to improve their local area. Since 2014, the council has supported 18 communities to develop and implement community-led action plans. At the time of the BVAR, four more plans were being developed.

Source: Best Value Assurance Report – East Ayrshire council

144. Our report on councils' use of arm's-length organisations underlined the need for continued improvement in how communities are involved in decision-making. The report concludes that councils could do more to involve local communities and businesses in their choice of options. The audit team saw limited evidence of public opinion shaping options appraisals. The choice of option is treated mainly as a technical issue.

Where councils are undertaking public consultations, there is little evidence to show that they are taking the results into account when setting the annual budget

145. Aberdeen City Council's AAR highlighted that stakeholder engagement in determining priorities is undertaken through a variety of methods and informs budget setting which is aligned with the Local Outcomes Improvement Plan (LOIP) providing an integrated approach. However, the council did not undertake citizen consultation during the 2017/18 budget setting process. This not only increases the risk that the council's budget decisions aren't aligned with stakeholder views but also limits the achievement of its Engagement, Participation and Empowerment Strategy. Which sets out an ambition to go significantly beyond the Community Empowerment (Scotland) Act.
146. The AAR for Shetland Islands Council commented that there was limited focus placed on community empowerment and engagement in 2017/18. Local audit work identified that the council primarily involves the community once a decision has been taken, for consultation and approval, rather than at the decision-making stage.
147. Furthermore, given the findings in Shetland Island's Partnership Plan that 41 per cent of residents want to be more involved in decision making, while only 27 per cent feel they can currently influence local decisions - there is scope for improvement in this area. This will require a change in mindset from councillors and officers to allow the community to drive decision, rather than the council. It was concluded that the pace of implementation of the requirements of the Act could be improved.

Auditors are reporting on statutory requirements for equal opportunities but there is more focus on social inequalities

148. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, to ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
149. South Ayrshire Council's AAR highlighted that the council recognised its role as a large employer in ensuring that equality is built into everything it does. The council has developed an equality and diversity strategy and is committed to providing a positive, respectful and supportive working environment and staff training is provided to support this.
150. The AAR for Glasgow City Council confirmed that the council has established a new Empowerment Unit and appointed a Director of Community Empowerment and Equalities. In addition to this, following the recent equal pay ruling, the council has established an equal pay project comprising workstreams to take this matter forward. Councillors are updated through cross-party group meetings.
151. Comhairle nan Eilean Siar's AAR concluded that equality arrangements are established and consider the needs of individuals. Equality and diversity training is included in the induction programmes for all employees. This is outlined in the Equal Opportunities Statement and Policy which is available on the Comhairle website. However, the gender pay gap is substantial. The vast majority of part time and lower paid grades are predominantly undertaken by female employees. The training strategy is currently being reviewed to incorporate improvement actions identified.
152. The majority of the AARs did not have any further information on equal pay. This will mainly be because in 2016/17 it was reported that most councils had largely resolved most claims. An impact report is planned for follow-up on the Equal pay in Scottish councils, which was published in September 2017.
153. Information in BVARs and AARs provide more focus on social inequalities, particularly where the council operates in an area where there are high levels of deprivation and has included it as a priority in its strategic plan (as outlined on page 20).

Risk identified and future work

154. Based on the above, the two main risks identified in this area are:
 - While arrangements for discharging responsibilities under the Community Empowerment Act have been established, there is more to do to agree shared expectations of councils in this important area of our work
 - Where councils are undertaking public consultations, there is little evidence to show that they are taking the results into account when setting the annual budget
155. There is a working group in Audit Scotland supporting the development of understanding and intelligence around community empowerment. In addition, the Strategic Scrutiny Group's community empowerment advisory group will be developing a coordinated approach to the

scrutiny of community empowerment across all scrutiny bodies. This will be based on developing a rich and shared understanding of the implications, local practice and what works. We will engage with the Commission as this work develops.

156. In addition, the Audit Scotland Equality and Human Rights Steering Group is currently developing our work for human rights and socio-economic factors and how we embed this into our audit work across the organisation.

SAP 5 - Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes

157. The BV approach reports on the effectiveness of councils' self-evaluation through their performance management framework. All BVARs include comment on this area as performance management frameworks drive continuous improvement. Public performance reporting is covered as part of this area.

Councils have performance management frameworks in place. However, public performance reporting ranges in quality, and there is scope for councils to learn from each other to continue to improve the standard of reporting to their communities

158. The Commission places great emphasis on councils' responsibilities for public performance reporting. This is a key element of the performance management framework and covers how effectively local authorities are reporting performance information to the public. The Commission does not prescribe how councils should report this information, but expects them to provide the public with fair, balanced and engaging performance information.
159. It is important that councils clearly report their performance to local citizens and the community. Good performance reporting includes clearly stating how performance and spend is linked to the council's priorities; local indicators which demonstrate quality of service; public satisfaction; and an overall assessment of the council's journey.
160. Most local auditors provided an overall assessment of the performance management framework at their councils, with some focus on the quality of performance management information and reporting.
161. We have reviewed council's websites to assess the accessibility of their public performance reporting. All councils have a council performance section on their website, but there was found to be a wide variation in the content available. For instance, the website of [Scottish Borders](#) showed that performance information is coordinated well in a consistent and structured way. Also, performance information is available in one place and well-structured in [North Ayrshire](#) and [North Lanarkshire](#), both of which provide a clear linkage between planning and performance information.
162. A couple of good practice points were noted from this review;

- The date of publication and frequency of reporting was not always stated on council websites, a few councils did present a reporting schedule on their website. This would help to understand when the report is expected to be published.
- A short, sharp presentation, such as a digest version of the reports and infographics is particularly helpful when the main reports are lengthy. It makes information more accessible.

The review also recognised that there is a balance to be struck between presenting the information in a simple format and providing the context to understand what the information means for the public. AARs should also provide information on performance reporting every year. In a recent paper by the Secretary to the Accounts Commission, all 32 council AARs were reviewed for gathering evidence on performance reporting. It was found that:

- All 32 AARs include commentary on performance reporting at the council, but there is variation in the level of detail provided. The majority of AARs include descriptions of the performance arrangements in place. Thirty out of 32 AARs refer to the SPI Direction.
- Thirteen AARs conclude that SPI arrangements at the council are satisfactory.
- Seven AARs conclude that public performance reporting arrangements are satisfactory without specifically concluding on SPI arrangements.
- Eight AARs conclude that there are areas for improvement within the council's performance reporting arrangements, with examples including using fewer but better measures and making information more accessible.
- Four AARs do not provide a conclusion in relation to public performance reporting or the SPI Direction.

163. A revised SPI direction was published by the Accounts Commission in December 2018.

Auditors report a positive picture in terms of accessibility for the public to information and to council meetings. However, auditors are continuing to make recommendations for improvement to transparency of financial reporting.

164. Transparency means that the general public have access to understandable, relevant and timely information about how the council is taking decisions and how it is using resources such as money, people and assets.
165. Generally, auditors reported a positive picture on the accessibility of public documents and minutes. Minutes and reports of meetings were available to the public via council websites and meetings were also open to the public.
166. However, many local audit teams reported that the transparency and clarity of the narrative within management commentaries of the accounts could be improved. There are three key areas of concern:
- The outturn should be reported against the budget agreed at the time of council tax setting, and explanations for any significant variations.
 - A reconciliation should be reported, showing the outturn in the narrative of the financial statements to the movement in the general fund

- Progress against agreed savings is not reported within the financial statements.
167. Comhairle Nan Eilean Siar's management commentary was identified as an example of good practice. 2017/18 financial performance was reported clearly and included income, expenditure and surplus/deficit positions for significant elements of the council's budget. This was consistent to the overall movements in the general fund.
168. Many local auditors reported that requests were made during the audit process to make the narrative clearer. For instance, North Lanarkshire Council's audited accounts included a reconciliation between the outturn position to the movement in the general fund. The draft accounts submitted for audit did not include this.
169. Fife Council's audit team stated that the figures in the summary outturn in the management commentary can be reconciled to the expenditure and funding analysis, but this is not clearly explained within the accounts. A number of presentational points have been raised with officers to improve the transparency.
170. Whereas at Clackmannanshire Council, it was noted that management did not prepare a final outturn report for councillors setting out details of the financial performance of the council in 2017/18. This was reported as an issue in the AAR. Management responded that this was due to changes in personnel in the finance team.

Arrangements for Integration Joint Boards' understanding and measuring of Best Value are not well developed

171. The Code of Audit Practice sets out how BV duties apply to accountable officers across the public sector, not just councils. This includes the auditors of integration authorities and the 2017/18 Planning Guidance required auditors to include comment in their annual audit reports on how each integration authority demonstrates that it is meeting its BV duties.
172. In July 2017, IJBs submitted their first full year annual performance reports in accordance with statutory requirements. One of the reporting requirements is that they demonstrate Best Value in the delivery of services.
173. The [Health and Social Care Integration: update on progress report](#) which is the second of three national performance audit reports commented that some aspects of Best Value are widely covered within IJBs' annual performance reports and annual accounts, including financial planning, governance and use of resources. About half of all IJBs had a section in their annual performance reports setting out how they intended to demonstrate the delivery of Best Value. However, overall, the coverage varied between IJBs and was often not in enough detail to allow the public to judge the IJB's activity on continuous improvement.
174. The report included a recommendation that IJBs should make the best use of resources, agreeing how Best Value will be measured and making sure that the IJB has the information needed to review value for money and performance effectively. Currently, arrangements for understanding and measuring Best Value arrangements are not well developed.

The processes and quality of annual accounts submitted for audit needs to improve for some councils and IJBs

175. All councils received an unqualified audit opinion on their 2017/18 accounts, however the two following points were noted:

- Two bodies were signed off late; Angus Council and Tayplan Accounts (Dundee, Perth, Angus and North Fife Strategic Development Planning Authority). This was due to governance failures on the bodies' parts, specifically in coordinating signatures.
- Several annual audit reports for both councils and IJBs stated that the quality and preparation of the draft accounts submitted to audit needed to improve. Also, as outlined above, the management commentaries in councils' accounts should do more to explain financial outturn against budget.

176. These areas will continue to be the focus of future annual audit reports.

Risk identified and future work

177. Based on the above, the four main risks identified in this area are:

- Public performance reporting should be more comprehensive which includes linking to delivery of priority outcome and the national performance framework
- The transparency of financial reporting in the annual accounts needs to improve
- Arrangements for Integration Joint Boards understanding and measuring Best Value are not well developed
- The process and quality of annual accounts for some councils and IJBs needs to improve.

178. The SPI Direction for the three years from April 2019 was published in December. Guidance will be provided to auditors to promote inclusion within the AARs. Transparency in financial reporting and the arrangements for and quality of annual accounts will continue to remain a key focus for local auditors during the financial statements' audit.

6. Other audit findings

179. During 2017/18, I also received annual audit reports on integration authorities, pension funds and other local authority bodies.
180. During 2017/18, local auditors raised recommendations for improvement in annual audit reports across Scottish local authorities. Following an analysis, it was found that the issues below were the most common and appeared in three or more council AARs:
- IAS 19 valuation late adjustment (further information provided at paragraph 186)
 - The need for a long-term financial strategy (discussed under SAP 1)
 - Non-current asset valuation and classification corrections
 - Incorrect group accounting treatment applied
 - Preparation and quality of accounts (discussed under SAP 5)
 - Transformation programme; broadly in relation to transparency and frequency of reporting progress and capacity to delivery (discussed under SAP 2)
 - Slippage in the capital programme
 - Charities accounts; where the connected charities provision is not being used and the ongoing issue of dormant trusts
181. Where appropriate, Audit Scotland's professional support team has issued guidance for auditors on these areas. Auditors will follow up on the above areas within their upcoming respective AARs. The results will be compiled and reported in the 2018/19 AARR.

Pensions

The net pension liability has reduced substantially in 2017/18 compared to 2016/17

182. In December 2018 a supplement was published to accompany the Local Government in Scotland: Financial Overview 2017/18 on the Local Government Pension Scheme. This supplement was compiled from audited accounts of the 11 pension funds administered by councils in Scotland and from the reports of their appointed auditors. All 11 pension funds received unqualified audit opinions on their accounts.
183. In 2017/18, council's total net pension liabilities in the Scottish Local Government Pension Scheme (LGPS) reduced by 42 per cent from £11.5 billion in 2016/17 to £6.6 billion in 2017/18. All councils reduced their liability, except for Aberdeen City Council. This significant improvement was due to:
- An increase in pension fund assets of £1.1 billion representing an increase of 3.5 per cent.
 - A reduction in scheme liabilities of £3.9 billion due to reductions in life expectancy, lower than assumed salary increases and increases in the discount factor used to value future benefits, based on bond rates.

184. There were delays with the valuation of pensions liabilities in councils across Scotland in 2017/18.
185. As reported in the Local Government in Scotland: Financial Overview 2017/18 asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns, as a result of significant changes in markets before 31 March 2018.
186. Councils account for their share of the Local Government Pension Funds (LGPS) in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme's actuary. Actuarial reports across Scotland used estimated data for the final part of the year. This resulted in pension fund assets reported in each council's balance sheet being understated in the unaudited accounts. This issue affected all councils and a significant number of subsidiary bodies that are also members of the LGPS. It was corrected in the majority of audited accounts across Scotland and reported in individual AARs.
187. A further issue was identified in three councils (East Ayrshire Council, North Lanarkshire Council and West Dunbartonshire Council) when the revised IAS19 reports were received from the actuary. An omission by the actuary in the original calculation of liabilities resulted in an increase to the three councils' net pension liabilities.

Housing benefits

188. The main objective of the housing benefit performance audit is to help councils deliver continuous improvement in their benefit service, and to hold them to account. The results of our work are summarised in the Housing Benefit Performance Audit - Annual update 2018 (published November 2018). Of the risks identified during previous years' risk assessments, 78 per cent of risks had been either fully or partially addressed (80 per cent in 2016/17, and 85 per cent in 2015/16).
189. We issued individual risk assessment reports to five council Chief Executives during financial year 2017/18 (eight in 2016/17). No focused audits were carried out as we didn't identify any significant concerns from our work. The five councils were:
- Stirling (May 2017)
 - East Dunbartonshire (June 2017)
 - Scottish Borders (September 2017)
 - Moray (December 2017)
 - Comhairle nan Eilean Siar (December 2017)
190. Each of the five councils developed an action plan to address the risks identified, and we were satisfied that the proposed actions would help deliver continuous improvement in their benefit service. However, as we had concerns about speed of processing performance in four councils (East Dunbartonshire; Scottish Borders; Moray; Comhairle nan Eilean Siar), we requested performance updates. Based on the updates received, we were satisfied with the progress and improvements made in each council.

- 191.** The 2017/18 report identified weaknesses in the following key areas:
- Business planning and performance reporting - in four councils (Stirling / Moray / East Dunbartonshire / Scottish Borders) we found that the benefit service was not formally reporting its performance to councillors.
 - Accuracy - the levels of accuracy in two councils (Stirling / Scottish Borders) were in decline. One council (Stirling) was not routinely analysing the outcomes from its management checks to help identify trends and patterns of error that could help improve accuracy rates.
 - Interventions - in three councils (East Dunbartonshire/Comhairle Nan Eilean Siar/Scottish Borders) we found that, although interventions outcomes were recorded, the level of detail was not sufficient to allow the council to determine the effectiveness of its approach in financial terms, or the effectiveness of each intervention campaign.
- 192.** The roll-out of Universal Credit (UC) Full Service (UCFC) continues across Scotland and is having an impact on council benefit services. Councils are re-focusing and restructuring the service to manage the reduction in the benefit caseload, and with year on year reductions in funding from the DWP, and wider pressures on council budgets leading to less full-time permanent benefit staff, councils are also making increased use of outsourcing and temporary staff on fixed-term or rolling contracts.
- 193.** The Department for Work and Pensions expects a full rollout of UCFC across the UK to be completed by December 2018 for all new HB claims, with the migration of the remaining working age HB claimants to be completed by 2023 (previously 2022).
- 194.** The social security landscape across Scotland continues to change. The new Scottish social security agency became operational in September 2018. Significant decisions are still to be made about the local presence of the agency across Scotland. At UK level, the roll out of UCFC remains the most significant change to the social security landscape and in June 2018, the National Audit Office concluded that UC is not delivering value for money, and it is uncertain that it ever will.

7. Forward looking

Annual audit assessment of key risks

- 195.** The review carried out to compile this report shows that auditors have a robust approach to identifying and following up audit risks in individual councils, integration authorities and pension funds. The annual audit work carried out by auditors is planned to address the key risks in each council.
- 196.** Financial management and sustainability currently represent the highest risk area to the sector and will continue to be a focus for auditors in 2018/19 and beyond.
- 197.** The need for all councils to change how they deliver services in the future in this environment and deliver change or transformation will also continue to be a focus. Alongside these areas, local audit work will be informed by local risks. The results of this work will be reported in annual audit reports next year. These findings will be summarised in next year's 's Annual Assurance and Risk Report.

Planning guidance

- 198.** The 2018/19 planning guidance issued to auditors has also included a number of areas that the Commission, the Auditor General and Audit Scotland consider may represent significant risks to audited bodies in 2018/19. Auditors will consider these when scoping, planning, performing and reporting local audit work. Where specific risks are identified they will be reported in annual audit plans and reports and monitored. The risk areas highlighted in the guidance are:
- EU withdrawal
 - Changing landscape for public financial management
 - Dependency on key suppliers
 - Care income, financial assessments and financial guardianship
 - Openness and transparency

Best Value in councils

- 199.** A further seven BVARs are planned during the second year of the audit appointments in line with the planned work programme. The reports planned to be published in 2019 are:
- South Lanarkshire Council (March 2019)
 - Stirling Council (April 2019)
 - North Lanarkshire Council (May 2019)
 - Midlothian Council (June 2019)
 - Perth & Kinross Council (August 2019)
 - Scottish Borders Council (October 2019)

- Highland Council (November 2019)
- 200.** A further seven BVARs are planned in year four and six BVARs in year five of the audit appointments. The Controller of Audit has not yet confirmed the timing of BVARs for individual councils as this provides flexibility to react to any issues identified by local auditors during the course of the audit appointment.
- 201.** A schedule of planned BV work for each council during the remainder of the audit appointment is contained in the auditors five-year Best Value Audit Plan (BVAP). Auditors are not required to publish the BVAPs as the future BVAR programme could be amended as risk assessments change across the councils.
- 202.** As per 2017/18, the 2018/19 annual audit reports for those councils where a BVAR has been published will include comment on the council's overall response to the BVAR; a judgement on the progress made against each recommendation included in the BVAR; and any additional recommendations made by the Commission in their findings. The results of this work will be reported in the 2018/19 Annual Assurance and Risks Report.

National performance audits

- 203.** Audit Scotland carries out a programme of national performance audits that it undertakes on behalf of the Commission and Auditor General for Scotland. There is a comprehensive process for identifying and refining the programme of work. This includes ongoing work by the three cluster groups in Audit Scotland and a central team to collate potential areas of interest. Consideration of options and priorities by the Commission and the Auditor General is at the heart of the process. Consultation with other stakeholders also contributes to the assessment process. Audit Scotland has several performance audits planned in the coming year on behalf of the Commission including:
- Revenue financing of assets: The Non-profit distributing (NPD) and Hub models – Joint report Summer 2019
 - Innovative Financing: City Deals – Joint report Autumn 2019
 - Educational Outcomes – Joint report Spring 2020
 - Housing – Joint report Spring 2020
 - Digital progress in Local Government – Accounts Commission report Summer 2020
 - Supporting economic growth: the role of local authorities – Accounts Commission report Spring 2020
 - Waste management – Joint report - date to be confirmed (late 2020/21)
 - EU withdrawal - Joint report - date to be confirmed
- 204.** In addition to the formal programme of audits, my team and colleagues from across Audit Scotland will continue to monitor and provide briefings on key risks and issues of interest. For example, a team will continue to monitor the implications and activity relating to EU withdrawal. Another team is developing an intelligence base on community empowerment and

supporting the Strategic Scrutiny Group's Community Empowerment advisory group to develop common principles.

Scrutiny coordination and shared risk assessment; a revised approach

205. The National Scrutiny Plan for local government summarises the strategic scrutiny activity planned each year across councils. It has been ten years since the shared risk assessment (SRA) process was established. The Strategic Scrutiny Group (SSG) has recently sought feedback about the process and is examining how the arrangements can be improved.

Appendix 1

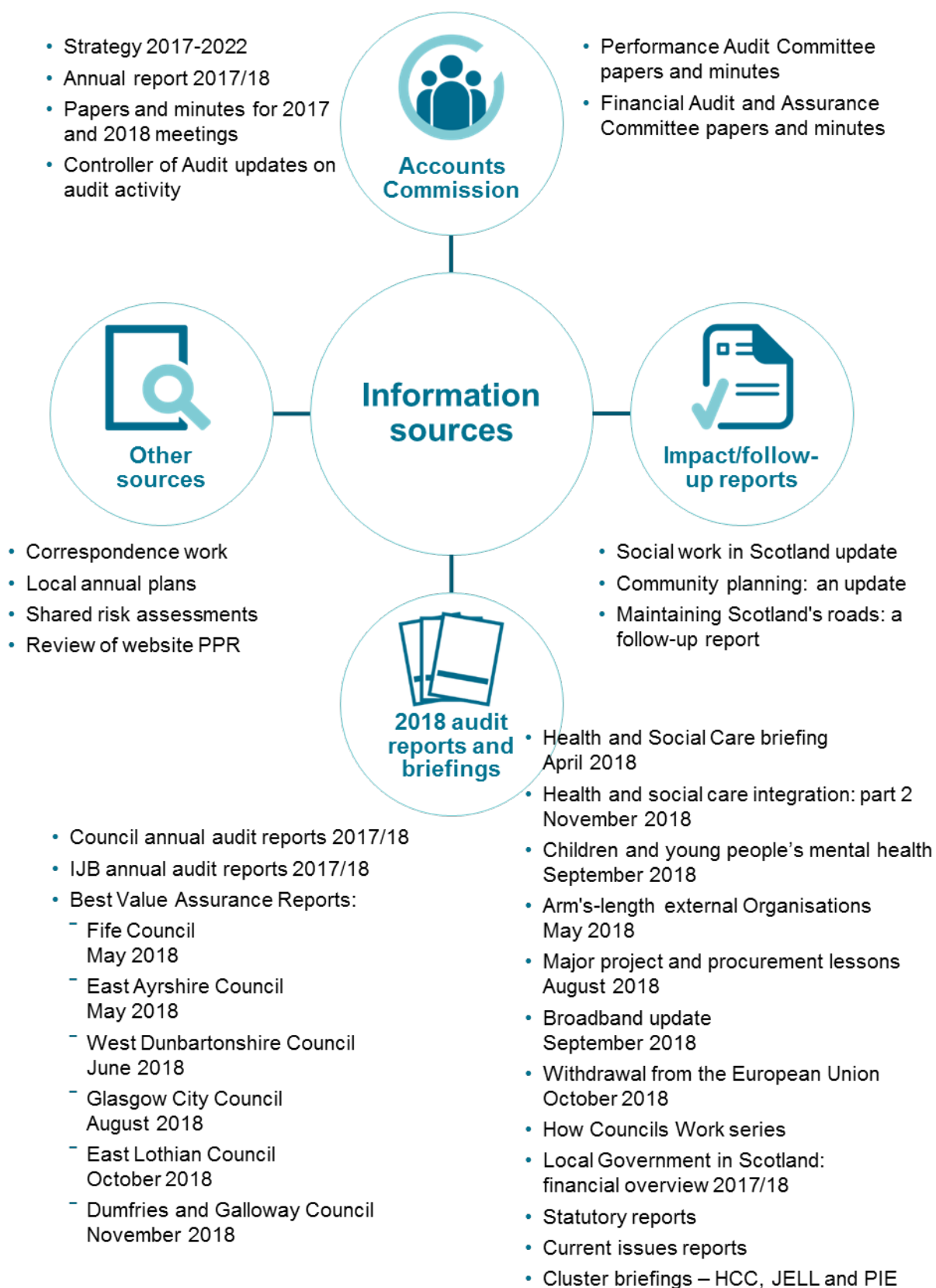
Summary of key messages on each Strategic Audit Priority

| February 2018 AARR | January 2019 AARR |
|--|--|
| SAP 1: Having clear priorities with a focus on outcomes, supported by effective long-term planning | |
| <p>Most councils have clear corporate plans and strategies with a focus on strategic priorities, but the extent to which these align to budget varies across Scotland</p> <p>Reducing inequalities is a strategic priority for a number of councils</p> | <p>Most councils have a strategic focus on improving social inequality within their communities, but councils need to continue to develop and strengthen their arrangements to show that outcomes are being achieved.</p> |
| <p>Councils' financial challenges continue to grow, with signs of increasing financial stress. In this environment, sound financial planning and effective leadership is more important than ever</p> | <p>Constructive working relationships exist between councillors and between councillors and officers which helps to focus on outcomes.</p> <p>Collaborative leadership and cultural differences between the partner bodies is affecting the pace of change for IJBs, which will impact on service delivery.</p> |
| <p>There is evidence of medium term financial planning, with some councils using scenario planning, but a small number of councils are behind the curve and have no plans beyond their annual cycle. More work is required to establish effective long term financial planning arrangements across Scotland.</p> | <p>Long-term financial planning is not fully developed - Councils should build on their medium-term financial planning and develop suitable long-term financial plans.</p> <p>The biggest risk to Integration Joint Boards is related to financial sustainability. The majority do not have medium term financial plans, and none currently have long term financial plans</p> |
| <p>Councils need to demonstrate that resources are being managed to secure the sustainability of services into the future.</p> <p>Many councils are using revenue reserves to deliver services, which is not sustainable in the longer term.</p> | <p>Councils continue to face financial constraints and the majority of councils have ended 2017/18 with lower levels of usable reserves and increased levels of debt compared to the start of the year</p> |
| SAP 2: Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities | |

| | |
|--|---|
| Councils are at various stages in their change programmes, and different approaches have been adopted | Councils are in the early stages of new or refreshed transformation programmes, given the pressures and scale of change it is important that progress continues to be monitored and scrutinised |
| There is limited evidence of councils collaborating or sharing services with each other | There is more evidence of councils collaborating with other public-sector bodies, however there is limited evidence of councils sharing services |
| | Councils show improving practice but scope for more improvement when considering service delivery options such as ALEOs |
| SAP 3: Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future | |
| Constructive working relationships exist between councillors and officers. However, councillors must always play an active role in effectively scrutinising policies, plans and services | Councils have effective arrangements in place to support good governance and accountability. The level of challenge is generally good, with some scope to improve the depth of scrutiny. |
| Councils provide comprehensive induction training for councillors, although they do not always make the most of training available to them | Training programmes should be tailored to suit the needs of councillors which should improve attendance rates |
| Audit findings focussed on wider aspects of workforce planning as an area for development in many councils | A lack of collaborative leadership, cultural differences and capacity are affecting the pace of change for Integration Joint Boards |
| | Councils are at various stages in developing organisational-wide workforce planning. Generally, further work is required. |
| SAP 4: Empowering local communities and involving them in the design and deliver of local services and planning for their local area | |
| There is evidence that councils are planning to make more use of participatory budgeting | Councils are beginning to implement their community empowerment arrangements at a local level - While arrangements for discharging responsibilities under the Community Empowerment Act have been established, there is limited progress. |
| Councils continue to use traditional approaches to community engagement, but new and innovative ways of engaging with the public are also being adopted | Where councils are undertaking public consultations, there is little evidence to show that they are taking the results into account when setting the annual budget |

| | |
|---|---|
| <p>Councils continue to make progress in addressing equality and diversity issues (SAP1 in previous report)</p> | <p>Auditors are reporting on the statutory requirement on equal opportunities but there is more focus on social inequalities</p> |
| <p>SAP 5: Reporting the council’s performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes</p> | |
| <p>Most councils have satisfactory arrangements in place for public performance reporting. Auditors could provide more detail on the nature and effectiveness of those arrangements</p> | <p>Councils have effective public management frameworks in place. However, public performance reporting ranges in quality, and there is scope for councils to learn from each other to continue to improve the standard of reporting to their communities</p> |
| <p>Auditors have reported on the need to strengthen scrutiny in councils</p> | <p>Auditors report a positive picture in terms of accessibility for the public to information and to council meetings. However, auditors are continuing to make recommendations for improvement to transparency of financial reporting.</p> <p>The processes and quality of annual accounts submitted for audit needs to improve for some councils and IJBs</p> |
| | <p>Arrangements for Integration Joint Boards’ understanding and measuring of Best Value are not well developed</p> |

Appendix 2



MEETING: 10 JANUARY 2019

REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

BRIEFING: THE 2019/20 BUDGET

Purpose

1. The purpose of this paper is to provide the Commission with a briefing on the Scottish Government's Budget 2019/20, highlighting some of the key implications for local government finances.

Background

2. On 12 December 2018, the Scottish Government published its budget for 2019/20, following the UK Government's Autumn Budget Statement published on 29 October 2018. The Local Government Finance Settlement was published on the 17 December 2018.
3. The implementation of the 2012 and 2016 Scotland Acts mean Scotland is now raising more of its revenue from taxes. The funding for the 2019/20 Budget includes revenue from Income Tax, Land and Buildings Transaction Tax and Scottish Landfill Tax. In 2019/20 Scotland will be responsible for five social security powers, at a total cost of £435 million.
4. Earlier this year we established a cross-organisation team to lead on our programme of work on public financial management. The team published its first output on 16 October 2018, Scotland's new financial powers: operation of the Fiscal Framework. It provides an overview of how the Scottish budget operated in 2017/18, the effect of the main components of the fiscal framework, and the range of risks to the budget and what these mean for the management of the Scottish public finances.
5. The team have developed a briefing paper on the 2019/20 budget, split into two sections:
 - The first focuses on the Scottish Government's overall budget and real-terms budget trends. This has also been circulated to the Auditor General for Scotland and within Audit Scotland.
 - The second focuses on the impact of the budget plans for local government, using information from the Scottish Government's budget and local government finance settlement.
6. The main sources for these briefings are the Scottish Government's budget for 2019/20; the local government finance settlement published on 17 December and the Scottish Parliament's associated briefing papers published shortly after the budget.¹
7. These briefings have been prepared immediately after the publication of the budget in December 2018. The budget has yet to be agreed by the Scottish Parliament, so it is likely that there will be further changes to the budget before it is finalised.

¹ *Scottish Budget: Budget 2019/20*, Scottish Government, 12 December 2018. *Local Government Finance Circular 08/2018*, Scottish Government, 17 December 2018. *Financial Scrutiny Unit briefings: Scottish Budget 2019-20*, Scottish Parliament Information Centre, 14 December 2018.

Forthcoming related Accounts Commission reports

8. The Accounts Commission will publish its report *Local government in Scotland 2019: Performance and challenges* in March 2019. This report will build upon the analysis prepared for this briefing and update it to reflect any subsequent revisions to the local government finance settlement for 2019/20.

Conclusion

9. The Commission is invited to note this report.

Fraser McKinlay
Director of Performance Audit and Best Value
19 December 2018

THE 2019/20 BUDGET

Introduction

1. This paper outlines some of the headlines and themes arising from the 2019/20 Budget and how it will impact on Audit Scotland's work. This is split into two sections:
 - Part 1 gives an overview of the Scottish budget and puts it in context of government plans
 - Part 2 summarises the funding for Local Government for 2019/20, as shown in the Scottish budget and the Local Government Funding Settlement.

The current status of the 2019/20 budget

2. The [Scottish budget](#) was announced on 12 December. This was the first full year of the new budget process, implemented following the recommendations made by [the Budget process review group](#) in June 2017. Under the new process, Budget Bill Amendment debates will take place in January, and the final budget should be approved in February. The Scottish Parliament Information Centre (SPICe) set out the budget timeline in a [briefing paper](#) of the new process published in May 2018. ([Exhibit 1](#))

Exhibit 1

Overview of the revised budget process



Source: SPICe

3. The proposed budget may change during the subsequent weeks of parliamentary scrutiny and debate. In order to get the Budget Bill passed, the minority SNP government will have to gain the support of at least some MSPs from another party, and this may require changes to the budget. At this stage it is not possible to say what form these changes may take.
4. The Scottish budget is becoming increasingly complex. It is subject to greater uncertainty and volatility than when most of its funding was relatively fixed through the block grant from the UK Government. Increases or decreases in the Scottish budget are linked to Scotland's economic performance relative to the economic performance of the rest of the UK, as well as any Barnett consequential from UK spending decisions. The Scottish Government has more choice over tax and spending, and more decisions to make about how and when to use its financial powers.
5. The ongoing EU Withdrawal process causes uncertainty over the UK and Scottish budget positions. In the event of a no-deal, the Chancellor committed to "take whatever action is appropriate, if necessary upgrading the spring statement to a full fiscal event".¹ The Cabinet Secretary noted in his budget announcement that in the case of a no deal, he "may be required to revisit the priorities in this budget."² In October Audit Scotland published a [paper](#) highlighting the key audit issues that EU withdrawal presents for the public sector.
6. Uncertainty around the budget means the Scottish Government must manage its financial position more closely and must be able to change spending in the short term. We will continue to monitor the pressures on different elements of the budget through our audit work programme.

The Scottish Fiscal Framework

7. The implementation of the 2012 and 2016 Scotland Acts mean Scotland is now raising more of its revenue from taxes. The funding for the 2019/20 Budget includes revenue from Income Tax, Land and Buildings Transaction Tax and Scottish Landfill Tax. The revenues raised from these taxes is forecast to be £12,456 million.³ Income Tax revenue is forecast to be £11,684 million, or 94 per cent of this.
8. Assigned Value Added Tax (VAT) is shown in the 2019/20 proposed Scottish Budget for the first time. This will be a transitional year, where VAT assignment will be forecast and calculated, but will not affect the budget. Scotland will receive the first 10 pence of the Standard Rate of VAT and the first 2.5 pence of the reduced rate, and this is forecast to raise £5,801 million in 2019/20. From 2020/21, VAT assignment will apply to the Scottish Budget, provided both the UK and Scottish Governments are assured that the assignment methodology is working effectively.
9. In 2019/20 Scotland will be responsible for five social security powers, at a total cost of £434 million. The largest of these powers is the Carer's Allowance, which is forecast to cost £320 million, followed by Discretionary Housing Payments, worth £63 million. The Scottish

¹ [Budget statement, 29 October 2018](#)

² [Chamber official report, 12 December 2018](#)

³ This includes £25 million of non-tax income for fees and other sources.

Government will receive an additional £290 million Block Grant Adjustment that is added to the budget to cover Social Security.

10. Earlier this year we established a cross-organisation team to lead on our programme of work on public financial management. The team published its first output on 16 October 2018, [Scotland's new financial powers: operation of the Fiscal Framework](#). It provides an overview of how the Scottish budget operated in 2017/18, the effect of the main components of the fiscal framework, and the range of risks to the budget and what these mean for the management of the Scottish public finances. We shared a copy of this paper with the Finance and Constitution Committee to help support its pre-budget scrutiny. The Auditor General will publish a report on the implementation of the devolved social security powers in Spring 2019.
-

Part 1: the 2019/20 Scottish budget

The proposed 2019/20 Scottish budget

11. The total proposed Scottish public spending budget for 2019/20 is £42,539.1 million. This is made up of:
- Fiscal resource budget (spending on the operating costs for public services)
 - Capital budget (investing in capital projects, such as new hospitals or schools. This also includes financial transaction funding, which can be used to make investments in organisations outside the public sector)
 - Non-cash budget (used to cover technical accounting and other non-cash items)
 - Annual Managed Expenditure (AME; ringfenced funding from the UK Government to cover items such as NHS and Teacher pensions and student loans).

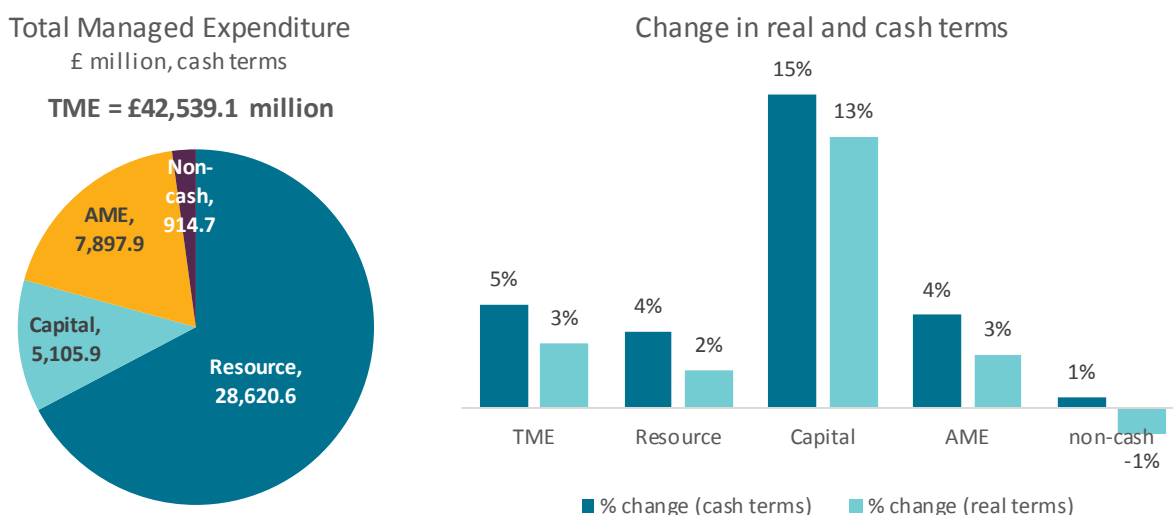
Together, these add to Total Managed Expenditure, TME.

12. Overall, the proposed TME budget has increased, in cash and real terms on the previous year. The changes for the different elements of TME are identified below. ([Exhibit 2](#))

Exhibit 2

Total Managed Expenditure 2019/20

The proposed Scottish Budget has increased by 3 per cent in real terms



Source: [SPICE](#); Audit Scotland analysis

13. The combined resource and capital budget (which are the best measure of the Government's real spending power) has increased by five percent in cash terms and three percent in real terms - in line with overall TME. The largest contribution to the increased TME comes from the Resource budget, which grew by £991.2 million in cash terms.

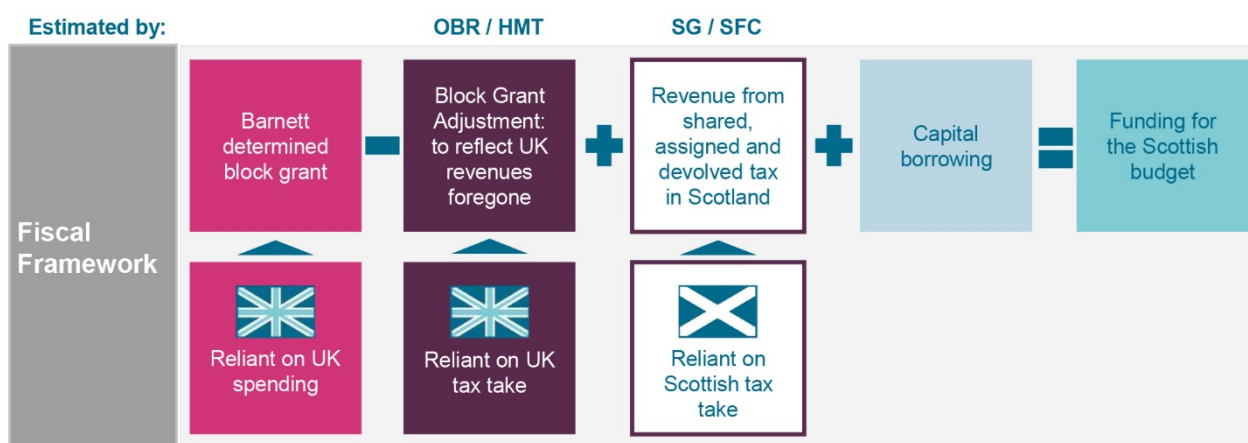
14. Scottish Government Social Security Benefit expenditure has increased from £94 million in 2018/19 to £434 million in 2019/20 (£340 million in cash terms). This is largely due to the introduction of Carer's Allowance (£283 million) and Carer's Allowance Supplement (£37 million) in the 2019/20 budget. Excluding spending on social security benefits, the resource budget has grown by 2.4 per cent in cash terms, and 0.6 per cent in real terms.

How is the increase in spending in 2019/20 funded?

15. The Fiscal Framework determines the funding for the Scottish budget (excluding ringfenced AME funding). The Barnett formula is used to calculate the block grant. As new financial powers are implemented, an adjustment is made to the block grant, known as a block grant adjustment (BGA). This is a forecast made by the Office for Budget Responsibility (OBR) and represents the tax revenues the UK Government has foregone. The Scottish Fiscal Commission (SFC) then forecasts the devolved tax revenues, which is added on to the block grant (Exhibit 3).

Exhibit 3

The relationship between Scottish and rest of the UK in determining the budget



Source: Audit Scotland

16. The OBR and SFC forecasts are different to each other. Differences between forecasts arise for several reasons. These include the effect of different tax policies in Scotland and the rest of the UK, different expectations about the growth in the tax base in Scotland and the rest of the UK, and differences in forecasting methodologies. In 2019/20 the difference between the OBR and SFC forecasts results in a net increase to the Scottish budget.
17. The effect on the funding available for the 2019/20 Scottish budget is as follows:
- The block grant is £33,254 million (£32,009 million in 2018/19). This includes £2,384 million in Barnett consequential and other additions resulting from UK Government spending decisions (an increase of £995 million from 2018/19)
 - An additional £290 million Block Grant Adjustment has been added to the budget for Social Security.

- A net increase from Scottish taxes (the differences between OBR and SFC forecasts) adding £262 million to the budget (£428 million in 2018/19). The change between years reflects reductions of 3.4 per cent SFC forecasts for devolved taxes and 2.2 per cent in the corresponding BGA.
- Planned capital borrowing of £450 million (£450 million in 2018/19)

Key tax policies

18. Tax policy announcements for 2019/20 have resulted in a net increase to the Scottish budget. The main policy differences compared to the UK tax policy include freezing the higher rate threshold for Scottish Income Tax at £43,450; changes to additional dwelling supplement rates and non-residential LBTT; and differences in non-domestic poundage rates compared to the rest of the UK.
19. The largest effect on the budget arising from tax policy relates to Scottish Income Tax. The Scottish budget freezes the higher tax threshold at the 2018/19 level of £43,450. The Scottish Government states that if it had matched all UK Government income tax rates and bands, including a higher threshold of £50,000, it would cost the Scottish budget around £500 million in 2019/20.
20. The Scottish budget also increases the non-domestic poundage rates by less than inflation. This means over 90 per cent of properties in Scotland will pay lower business rates compared to the rest of the UK. The net effect of policy changes relating to non-domestic rates is a policy cost of £41.6 million to the budget.

Key spending policies

21. Key public spending policy measures identified in the budget include:
 - increase spending on the health and care services by almost £730 million, which includes increasing direct investment in mental health by £27 million
 - providing a pay uplift of three per cent for public sector workers earning up to £36,500
 - measures confirming policy commitments to support the expansion in early learning and childcare (with a commitment to invest nearly £500 million), and to raise attainment in schools (an investment of nearly £180 million)
 - The budget includes policies to support the economy, including:
 - over £5 billion of capital investment in infrastructure, including the creation of a Town Centre Fund, dualling the A9 and A96, investment in the National Manufacturing Institute for Scotland and in City Region and Growth Deals
 - £825 million for affordable housing and £50 million for the Ending Homelessness Together fund
 - provide initial funding of £130 million towards the establishment of a Scottish National Investment Bank.
22. The Auditor General and the Accounts Commissions' work programme includes audit work on economic growth and development. In 2016, the Auditor General published [Supporting](#)

[Scotland's economic growth: The role of the Scottish Government and its economic development agencies](#). This is to be followed by another audit in 2019/20 on the role of local government in supporting economic growth, and audit on the enterprise and skills review in 2020/21.

What does this mean for Scottish Government portfolios?

23. Total Managed Expenditure in the 2019/20 budget is 3 per cent higher than in 2018/19. While a number of portfolios see increased spend, there are variations within this ([Exhibit 4](#)).

Exhibit 4

Largest real terms changes (figures in 2018/19 prices)

| Largest real term increases in 2019/20 on 2018/19: | Largest real term decreases in 2019/20 on 2018/19: |
|--|--|
| Social Security Assistance (+£333.2 million) | Higher Education Student Support (-£40.1 million) |
| NHS Territorial boards (+£194.5 million) | Scottish Funding Council (-£31.0 million) |
| Community Health Services (+£173.3 million) | Children & Families (-£29.8 million) |

Source: [SPICe Budget 2019-20 spreadsheet](#), December 2018. These are the largest changes in the Level 2 budget lines, which is the breakdown below portfolio level

24. The Scottish budget sets out that resource funding for the Health and Sport portfolio has increased by £729 million. This includes health resource consequentials resulting from UK spending decisions in the UK budget.
25. In May the Scottish Government published its first five-year financial plan, [Scotland's Fiscal Outlook](#). The *Fiscal Outlook* shows that spending in the priority areas (health, police, early learning and childcare, attainment, higher education and social security) would be protected if the overall budget were to reduce. This means that spending programmes in other areas, including local government, would be disproportionately affected. This is discussed in the Account's Commission's [Local Government financial overview 2017/18](#).
26. The Fiscal Outlook will be revised in May. It remains to be seen if the Scottish Government will maintain the same priorities as were set out in 2018, or whether these change.
-

Part 2: Local Government budget 2019/20

27. This section presents our analysis of local government funding for 2019/20. This follows on from the [Local government financial overview](#), as published in November. The Local government performance and challenges report will publish in March 2019, and will develop on these issues further.

Local Government funding in 2019/20

28. The Scottish budget contains funding for local government spread across several portfolios. The Budget also presents the total figure for local government funding in 2019/20 and reconciles this to the [Local Government Finance Settlement \(the Finance Settlement\)](#), which was published 17 December. [Exhibit 5](#) shows our initial analysis of how the Local Government Settlement is made up, and how this agrees to the Scottish Budget.

Exhibit 5

Local Government funding 2019/20

| Local government funding, £ million | Note | Cash terms | | | Real terms (18/19 prices) | | |
|---|------|-----------------|-----------------|-------------|---------------------------|-----------------|-------------|
| | | 2018/19 Budget | 2019/20 budget | % change | 2018/19 Budget | 2019/20 budget | % change |
| Revenue | | | | | | | |
| General Revenue Grant (Local Government Finance Settlement) | | 6,884.87 | 6,626.43 | -3.8 | 6,884.9 | 6,509.9 | -5.4 |
| Non Domestic Rates | | 2,636.0 | 2,853.0 | 8.2 | 2,636.0 | 2,802.8 | 6.3 |
| Total GRG + NDR | | 9,520.9 | 9,479.4 | -0.4 | 9,520.9 | 9,312.8 | -2.2 |
| Specific Resource Grants | 1 | 273.7 | 507.7 | 85.5 | 273.7 | 498.8 | 82.3 |
| Total Revenue | 2 | 9,794.5 | 9,987.2 | 2.0 | 9,794.5 | 9,811.6 | 0.2 |
| Capital | | | | | | | |
| General Capital Grant | | 598.3 | 704.0 | 17.7 | 598.3 | 691.6 | 15.6 |
| Specific Capital Grants | 3 | 278.1 | 380.2 | 36.7 | 278.1 | 373.6 | 34.3 |
| Total Capital | | 876.4 | 1,084.2 | 23.7 | 876.4 | 1,065.2 | 21.5 |
| Total local government funding set out in the Finance Settlement | | 10,670.9 | 11,071.4 | 3.8 | 10,670.9 | 10,876.7 | 1.9 |
| Other Scottish Government Funding (from the Scottish Budget) | 4 | 363.8 | 448.7 | 23.3 | 363.8 | 440.8 | 21.2 |
| Total local government funding as set out in the Scottish Budget | | 11,034.7 | 11,520.1 | 4.4 | 11,034.7 | 11,317.6 | 2.6 |

Notes - sums may not add due to rounding. Figures in brackets are 2019/20 funding, in cash terms.

1 Includes grants for Early Learning and Childcare Expansion, Pupil Equity Fund, and Criminal Justice Social Work grants.

2 The Finance Settlement shows that £150.8 million of this funding is still to be distributed, for national programmes such as the Teacher Induction Scheme, Discretionary Housing Payments, Free Personal Care for under 65s and Mental Health. Annex B of Local Government Finance Circular No. 05/2018 shows how the remaining £9,836 million distributable revenue funding is shared between councils.

3 Includes the capital element of the Early Learning and Childcare expansion (£175 million) and the Transfer of Management of Development Funding (£112 million). See Budget Table 6.11.

4 Includes revenue funding for programmes such as the Attainment Scotland Fund (£62 million) and the Schools for the Future Programme (£61 million), and capital funding for programmes such as City Deals (£188 million) and the Home Energy Efficiency Programme (£49 million). See Budget Table 6.15

Source: Scottish Budget 2019/20; Local Government Finance Circular No. 05/2018, Scottish Government, December 2018

29. The total Local Government Settlement figure for 2018/19 does not include £34.5 million paid in 2017/18 to fund 2018/19 spending. If this were included, GRG and NDR funding is 2.5 per cent lower in real terms (compared to 2.2 per cent shown in the table above), and Total Revenue would decline slightly in real terms. £355 million has been allocated in 2018/19 and 2019/20 from the Scottish Government's health budget to Integration Authorities. This is allocated via NHS bodies; it is not included in the above table.

Commitments to be funded from general revenue funding

30. Councils' General Revenue Grant (GRG) and Non-Domestic Rates (NDR) income represents the funding they have control over to provide services. As shown in [Exhibit 5](#), there is a 2.2 per cent real terms reduction in GRG and NDR revenue funding between 2018/19 and 2019/20.⁴ This is driven by the fall in the GRG, as NDR is to increase by over six per cent in real terms. The Scottish Government has taken the "exceptional" decision to allocate £100 million more to Local Government than is currently forecast in 2019/20 receipts in the NDR pool, and has indicated that it will recover this amount from NDR distributions in the subsequent two years.
31. Total revenue is currently forecast to grow by 0.2 per cent in real terms. As there are some areas of local government spending that are priority, such as education and social work, it is likely that any savings required will continue to be sought in 'non-protected' local government services, such as environmental services, culture, and roads and transport.
32. The Local Government Financial Overview 2017/18 showed that the increase in council tax in 2017/18, along with increases in council fees, largely offset the reduction in Scottish Government funding in that year. Local authorities continue to have flexibility to increase council tax by up to three per cent in 2019/20 which, if all councils took this option, would result in an additional £80 million income.
33. There are a number of commitments relating to national policies and priorities that councils will be required to deliver. These include funding relating to teacher pay and teacher numbers maintaining the teacher pupil ratio and meeting the costs of implementing the Barclay Review.
34. Alongside the Budget, the Scottish Government published its 2019/20 Public Sector Pay Policy,⁵ which includes a proposed three per cent increase. The policy does not directly apply to councils, but if councils were to match the policy this would have to be funded from their GRG and NDR revenue funding. While it is not known currently what the impact of matching

⁴ GRG in the Local Government Finance Settlement includes general revenue grant from the Communities and Local Government budget portfolio as well as revenue funding from other portfolios.

⁵ Public Sector Pay Policy for 2019-20, Scottish Government, 12 December 2018

the pay policy would be for local government in 2019/20, in 2018/19 SPICe estimated that matching the policy would cost councils around £150 million.

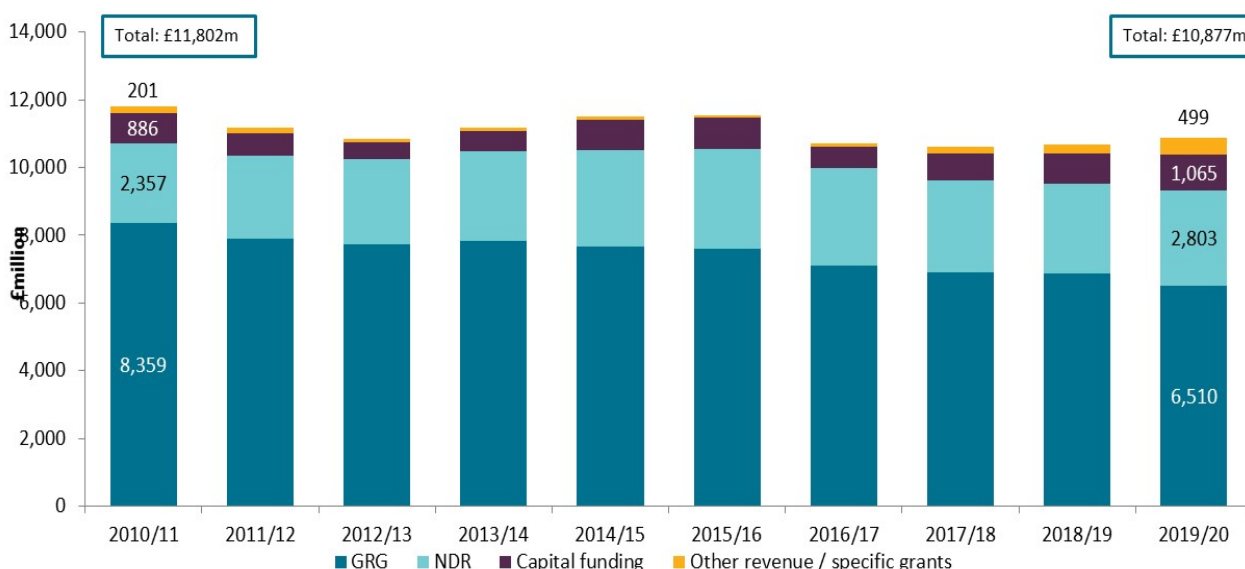
- 35. Increased costs relating to pay awards are a further pressure on councils' GRG and NDR revenue funding in 2019/20. The *Local government performance and challenges report*, which will be published in March, will comment more on the pressures on local government funding and services.

Trends in funding (2010/11 to 2019/20)

- 36. The total funding has reduced by 7.8 per cent in real terms from its peak in 2010/11 to 2019/20. Revenue funding from the General Revenue Grant and Non-Domestic Rates has decreased by 13 per cent over the same period and the proportion of total revenue funding from NDR has increased from 22 per cent in 2010/11 to 29 per cent in 2019/20. (Exhibit 6).

Exhibit 6

Local government funding 2010/11-2019/20 (real terms, 2018/19 prices)



Source: Audit Scotland's analysis of Local Government Funding Settlements, 2010/11 to 2019/20

- 37. Capital funding has increased over the period in real terms. However, trend analysis of capital allocations in both the short-term and long-term must be treated with caution, as the Scottish Government has reprofiled capital grant allocations on a number of occasions in recent years - the 2019/20 budget includes £150 million of capital funding re-profiled from 2016/17. In addition, slippage in projects will impact on the grant figures for individual councils.
- 38. Trends in real terms reductions in local government funding is not unique to Scotland. In its recent [Financial sustainability of local authorities 2018 report](#), the NAO states that funding for local authorities in England fell by 49 per cent between 2010/11 and 2017/18, and noted that the financial position of the sector had worsened markedly since their 2014 report.

39. Making direct comparisons between local government in Scotland to elsewhere in the UK is difficult. For example, local government in Scotland is based on a unitary authority model; in England there are a variety of unitary, district, metropolitan and other types of local authorities. There are also differences in what is funded by local authorities, such as differing arrangements for funding school education. Some of the key challenges arising from funding reductions are shared across the UK. For example, the NAO point to pressures on reserves and the need to meet growing demand with a tightening financial envelope.
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Links to further information

40. There is a large amount of useful analysis performed by commentators and researchers if you are interested in finding out more of the detail.

- [Audit Scotland October briefing paper: Scotland's new financial powers: operation of the Fiscal Framework](#)
- [Fraser of Allander blog](#) and
- [Budget Briefing slides](#)
- [SPICe: Local Government Finance: Budget 2019/20 and provisional allocations to local authorities \(not yet released as at 19 December 2018\)](#)
- [SPICe: Scottish Budget 2019/20 overview](#)
- [SPICe: Tax in Scotland: 2019/20 infographic](#)
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