

(Transcript of speech notes: check against delivery)

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David Hume Institute Seminar
“Scottish councils: sinking or swimming?”
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Introduction

I am delighted to have this opportunity to talk to such a distinguished audience about Scottish local government. This seminar is timely coming as it does at a pivotal point for councils, at the start of its new relationship with central government which offers local councils more flexibility in return for their focus on outcomes that are important to national policies.

Of course, for those working in local government the prospect of change is hardly new or unusual. Over the past ten years elected members and council officers have had to deal with many significant challenges including structural reorganisation and the move from compulsory competitive tendering to the new and wide ranging requirements of Best Value. Councils also now have a duty to take a lead role in community planning for their areas and there is more emphasis on partnership working generally - with other councils and across sectors. At the same time all of us as citizens and service users have increasing expectations of council services, in line with the flexibility and responsiveness we expect in other aspects of our lives.

Each year we publish an overview of local government drawing on the full range of local authority audit work to identify common features in the management and delivery of services and to highlight strengths and areas of improvement. Again, the timing is good. Our most recent report is published today and I will draw on that to

highlight points which will help us form a view on whether councils are 'sinking or swimming'.

I should say a few words about the Accounts Commission. We are independent of both central and local government and our main job is to arrange the external audit of local authorities. Public audit differs significantly from the traditional view of audit. In addition to looking at finance and governance, we consider management and service performance. This involves providing opinions on the accounts as well as holding to account and supporting improvement through, for example:

- Annual audit reports on every local authority
- Our Best Value audits of individual councils
- In-depth studies into particular services - our reports on waste management is a recent example
- Publication of information about council performance.

This wide ranging work and the evidence we gather provides a strong basis for us to comment on local government and to contribute to the drive for continuous improvement. The Commission, together with the Auditor General for Scotland, is supported in its work by Audit Scotland.

As a structure for this evening's presentation, I will start with a brief bit of scene setting. The audience is from a wide background so it is important to provide some information on the current context for local government. I will then look more closely at what our audit work tells us about how well councils are coping with the challenges and changes they faces and close with some thoughts about the future before drawing conclusions.

Setting the scene – context

Scotland's 32 councils have a key role in community leadership and are responsible for a wide range of vital public services including education, social work and housing services. They are also responsible for local roads, refuse collection and disposal, and leisure services as well as regulatory and licensing functions such as planning, building standards and environmental health.

Local government also comprises 41 other authorities which provide public services such as police services, fire & rescue services and the management of major road bridges.

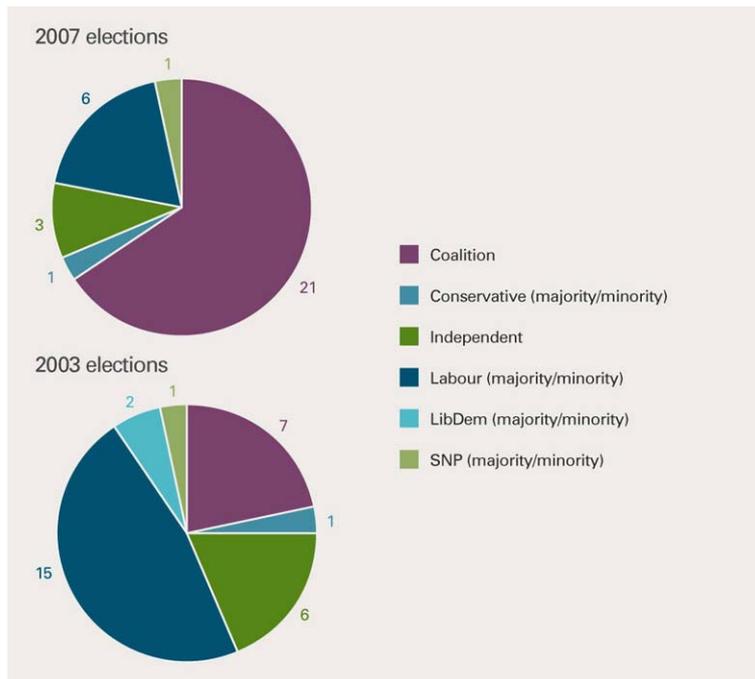
Councils vary widely in the area that they cover and in the size of the population they serve. They range from those that are densely populated covering relatively small areas, such as the city councils in Glasgow, Edinburgh, Aberdeen and Dundee, to those that are sparsely populated over very large areas, such as Highland, Argyll & Bute and Dumfries & Galloway. Within areas there are also wide variations in the age profile of populations, levels of deprivation and other factors which affect the way services are planned and delivered.

Delivery of these vital public services involves substantial resources. Councils:

- spend about £11 billion (net) each year, which is about a third of total public spending in Scotland
- employ around 258,000 staff; and
- use assets worth about £22 billion.

We have seen major changes in the political context. The May 2007 elections for the Scottish Parliament resulted in a new minority SNP administration. At local level the move to proportional representation resulted in changes to the political balance, with many councils seeing a shift from one party control to coalition or minority administrations.

EXHIBIT 1 Change in political balance in councils



And while the overall number of councillors across Scotland (1,222) was unchanged, nearly half of elected members (583 or 48%) are new to local government. At the previous elections in 2003 only about a quarter were new. New councillors bring fresh ideas and impetus but they will require continuing support and development to be fully effective.

The government has stated its intention to move towards a new relationship between central and local government and, as part of the budget and spending review announced in November 2007, a Concordat was signed between the Scottish Government and COSLA. In summary, the government is committed to giving more flexibility to councils in how they spend money and provide services eg by reducing

the amount of money which is 'ring-fenced' and in return local authorities have agreed to make clear commitments to achieve outcomes that are aligned with national policies.

Another important contextual factor affecting councils is demographic change. This has major implications for individual council services such as schools and services for older and vulnerable people. Increasing migration and birth rates mean that Scotland's population is expected to increase by about 5% to a high of around 5.4 million in 2031 before declining slowly. Within these figures, the number of children is projected to decrease and the number of people of pensionable age is projected to increase substantially, by about a third.

EXHIBIT 2 Demographic change – migration

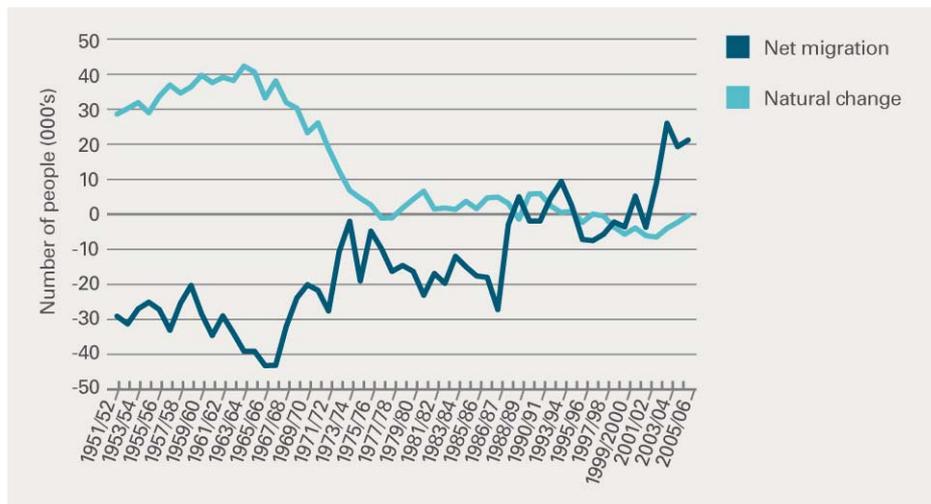
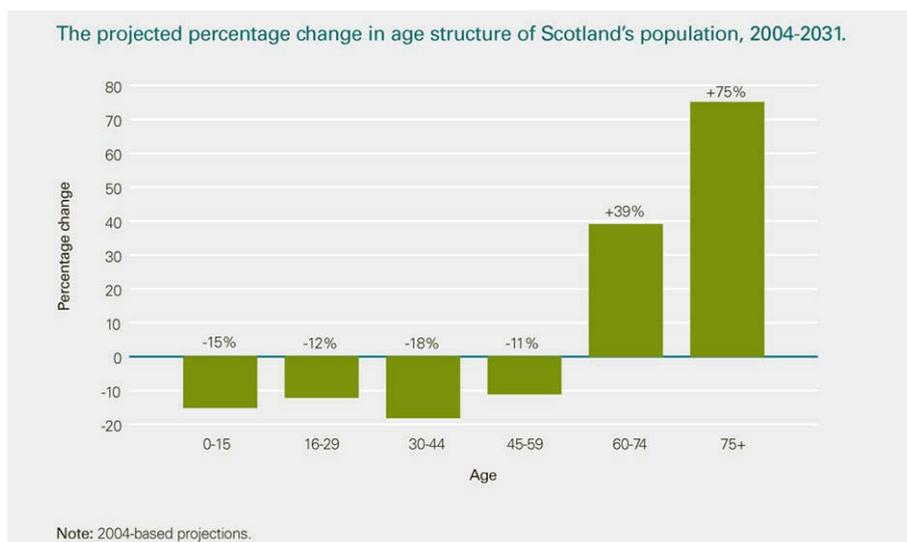


EXHIBIT 3 Demographic change – age



Demographic changes are also affecting workforce supply. We know that the numbers of working age people as traditionally defined are declining – but how far will this be compensated for by people working longer and older retirement ages?

How are councils coping?

Having set the scene, I would now like to look at the position in local government based on last year's audit work. I have structured this around three broad headings:

- governance,
- use of resources; and
- performance.

Governance

Much has been written about governance and how the principles are applied in the public sector. Essentially it's about how organisations are directed and controlled and in local government this of course centres on the actions of elected members and how they work with council officers. This is an area which we cover in some detail in our audits. We consider structural matters, for example management processes and scrutiny arrangements. And we also consider less tangible aspects such as leadership. Through this work we identify common factors in those councils that are

making most progress in achieving Best Value – and recurring themes in those that are making limited progress.

As you would expect, there is wide variation among councils. Better performing councils demonstrate ambitious and effective leadership which provides clear strategic direction. This is usually underpinned by an in-depth understanding of the needs of their communities. Councils that have achieved most progress have also established open and transparent decision-making.

Effective scrutiny of policy, service performance and use of resources is central to good governance and accountability and provides an important spur for improvement. In many cases, councils decided to review their approach to scrutiny as part of wider changes to business structures around the time of the elections.

Best Value audits show progress in developing scrutiny structures but there is scope for more effective scrutiny of progress against corporate priorities and, in some cases, of proposed policies and significant decisions. Where scrutiny arrangements are complex, perhaps with various scrutiny panels and committees, there is often a need to clarify the respective roles. Within this is the need for strong audit committee arrangements. This is an area that has received a great deal of attention in recent years and where councils have drawn on the experience and good practice in the private sector through, for example, material published on the combined code on corporate governance.

It is too early to say whether the advances made in scrutiny in recent years will be maintained in all councils over the current period of change, particularly where the effectiveness of the former scrutiny approach was mainly due to the personal

qualities of individuals who are no longer involved in local government. But there is evidence that some councils are making a smooth transition to new arrangements.

Capacity to improve is something which the Commission has questioned at poorer performing councils. For example following a public hearing we issued our first report on Best Value at West Dunbartonshire in February 2007. We concluded that the Council had to accept the need for external assistance, which it did. I'm pleased to say that when we reported again in December 2007 we were able to acknowledge the Council's increasing commitment to continuous improvement and the progress that it has made in a relatively short period. We'll be watching further developments with interest and we've asked Audit Scotland to report again in 18 months. There are other examples where action was needed and we're delighted to see that the Best Value audits are contributing to better governance.

Elected members are central to good governance and the success of their council. But this also relies on the actions of council officers and, in particular, strong leadership from the most senior officers. Our work shows that the conditions for Best Value are most likely when councils demonstrate good working relations between members and officers – and where the respective responsibilities of councillors and officers are clear.

We'll be better placed early in 2009 to say whether the progress we've seen in recent years in governance has been maintained in the period following the 2007 elections. By then new governance arrangements and working relations will have been more fully tested. We'll also have a better idea of how well governance has withstood the pressures which are more likely when political control is finely balanced. The challenge to maintain good governance and strong leadership is also greater where the bedding-in period for elected members coincides with changes at senior officer

level, as is the case for example at East Lothian Council and East Renfrewshire Council.

Quite a number of council chief executives have retired in recent years and more may depart soon. Although good appointments have been made there has not been strong competition for these posts. An effective chief executive is certainly a key factor in creating good councils and all of us with an interest in local government have responsibility to work together to ensure that a good supply of strong candidates is available for senior positions.

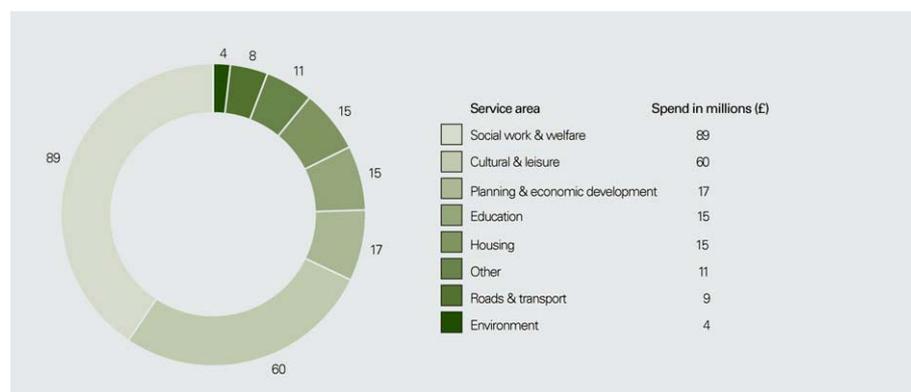
The governance and accountability landscape is complex and is set to become increasingly so as local authorities develop their responsibilities for community planning and more generally look to work more in partnership with others. Councils are involved in a range of joint working, including with the NHS in Community Health Partnerships. This is encouraging new thinking on service delivery and is creating the opportunities for better use of resources through more joined-up working and shared services.

We're seeing a great deal of time and effort going into joint working. But the key question is 'How are service users benefiting?' More needs to be done to show this. It is unlikely that councils working alone will be able to deliver the outcomes which government expects and this dimension will need to be factored in as the outcomes based approach is developed.

Councils do not exist just to provide services. They have the key role in coordinating the efforts of public and private bodies in their areas in addressing the needs of the whole community. In the second phase of Best Value audits we will be looking more closely at how well councils are carrying out their community leadership role.

An area which has been of particular interest to the Commission in recent years has been the move by councils towards working with companies, trusts and other external organisations. Typically this involves councils providing public money to external organisations which in turn deliver a range of services, for example, leisure services and services which provide social benefits such as employment opportunities. In 2004 councils provided financial support of around £220 million to external organisations which in turn provided council related services. This represented only around 2.4% of overall spending, but by its nature this type of expenditure can present more risks to councils. This money was used across a range of services, predominantly in social services and in leisure services.

EXHIBIT 4 Spend exhibit from 'Following the Public Pound'



It is likely that these figures have risen significantly because there has been a shift towards greater use of external organisations to deliver services previously provided by councils directly. We know, for example that Glasgow City Council has set up a social enterprise company with charitable status to deliver the full range of cultural and leisure services across the city.

Working with external organisations has the potential for innovative service delivery. We refer to these as 'following the public pound' type arrangements.

Maintaining good governance and clear accountabilities is essential in such circumstances – and that applies both in relation to finances and in terms of the service performance that is achieved from the money provided by the council.

A further important dimension is where councillors and officers represent the council as a company director or trustee. In these circumstances it is vital that they understand and are supported in these roles. The Companies Act 2006, for example, introduced a wide range of changes affecting companies and the responsibilities of their directors.

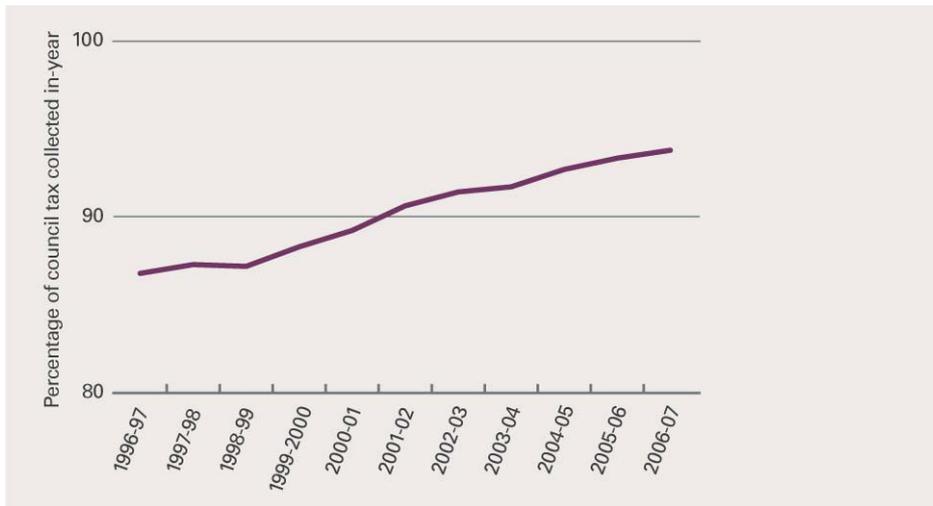
Use of Resources

The second of my headings under 'how well are councils coping' concerns resources ie : Finance, Workforce and Assets or put another way the three 'Ps': Pounds; People and Property.

The overall, gross cost of providing local authority services is around £16 billion. Councils collect around £3 billion in rents and other income and about £2 billion from council tax. The £11 billion remainder comes from central government, through grants and the distribution of non-domestic rate income.

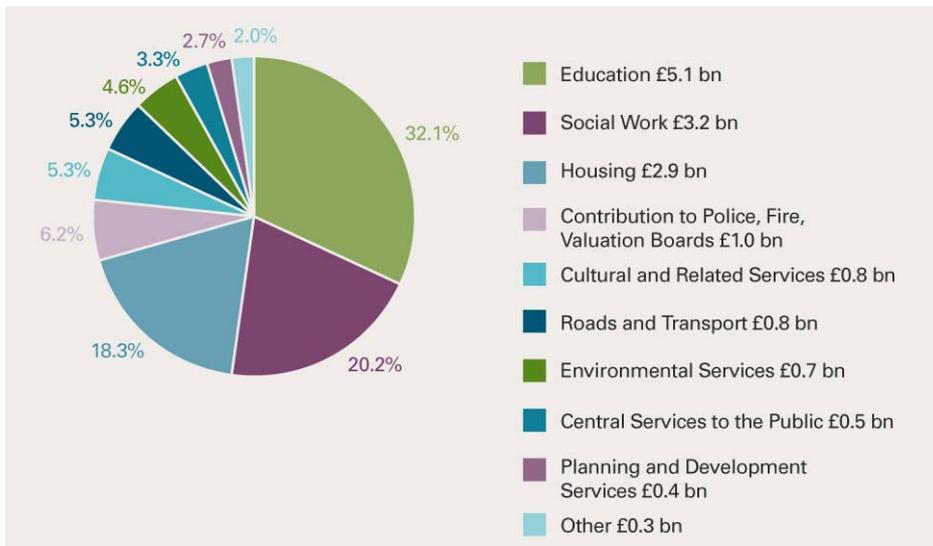
On the income side, our audit work shows that councils are doing well in collecting council tax. There has been a strong trend of improvement over the last 10 years, and around 94% of the amount due for the year is now collected in-year.

EXHIBIT 5 % council tax collected



In terms of spending, the main areas are education and social work services.

EXHIBIT 6 Spend per service area



As with other parts of the public sector, councils face continuing and substantial demands on financial resources which means that they face tough choices as to which services to provide and at what level. Much of the current pressures stem from employee costs as councils meet their legal requirements for equal pay and harmonise the terms and conditions of workers (through the single status agreement). We know from the experience to date that single status implementation can add up to 8% to the pay bill. Service demands are another big factor, particularly

around social work services - from the ageing population, and in waste disposal - where increasing energy and fuel costs are a major consideration.

In addition to the £16 billion revenue spend, councils spend a further £2 billion each year on capital projects. An interesting aspect of this is slippage in expenditure. This is a recurring problem caused by delays in site acquisition and, more generally, because projects take longer than expected to complete. In some cases this is reported as being due to weak project management. There are implications for financing and borrowing but there are wider issues - delays in completing capital projects may mean that assets essential for improved service delivery are not in place posing risks to the achievement of corporate objectives and priorities.

In view of the focus on financing and financial pressures, it is not surprising that there has been a great deal of public interest in the reserves which councils hold. This is an area where good progress has been made in providing better information.

Following pressure from the Commission, disclosure by councils is much improved and we are much clearer now about the reserves they hold and what they intend to do with them.

Our overview report has the detail of the £1.1 billion that councils overall held at 31 March 2007. Of that only around £164 million was unallocated or in other words set aside as a contingency. That represents around 1.8% of net spend which seems reasonable in the context of the financial position. Again, there are wide variations among councils – the details are in our report.

As you would expect there is a great deal that I could say about finances and financial management, but I want to move on to other aspects of resources. But a key point before we do so is the need to improve long-term financial planning and to

ensure that medium to long term financial planning is sustainable - there is a risk that in the current financial context councils may make short-term, expedient decisions.

The overall number of people working in local government is of the order of 258,000, which represents more than 10% of the Scottish workforce. There was a slight reduction on last year because of the transfer of staff to new external organisations such as leisure trusts. And we suspect that councils are looking to make savings by managing vacancies and freezing recruitment.

A major issue in workforce management is the implementation of single status and equal pay. I said earlier that these have had a significant impact on council budgets but there are more wide ranging implications. From what we have seen through our Best Value audits staff generally feel positive about their council as an employer but there are indications that the ongoing negotiations and time taken to implement single status are affecting staff morale. Indeed we see from press reports that in some areas industrial action is possible because of workers' concerns about the consequence of single status.

From our audit work we also know that HR departments are very much tied up with the lengthy and complex negotiations surrounding equal pay and single status. As a result, time has not been available to make the advances in medium to long term workforce planning which are essential if councils are to have the right staff in the right place to meet the changing demands from service users. Long term planning is also needed to take account of changes in the local authority pensions arrangements which will see more council employees working into their 60s. This is a particular issue for those involved in manual activities.

Resources also involve land, buildings, equipment and vehicles. Across Scottish councils the combined value of these is some £22 billion. Some councils have made progress, particularly in understanding the scope and condition of their schools estate but few have implemented an overarching corporate approach to asset management. This is a key area and we are at the early stages of a study which will look at how well councils manage their assets and whether they achieve value for money. There may be scope to achieve economies of scale and opportunities for more shared services, including professional expertise.

Before I move on from resources, I want to capture two points.

The first concerns the efficiencies that can be gained from good resource management, in other words delivering the same services with less money or delivering more or better services with the same money. The previous administration brought a sharper focus on efficiencies and measurement. Councils reported total efficiency gains of around £314 million in 2006/07 and will remain under pressure to maintain and identify more efficiencies. If they don't, this will contribute to the overall pressures on financial resources. A specific point concerns procurement, a crucial strategic function which has long term implications for the financial position. John McClelland's report in 2006 identified local authority procurement to be in the region of £2.3 billion. We are seeing evidence of collaborative procurement initiatives such as the Scotland Excel project which involves about two thirds of councils. We welcome the improvements in the general approach to procurement and expect to see more efficiencies from the substantial overall buying power which councils command.

My second point in closing on resources is about strategic planning. I mentioned the need for better long term financial planning, the need for more focus on workforce

strategies and the need for a corporate approach to asset management. These are of course important in their own right but there needs to be better linkage across these strands and for an overall strategic approach which promotes integrated, risk-based and sustainable resource management.

Performance

I've considered the evidence under governance and resources: the third and final heading under 'how well are councils coping' concerns performance. By that I mean how councils go about managing performance and what the available information tells us about service performance.

Understanding the needs and concerns of customers and citizens is central to good performance management. Our Best Value audits indicate that councils engage service users in a variety of ways through, for example, citizens panels, area forums and community councils. Councils also use independent market research organisations to gauge users' views and to monitor customer satisfaction at the point of service delivery. However, we see a need for a more systematic and consistent approach to getting users' views, with better co-ordination, monitoring and reporting back to service users on the results.

We also see more scope for councils to make better use of complaints processes, to welcome complaints and use the information provided to inform changes in services. Our colleagues in the Scottish Public Services Ombudsman's office share this view and regularly promote accessible complaints arrangements which operate openly and transparently.

An effective corporate performance management system is essential to enable elected members and senior managers to form an overall view of how their council is

performing across all areas of activity. Councils also need to know how their services are performing before they can demonstrate that they are achieving Best Value through continuous improvement.

Our Best Value work shows that performance management is a high priority for councils with most continuing to develop their performance frameworks. Key features of better performing councils are a systematic approach, with regular consideration of performance reports by senior council officers, and where performance and trends are tracked over time. In contrast, performance management is less effective where there is no consistency of approach across the council, no measures of customer satisfaction, a lack of comparative information and an over-reliance on the national Statutory Performance Indicators (SPIs).

A recurring theme in our work concerns the information available to monitor performance. We find that this is variable in quality and volume across councils and services and there is scope for more use of local measures, targets and comparative information. Overall, we see the need for councils to develop a culture where options for improvement are identified and openly discussed; where self-assessment of service performance is used to get a clear understanding of strengths and weaknesses; and where performance is constructively challenged.

Information for the public about the services currently available is generally good but there is a need for more balanced reports on performance which include areas in need of improvement as well as successes. Best Value audits indicate that public performance reporting needs to be more accessible, user friendly and tailored to the needs of local communities.

Significant changes in performance management are underway, including the move towards an outcome based approach. This will require rigorous and robust performance management which provides evidence of achievement on which all stakeholders can rely.

The lack of consistent and robust performance information makes it difficult to provide a comprehensive overview across all service areas. And so I have to rely on what our Statutory Performance Indicators and our national studies into aspects of services tell us.

The SPIs do not provide a comprehensive picture of performance but they highlight the comparative performance of councils and the change in performance over time against 82 measures. The most recent figures show that of the 51 measures that allow comparison over three years, 21 show an overall improvement of at least 5% and 10 show a deterioration of at least 5%. An important point to note is that continuous improvement in the SPIs is more difficult where performance is already at a relatively high level.

EXHIBIT 7 Table from the SPIs

Year	Total comparable measures	Number of measures showing improvement of at least 5%	Number of measures showing deterioration of at least 5%
2002/03	54	23	8
2003/04	45	11	8
2004/05	46	16	7
2005/06	50	22	5
2006/07	51	21	10

On a service basis, the SPIs highlight positives, such as:

- Improving trends in social work home care for older people

- Increasing usage of learning points and access points in council libraries
- Slight improvements in the index of street cleanliness
- Quicker settlement of bills by councils
- Quicker reporting by police to Children's Reporters and Procurators Fiscal
- Decreasing numbers of accidental dwelling fires

But, on the other hand, for example,

- Assessing people presenting themselves as homeless is taking longer
- There are no signs of improvement in the time taken to process planning applications.
- The percentage of roads that require maintenance has increased.

These are just examples – the full range is on Audit Scotland's website, as are the details and caveats you would expect. Also, these national figures mask the wide range of performance of individual local authorities – again the details on individual councils, police authorities and fire & rescue authorities are available from Audit Scotland.

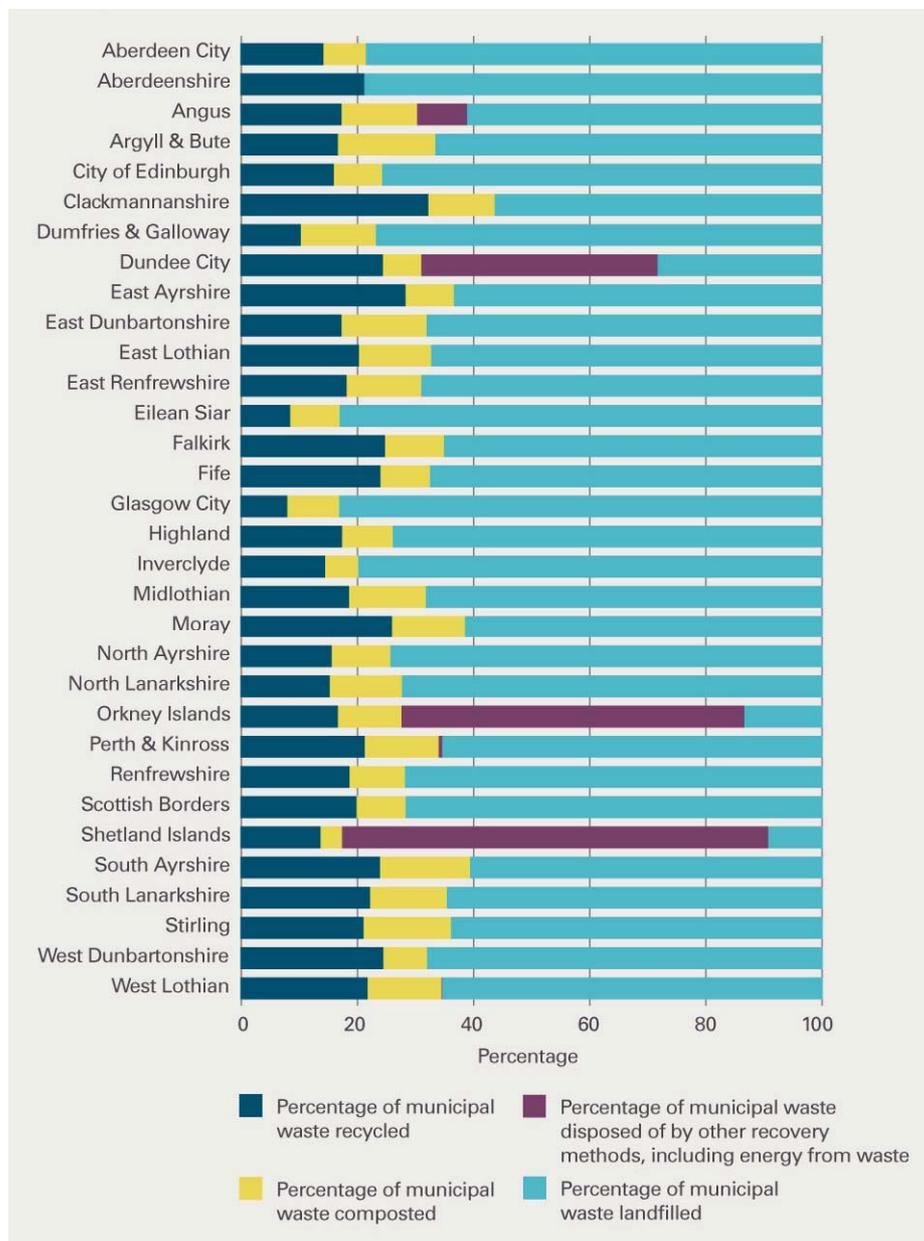
Our other indicator of performance is the national studies work. The Commission has a programme of studies into performance, many of which are cross-cutting studies carried out in conjunction with the Auditor General, so that we can look at performance from policy implementation through to service delivery. In the past year we have reported on:

- Reform in the Scottish Fire & Rescue authorities
- Dealing with offending by young people
- Management of long-term medical conditions

- Police call management
- Free personal and nursing care.

We also published a report on sustainable waste management which highlighted the key factors facing councils in this high profile and important service, including the penalties which councils face if they exceed landfill allowances. The exhibit on recycling rates gives you an idea of the analysis presented in our studies work. The overall headline rate for all councils is that over 28% of municipal waste is now recycled and composted, compared with around 7% five years ago.

EXHIBIT 8 Recycling table



Across our studies work we see further evidence of the types of matters I highlighted earlier, such as the need for effective leadership and weaknesses in performance management – in particular I would highlight the absence in some cases of good quality baseline data necessary to enable measurement of progress and to demonstrate continuous improvement of service delivery.

What does the future hold?

Over the coming year we can expect to see council administrations become more established. Many of the improvements in decision-making and scrutiny are still bedding in and councils need to keep them under review to make sure they are effective.

Many of the new administrations are coping well with finely balanced political compositions – indeed, I suspect that in some cases the new set-ups are leading to a better quality of debate on policy and more challenging scrutiny than perhaps was the case before. But in recent months we have seen tensions around individual decisions, for example on school closure proposals and planning applications, and we will have a better idea of the strength of the new administrations as they deal with the current budget setting process.

Councils will continue to face difficult choices in deciding which services to provide and at what level. It will be critical that the process of allocating limited resources is integrated with this and that decisions are based on robust intelligence about how much services cost to deliver.

The focus in managing service performance is shifting from processes and procedures to outcomes for service users and citizens. While the new relationship outlined in the Concordat seeks to reduce bureaucracy, it makes clear that

requirements on councils arising from current statutory duties remain. These include the duties of Best Value, community planning and public performance reporting, all of which need to be supported by effective performance management systems.

Councils need to demonstrate improving performance across all of their activities and to report publicly on their achievements in accordance with the guidance. Without wishing to over-emphasise the point, the focus on outcomes does not remove the need for good management processes and robust information about the quality, accessibility and value for money of services.

Some eyebrows were raised when the government announced that a representative of Audit Scotland would be included on the group overseeing the implementation of outcome agreements. Neither Audit Scotland nor the Commission sees this as incompatible with our independent roles. We have no involvement in policy matters and decisions on the appropriate outcomes are for government. Audit Scotland's contribution is to assist in ensuring that the outcome agreements are underpinned by robust monitoring and performance reporting arrangements. This will help to ensure that people have access to performance information about public services that is transparent and reliable. The Commission is committed to supporting the outcomes approach and doing what we can to ensure that public services continue to improve and are accountable to the people they serve.

So, in summary what do we see as the main challenges for local authorities and what do they need to do. In our view, councils will need to focus on a number of key areas, including:

- Supporting and developing leadership skills and capacity
- Demonstrating the net benefits from community planning, other partnership working and shared business support services.

- Taking a more strategic approach to resources which informs and integrates finance, workforce and asset planning
- Stronger commitment to testing the competitiveness of services and continuous improvement
- Developing robust baseline data against which improvements in service delivery can be measured and demonstrated; and
- Improving performance management to provide support for the outcomes approach.

For our part we will continue to work with other scrutiny organisations including service inspectorates and draw on their findings to inform our Best Value audits and national studies. Local auditors appointed by the Commission also contribute significantly to those bodies' inspections of individual services.

As I said earlier, our Best Value audits are contributing to better governance in councils. Last year we commissioned an independent review to take a long hard look of our audit process. The overall conclusion was that the audit is established and credible and has been effective in broad terms. We are working hard to further improve the process, in consultation with our key stakeholders, and we will ensure that our next phase of audits continues to contribute to improving services and governance in local government.

Finally, the Crerar report on scrutiny, audit and inspection highlights the need for more streamlined scrutiny based on robust self-assessment and a sharper focus on the needs and concerns of service users. We support this approach and welcome the key role envisaged for the Commission in taking this forward with local government.

Conclusion

My task this evening was to answer what appears to be a relatively straightforward question – ‘Scottish councils: sinking or swimming?’

As you will have picked up over the course of my presentation, it is very difficult to generalise across 32 councils, each of which is elected to serve very diverse communities with wide ranging priorities.

But I’ll offer a view.....(*speaker comment along the lines of*).. the range of progress achieved... some councils at the early stages with others more advanced. But regardless of where they are, all need to enhance performance – which is the fundamental requirement of continuous improvement.....