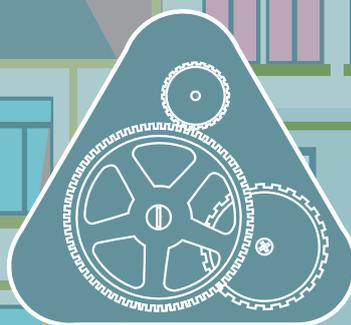


Overview of the local authority audits 2006

Prepared for the Accounts Commission

February 2007



The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 35 joint boards (including police and fire services). Local authorities spend over £14 billion of public funds a year.

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents



Commission's findings **Page 2**

Summary

Introduction

Key messages
Page 4

Part 1. Strategic context

Main messages

Local Government in Scotland
Page 6

Public sector reform
Page 7

2007 – Elections and leadership
Page 8

Part 2. Governance and performance

Main messages

Supporting political governance
Page 9

Community Planning and partnership working
Page 10

Performance and risk management

Service performance
Page 12

Part 3. Efficient use of resources

Main messages

Efficient government
Page 22

Financial management
Page 23

Workforce management
Page 28

Asset management and procurement

Sustainability
Page 29

Part 4. Developing the audit

The audit approach
Page 30

Auditors
Page 32

Appendix 1. Audit appointments
2005/06
Page 33

Appendix 2. Audit appointments
2006/07
Page 35

Commission's findings



Councils must increase the impetus for improvement if they are to meet the significant and immediate challenges they face.

1. This report shows that Scottish councils are making improvements in areas which have been the concern of the Commission, including:

- A substantial improvement in accountability and transparency in respect of reserves, where all 32 councils now have policies in place which set out why reserves are held and their intended use.
- Improvement in collecting council tax. In 2005/06 the proportion of council tax collected for that year during the year exceeded 93 per cent for the first time.
- Increased recycling of waste, up from 17.6 per cent to 24.7 per cent against a target of 25 per cent.
- Improving trends in flexible home care services.
- A general picture of improved performance shown by the statutory performance indicators.

2. The general context for the performance of Scottish councils is one of major challenges which we highlighted in our findings on the overview last year. Those challenges are, if anything, more intense, particularly in relation to:

- Pressure from the drive for public sector reform and modernisation and for efficiencies.
- Changes in Scotland's population, with implications for individual services.
- Changes in the make-up of councils at elected member and senior officer level likely to arise following the elections in May 2007.

- The call for new ways of working, particularly in shared services with other public bodies and in planning and delivering services with partners.

- Pressures on budgets.

3. If councils are to meet these challenges effectively they need to increase their focus on a number of key areas which will give them the essential tools to continually improve services:

- Developing the strategic contribution of elected members consistent with Best Value principles.
- Enhancing governance arrangements, including scrutiny. There is a need to address the particular requirements of good governance in Community Planning.
- Significantly improving their performance management regimes, starting with better performance information. There is also scope for improvement in risk management, procurement and asset management.

4. There is an urgent requirement to consider arrangements for conducting the business of councils following the elections in May 2007 so that the impetus for improvement does not falter. We see improved training and development for elected members as a vital component of these arrangements.

5. Local authorities need to operate within an improved performance management framework and we look forward to the outcome of the work being led by the Scottish Executive in this area.

6. Overall financial management in Scottish local government is sound and there is evidence that concerns previously expressed by the Commission are being addressed. Councils, must, however, increase the impetus for improvement if they are to meet the significant and immediate challenges which they face.

Summary



Introduction

1. This report provides an overview of the main issues arising from local authority audits in 2006. It draws on a range of sources including Best Value audits to identify key issues that councils need to address to improve performance, governance and the management of resources.

2. The main aim of the report is to inform the Accounts Commission of key messages from the year's audits and emerging trends.

3. Elected members and officers should review this report and identify how their council is dealing with the points raised and where more action may be required. It should be particularly helpful to the councils elected in May 2007, which are likely to be different from their predecessors and will need to find new ways of working.

4. The report is organised into four parts. **Part 1** considers the strategic context for local government in

Scotland. **Part 2** considers overall management and performance, including specific aspects of the services which councils provide, and **Part 3** looks at how councils manage their finances, workforce and assets. **Part 4** looks ahead and sets out what audit is doing in relation to the points highlighted in the report.

- **Part 1:** The strategic context for local government in Scotland
- **Part 2:** Governance and performance
- **Part 3:** Efficient use of resources
- **Part 4:** Developing the audit

Key messages

1 Local government faces major change. The elections in May 2007 represent a significant challenge and there is a risk to the pace of change and improvement achieved in recent years.

5. Councils face continuing change, with increasing pressures on services and resources. Reform and the drive for efficiency remain high on the agenda and councils have a significant role in delivering change and improvements.

6. The council elections in May 2007 will be based on proportional representation for the first time. There is likely to be significant change in council membership, and the creation of multi-member wards may require new ways of working. This means that councils will need to review their political and business management arrangements.

7. The period up to and beyond the 2007 elections represents a significant challenge to sustaining the progress in recent years in developing structures and achieving service improvement. Elected members will need to be clear about their role and they will need structured training and support to enable them to scrutinise and challenge policy and service performance effectively.

2 Councils are committed to Community Planning but there are barriers to joint working and the focus now needs to shift to monitoring improvements for local people.

8. Councils have always planned and delivered services with others, but they now have a lead role in Community Planning and are expected to look for opportunities for partnership working and shared services.

9. Our national report on Community Planning¹ found that different geographical boundaries, national policy initiatives and accountabilities can make it difficult for organisations to work well together.

10. Individual councils have a strong commitment to Community Planning, but elected members need to be more involved and councils need to do more to monitor improvements gained for local communities.

3 Most councils have a long way to go in producing good quality information about their performance.

11. Councils need to know how their services are performing to inform decision-making. Most need to take a more corporate approach to performance management which covers all aspects of their activities, including partnership working.

12. Performance management is core to council business and the pace of improvement needs to increase. This will provide a basis for good quality and timely reporting to elected members and to the public.

13. Good quality information about service performance is essential to identify opportunities for efficiencies, sharing services and to support effective scrutiny.

4 Based on information available from the Statutory Performance Indicators (SPIs), performance is generally improving across the range of services covered but there is wide variation among councils.

14. Of the 50 SPIs where comparison is possible between 2003/04 and 2005/06, 22 show an overall performance improvement of at least five per cent and five show a deterioration of at least five per cent. Within the overall figures there is wide variation among councils; detailed information on SPIs is published separately on our website (www.audit-scotland.gov.uk/performance).

15. Key points in individual services include:

- The amount of council tax collected in-year rose to 93.3 per cent in 2005/06, up from 92.7 per cent in 2004/05.
- Councils continue to recycle more waste; 24.7 per cent is now recycled compared with 17.6 per cent the previous year.

5 Councils continue to face significant cost pressures. Reserves have fallen for the first time in recent years and in some cases amounts set aside to meet contingencies are below the levels set out in local policies.

16. Councils have to balance continuous improvement with demands for services, securing efficiencies and containing council tax increases. They also face pressures on their staffing costs from equal pay and the single status agreement, and other legislative requirements such as the national policy of free personal care.

17. For the first time in recent years the overall level of reserves held by councils has fallen. The total amount held in general funds has reduced from £449 million to £273 million at 31 March 2006. Overall, the unallocated element represents 1.2 per cent of the £10 billion net cost of services, compared with 2.6 per cent last year. There is significant variation among councils.

6 Financial stewardship in councils remains generally sound but councils still have some way to go to link policy-making with financial planning, and to integrate planning and budget-setting.

18. Accounts and audits were generally completed on time and audit qualifications are rare. Two councils' accounts were qualified in 2005/06, Eilean Siar and Shetland Islands (2004/05: none).

19. Day-to-day financial stewardship remains generally sound, but more work is needed to link budget-setting with council priorities. Overall, there is a need to integrate the management of resources, taking a more strategic approach which links finance, workforce and assets.

Part 1. Strategic context



Main messages

- Local authorities face major change and there are pressures on resources and services.
- Public sector reform and the drive for efficiency remain high on the agenda and councils have a significant role in delivering change and improvement.
- The elected member role is evolving and the council elections in 2007 are expected to bring changes in leadership and political balance.

Local Government in Scotland

20. Scotland's 32 councils are responsible for a wide range of services including education, social work, housing, roads, refuse collection and leisure services. They also undertake regulatory activities such as planning, building standards and environmental health.

21. In addition, 35 related organisations provide local public services, including joint boards which are responsible for police services and fire and rescue services (except in Dumfries & Galloway and Fife, where the councils are responsible for these services). The number of local authority-related organisations is increasing with the new regional transport partnerships and community justice authorities.

22. Delivery of vital services, directly or in partnership with other providers, involves substantial resources. Annual spending has increased significantly in recent years and is now about £16 billion, around 80 per cent (after fees and charges) of which is financed by central government. Scottish local government employs over 262,000 full-time equivalent staff, over ten per cent of the Scottish workforce.

23. Councils vary widely in size, population and geography. They range from those that are densely populated covering relatively small geographic areas, such as the cities

of 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 the population, levels of deprivation and other factors which affect the way services are planned and delivered.

24. Councils are accountable to their local electorate and are independent of central government. They take account of local circumstances to make decisions which they believe are in the best interests of their communities. However, they also need to take account of national policies in key service areas such as education, where councils are applying new pay and working practices set out in the national teachers' agreement. In social work, they are implementing the national policy of free personal care for older people. Other key policy issues with a national dimension include child protection, homelessness and sustainable waste disposal.

Exhibit 1

The age profile of Scotland's population is changing

The projected percentage change in age structure of Scotland's population, 2004-2031.



Note: 2004-based projections.

Source: General Register Office for Scotland

25. Looking to the longer term, Scotland's population is expected to change substantially by 2031, with the number of people aged under 16 predicted to fall and those over 75 projected to increase substantially (Exhibit 1). This will have a significant effect on council services in future.

26. Population changes have major implications for individual services such as schools and services for older and vulnerable people. And changes to the way we live, such as more one-person households, increasing traffic volumes and the drive for sustainability, will also affect council-run services.

27. The challenge for councils is to plan and shift resources and find new ways of working to meet the needs of their communities now and in the longer term. This will also require improved risk and performance management as well as further developments in cross-cutting service delivery.

Public sector reform

28. Reform is a priority for the public sector in Scotland. Many of the policies supporting reform and modernisation affect councils because of their key role in delivering local services, including:

- the duty of Best Value, which requires continuous improvement in council services, having regard to value for money and taking account of equalities and sustainability
- the requirement to initiate and facilitate Community Planning, providing a strategic framework for joint working within each council area
- the ongoing need to achieve greater efficiency in the use of public resources.

29. The Scottish Executive developed its vision for reform and efficiency in public services by publishing

two new papers in 2006. *A Shared Approach*² proposes shared business support functions which are independent of boundaries and structures. *Transforming Public Services*³ is based more widely. It highlights the need to look at public services in their entirety to make real differences to service users and communities. The Executive identifies the needs of service users as the focus of public sector reform in the future and sees the process of change as continuous, with 2007 to 2011 the key period for implementation.

30. *Transforming Public Services* also announced a review of regulation, inspection and audit. The review report is expected in summer 2007 and will set out principles to guide scrutiny in future.

31. The Executive's efficient government initiative raised the profile of efficiency. Current projects aim to achieve total recurring efficiency gains of £1.271 billion

2 *A Shared Approach to Building a Better Scotland: A Consultation Paper on a National Strategy for Shared Services*, Scottish Executive, May 2006.
3 *Transforming Public Services: The Next Phase of Reform*, Scottish Executive, June 2006.

across the public sector by 2007/08, of which £318 million is expected from councils, and £60 million through police services and fire and rescue services. This is relatively small compared with councils' annual expenditure but needs to be viewed in the context of the significant challenges which councils face.

2007 – Elections and leadership

32. The Local Governance (Scotland) Act 2004 introduced a range of measures which together represent the most significant change to local government since reorganisation in 1996, including proportional representation, multi-member wards and remuneration for councillors.

33. An immediate concern for council officers is ensuring that the new voting system⁴ is understood and implemented smoothly. However, the wider context is one of expected changes in council membership; some councillors with substantial experience are not seeking re-election and it will take time for newly elected members to develop into their role. The creation of multi-member wards in particular may require new ways of working to support efficient representation and sharing of workload within each ward. And there may be more councils with no overall political control.

34. Ensuring strong leadership up to and beyond the 2007 elections when there are likely to be changes in both elected members and senior officers is vital if the improvements in governance and performance in recent years are to be maintained.

4 For more information on the new voting system see www.votescotland.com

Part 2. Governance and performance



Main messages

- Changes in 2007 are likely to affect political governance and structures and give added significance to the need for training and development for elected members.
- Working across organisational boundaries increases complexity and requires strong and clear accountability arrangements. Councils need to do more to monitor improvements derived from partnership working.
- There is a continuing need for effective performance management which demonstrates continuous improvement. Most councils have a long way to go to produce good quality information to support effective decision-making and scrutiny.
- There is evidence from those councils audited early in the Best Value programme of slippage against improvement

plans and, in some cases, plans have been overly ambitious.

- Of the 50 SPIs that facilitate comparison between 2003/04 and 2005/06, 22 show an overall performance improvement of at least five per cent and five show a deterioration of at least five per cent.
- There are improvements in educational attainment but the performance of the lowest 20 per cent of pupils has not improved significantly.
- Councils continue to recycle more municipal waste; 24.7 per cent is now recycled, compared with 17.6 per cent in the previous year.

Supporting political governance

35. Elected members play a vital role in the success of their council in meeting the needs of local people and improving the quality of life they

experience. The role is complex and includes: providing clear political direction through decision-making; representing their ward and constituents; and scrutinising policy setting and the performance of services.

36. Our Best Value reports show that effective leadership is a key characteristic of better performing councils and is essential in improving council performance. Some reports, such as that on West Dunbartonshire, have highlighted problems where effective leadership is lacking.

37. To support open and transparent decision-making, elected members need access to good quality and timely information. Several Best Value reports in 2006 indicated that information reported to elected members was not always sufficiently detailed or timely to enable informed decisions to be made.

38. The modernisation of public services, including the introduction of Best Value and Community Planning, means that the elected

member role has evolved substantially in recent years. The 2007 elections will bring further changes, with proportional representation and multi-member wards.

39. Councils have considered the effect of these changes on political and business management and how the new council might be arranged to varying degrees.

40. With changes to voting arrangements and up to a third of current councillors standing down there are likely to be a significant number of new councillors. There is an urgent need for some councils to put in place firm arrangements to provide support and development to continuing and incoming elected members.

41. The Standards Commission considers the conduct of elected members. Its annual report⁵ indicates a levelling of the number of complaints received in 2005/06 together with signs that councillors' understanding of the Code of Conduct is increasing. The report also notes that the new voting system and multi-member wards may create tensions between councillors in a ward, particularly in relation to individual constituents' interests, unless properly managed.

Community Planning and partnership working

42. Councils have always planned and delivered services in collaboration with public sector partners but, since 2003, they have been required to facilitate Community Planning. This involves public sector organisations working together and with local communities, the business and the voluntary sectors, to identify and solve local

problems, improve services and share resources.

43. Local audit work identified a strong commitment in councils to Community Planning. Our national report⁶ found that Community Planning Partnerships (CPPs) are making progress, but they need to do more to show how their work is improving public services.

44. Their complex remit, different geographical boundaries and the range of national policy initiatives make it difficult for CPPs to achieve their aims. Different accountability arrangements can also make it hard for organisations to work well together. Some partnerships have adopted approaches to overcome these barriers, for example by developing formal agreements and schemes of delegation.

45. Elected members have an important role to play in Community Planning, both as civic leaders and community representatives, but their participation is uneven and in some places minimal. And there is a need for improved governance in CPPs, by clarifying accountability arrangements and developing more effective scrutiny and risk management.

46. Community Health Partnerships involving health boards and councils are being established and are developing governance arrangements to ensure resources are used properly and to good effect. Within councils senior staff appointments for aspects of health and social care are also contributing to the drive for better joined-up working across the public sector.

47. Councils also work with companies, trusts and other external

organisations to deliver services. The principles set out in our *Following the Public Pound* report⁷ are of increasing importance as councils look to new ways of delivering services, for example through trusts which provide cultural and leisure services. Our audit work underlines the need for good governance and clear accountabilities where councils work in partnership with arms-length and external organisations.

48. There is also evidence of early progress in sharing services with, for example, some councils pursuing proposals for the joint delivery of services, including joint ventures with other councils and agencies. Overall, however, more progress is required and councillors need better information to assist them in identifying where most potential exists.

Community engagement

49. Best Value requires councils to be responsive to the needs of their communities, citizens, customers, employees and other stakeholders, so that plans, priorities and actions are informed by an understanding of those needs.

50. Councils are working with partners to improve community involvement, for example by including community representatives as part of CPPs. The Best Value audits show that councils have a strong commitment to community engagement but more needs to be done to build on this. [Exhibit 2](#) is drawn from the Best Value report on East Ayrshire.

51. Councils provide a wide range of services to diverse communities and Best Value requires them to encourage equalities and observe the equal opportunities requirements ([Exhibit 3](#)).

⁵ *The Standards Commission for Scotland and The Chief Investigating Officer, Annual Report and Accounts for 2005/06.*

⁶ *Community Planning: An initial review, Audit Scotland, June 2006.*

⁷ *Following the public pound: A follow-up report, Audit Scotland, December 2005.*

Exhibit 2

The Best Value report on East Ayrshire Council shows that local people are involved in Community Planning and it is making a real difference

Communities are periodically consulted on a range of community planning issues, such as the development of the Regeneration Outcome Agreement. Community representatives report that community planning is making a difference to services and that there has been an increase in community activity. They also feel that community planning has given them more input to the government of their area, and access to appropriate facilities and technology to allow them to be effectively involved and represent their interests.

Source: *East Ayrshire Council, The Audit of Best Value and Community Planning, Audit Scotland, September 2006*

Exhibit 3

Councils have key equalities responsibilities

By April 2007, all public sector bodies will have to meet three equality duties which mean that they must take steps to eradicate discrimination and promote equality of opportunity:

- Race Equality Duty (introduced in November 2002)
- Disability Equality Duty (introduced in December 2006)
- Gender Equality Duty (to be introduced in April 2007).

The Equality Act 2006 also established the Commission for Equality and Human Rights (CEHR) which will come into being in October 2007. There will be a CEHR Commissioner with a specific remit for Scotland and a Scotland Committee to oversee the work.

Source: Audit Scotland

52. Best Value audits indicate that councils are making policy commitments to equalities but there is limited evidence of these translating into improved outcomes for service users. Where there is activity, this often involves isolated events rather than systematic implementation in the day-to-day running of the council and its services.

53. The limited performance information on equalities also indicates progress, but most councils need to do more to ensure that they can clearly measure achievements against equal opportunity objectives.

Performance and risk management

54. 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 improving.

55. Our Best Value reports show that councils recognise the need to improve performance management, but that too many continue to rely too much on the SPIs rather than also setting their own standards and performance measures in line with local priorities. The SPIs can contribute to the overall picture of performance but councils must ensure that the information is robust and there is scope for them to undertake more comparative and trend analysis.

56. Overall, councils need to take a corporate approach to performance management, which covers all service areas and focuses on outcomes. This is core to council

business and more needs to be done and more quickly.

57. Effective risk management includes highlighting where action is required and where performance needs to improve. There is evidence of more focus on risk management, with councils developing service and corporate risk registers. However, councils need to do more to ensure risk management is an integrated part of the strategic planning process.

58. Councils also require accurate performance information to report regularly to the public on all aspects of their activity. To allow the public to hold councils to account, this reporting requires to be accessible and user-friendly and, importantly, it should be accurate, honest and balanced.

59. The Best Value audits show that councils are reviewing their approach to public performance reporting and in some cases are consulting with service users. More needs to be done to ensure that reporting is balanced and, where appropriate, targeted to meet local expectations and requirements.

60. Effective scrutiny of policy setting and performance of services is central to good governance and accountability to citizens and communities. Councils have made good progress in recent years and there is a variety of arrangements in place to scrutinise performance, including scrutiny panels and performance review committees. In some cases the audit committee has a role in scrutinising service performance.

61. However, the effectiveness of these arrangements depends on the quality of the performance information

available to elected members in support of their scrutiny role. And elected members must be clear about what is expected of them. They need training and support to enable them to challenge policy setting and service performance effectively.

62. Best Value reports include an improvement agenda and councils monitor and scrutinise progress against these plans. There is evidence from those councils audited early in the Best Value programme of slippage against plans and, in some cases, those plans have been shown to be overly ambitious.

63. We are involved in projects to develop national performance management frameworks for councils and police authorities. More detail is provided in [Part 4](#) of this report.

Service performance

64. This section of the report brings together information about local authority service performance.

Council profiles

65. The council profiles⁸ show performance for a wide range of services using information taken from the SPIs. Although they do not provide a comprehensive picture of performance they highlight change in performance over time and the comparative performance of councils against 78 measures.

66. Of the 50 measures that facilitate comparison between 2003/04 and 2005/06, 22 show an overall performance improvement of at least five per cent and five show a deterioration of at least five per cent ([Exhibit 4](#)).

67. In terms of overall improvement 2005/06 compares favourably to earlier years ([Exhibit 5](#)).

Exhibit 4

Service measures in the 2005/06 council profiles that show significant improvement or deterioration across Scotland when compared with 2003/04

Service	Total comparable measures	Number of measures showing improvement of at least 5%	Number of measures showing deterioration of at least 5%
Adult Social Work	11	5	1
Benefits Administration	2	0	0
Corporate Management	7	3	0
Cultural and Community Services	8	4	0
Development Services	2	0	1
Education and Children's Services	5	2	0
Housing	6	5	1
Protective Services	5	2	1
Roads and Lighting	3	0	0
Waste Management	1	1	1
Total 2005/06	50	22	5

Source: Audit Scotland

Exhibit 5

Change in improvement to deterioration ratio over time

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

Source: Audit Scotland

68. Details of the SPIs and what they show about the performance of individual councils, fire and rescue services and police services can be found at www.audit-scotland.gov.uk/performance

Education and children's services

69. Councils are responsible for education and social work services for children, spending over £5 billion each year. They work with other agencies to provide integrated children's services.

The Teachers' Agreement

70. Our report⁹ found that councils spent over £2 billion in implementing *A Teaching Profession for the 21st Century* (the Agreement) and highlighted the difficulty in assessing the extent to which value for money has been achieved because of a lack of outcome measures.

71. The Agreement has brought important benefits for the teaching profession, including improved industrial relations and access to continuing professional development. But other anticipated benefits, such as the reduction in class contact time aimed at providing teachers with more time for preparation and marking, and recruitment to reduce the administrative burden on teachers, are taking longer.

72. A recent report¹⁰ by Her Majesty's Inspectorate of Education (HMIE) concluded that the main elements of the Agreement have

been implemented successfully, helping to establish a better basis for improving learning in Scotland's schools. However, as yet evidence of better learning and teaching remains patchy.

Inspection of education services

73. An HMIE report¹¹ published in 2006 set out the main findings from inspections of all councils. This showed improvement across a range of education service activities but the degree to which councils set the direction for schools, identified good practice and supported weaker schools to improve varied.

Attainment

74. There is evidence of continuing improvement in educational attainment. HMIE found that primary and early secondary pupils have improved in reading, writing and mathematics. And more pupils are gaining five awards at SCQF level 5¹² or better by the end of S6, up from 39 per cent in 2000 to 47 per cent in 2005. However, the proportion of pupils attaining one or more, three or more, or five or more awards at SCQF level 6¹³ by the end of S6 has not increased.

75. Across Scotland, the exam performance of the lowest 20 per cent of pupils remained unchanged. Between 2002 and 2005 only six councils achieved an increase of more than five per cent in the exam performance of their poorest performing S4 pupils.

76. The attainment of 16 and 17-year-olds leaving care has increased only slightly from a very low base. In 2005 about 45 per cent achieved at least one qualification at SCQF level 3¹⁴ or above, compared with 42 per cent in 2004.

School occupancy

77. Falling rolls and over capacity in schools, combined with the poor condition of the school estate present major challenges for most councils. Primary school pupil numbers continue to decline. In November 2006 the Scottish Executive published data¹⁵ showing an expected reduction of 24,000 in primary school pupil numbers by 2010, the equivalent of approximately 100 schools of one class/year group.

78. Exhibit 6 shows changes in the numbers of council primary and secondary school pupils in Scotland and Exhibit 7 shows the proportions of schools with occupancy levels below 60 per cent.¹⁶

Youth justice

79. Scottish Executive annual funding to local government and the voluntary sector for youth justice services increased from £3.5 million in 2000/01 to £63 million in 2005/06.¹⁷ This has been accompanied by a number of policy developments in youth justice since our report in 2002.¹⁸

9 *A mid-term report: a review of the cost and implementation of the teachers' agreement – A Teaching Profession for the 21st Century*, Audit Scotland, May 2006.

10 *Teaching Scotland's Children – a report on progress in implementing 'A Teaching Profession for the 21st Century'*, HMIE, 2007.

11 *Improving Scottish Education, Effectiveness of Education Authorities*, HMIE, 2006.

12 Scottish Credit and Qualifications Framework (SCQF) level 5: Intermediate 2 at A-C; Standard Grade at 1-2.

13 Scottish Credit and Qualifications Framework (SCQF) level 6: Higher at A-C.

14 Scottish Credit and Qualifications Framework (SCQF) level 3: Access 3; Standard Grade at 5-6.

15 *Children Educated Outwith School and Pupil Projections 2006*, Scottish Executive, November 2006.

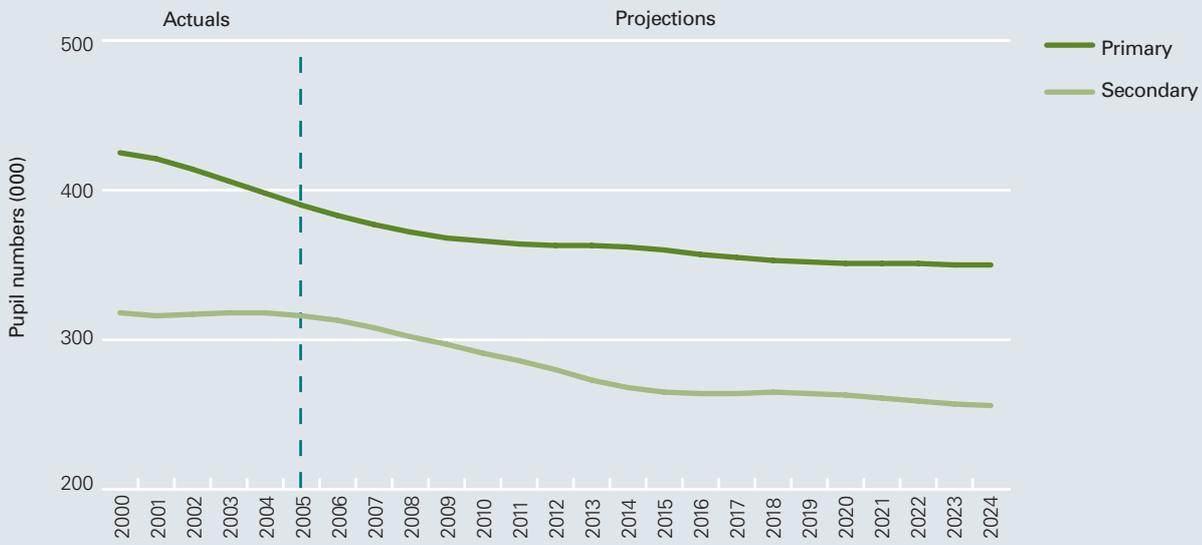
16 *Room for learning – managing surplus capacity in schools* (Accounts Commission, 1995) said that councils have to take account of a range of factors, including occupancy, in taking decisions about their schools estate. Schools rationalisation decisions are for individual councils to determine.

17 These amounts relate to monies specifically directed to youth justice by the Scottish Executive and are in addition to the core funding of local authorities.

18 *Dealing with offending by young people*, Audit Scotland, December 2002.

Exhibit 6

Number of primary and secondary school pupils 2000-2024

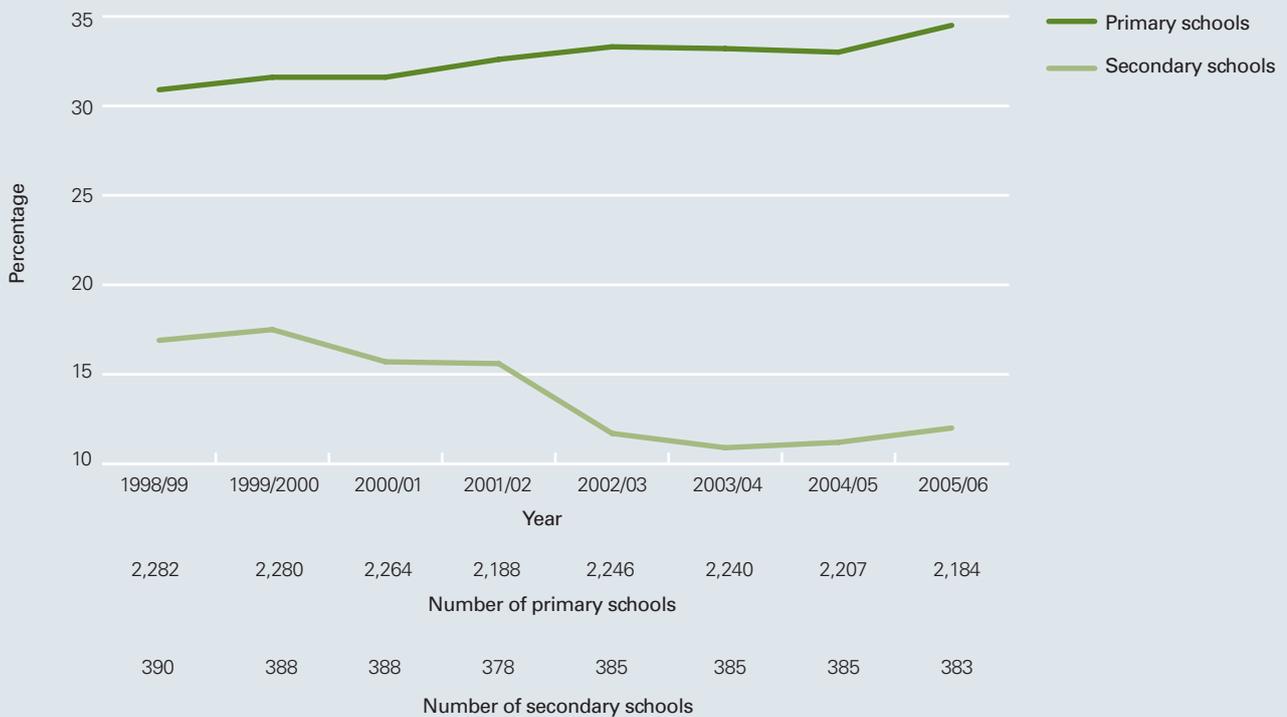


Note: Actuals up to 2005, projections from 2006 onwards.

Source: Scottish Executive

Exhibit 7

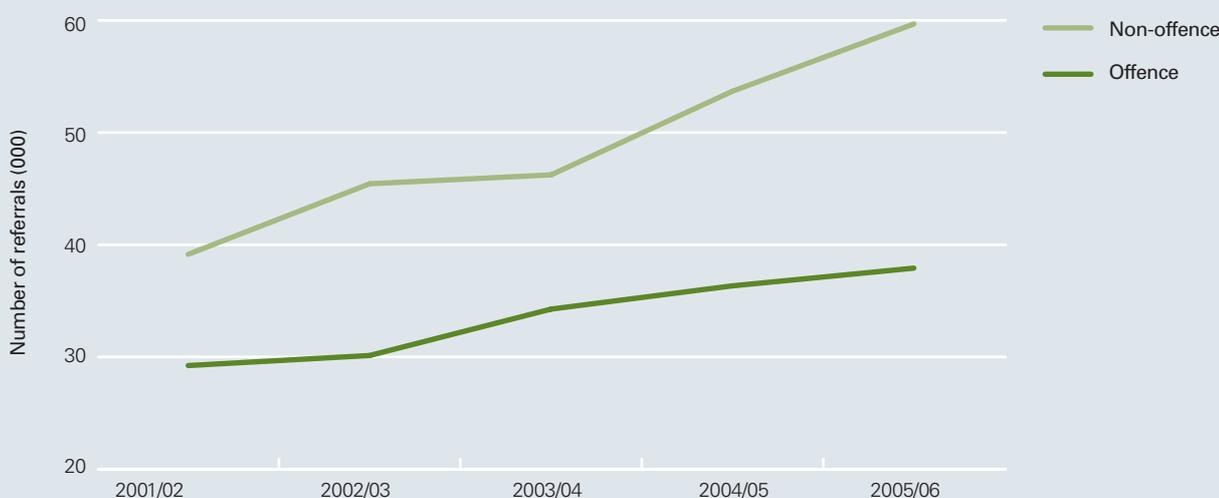
Percentage of primary and secondary schools with occupancy levels of 0-60%



Source: Audit Scotland

Exhibit 8

Number of referrals to Reporter (offence and non-offence related) 2001/02 to 2005/06



Source: Scottish Children's Reporter Administration

80. The Scottish Executive and the Scottish Children's Reporter Administration report¹⁹ on youth justice performance noted that between 2003/04 and 2005/06, the number of referrals to the Reporter on offence grounds increased by 11 per cent and those on non-offence grounds increased by 29 per cent (Exhibit 8). The Scottish Executive set a target to reduce the number of persistent young offenders by ten per cent by March 2006 and by a further ten per cent by March 2008. By March 2006, the number of persistent offenders had increased by 16 per cent.

81. The report also identified clear improvements in police reporting and Reporter decision-making despite increased referral volumes, but social work reporting is lagging behind.

82. We are currently undertaking a follow-up study on youth justice, to be published during 2007.

Adult social work

83. Councils spend over £2 billion each year in providing a range of social services for people with care needs, for example older people and other adults with mental health problems and physical disabilities.

84. The Social Work Inspection Agency (SWIA) is undertaking a programme of work to evaluate social work services, including adult social work. From its inspections to date, SWIA has highlighted fundamental management processes which it expects to see in all councils (Exhibit 9).

Community care

85. Minimising the time between identifying the need for a service and providing it is key to the efficient provision of community care services. However, councils have had difficulty reporting the data required by the Accounts Commission's SPI in this service area to show their performance.

86. Figures reported by councils vary significantly between two

days and 56 days. These variations mask significant differences in measurement as well as in performance, and further guidance has been distributed by the Scottish Executive with the aim of improving performance information in future.

Homecare

87. The SPIs show that the improving trend in flexible homecare services over recent years was maintained in 2005/06 (Exhibit 10):

- 68 per cent of clients now receive personal care, up from 63 per cent last year
- nearly 30 per cent of clients now receive evening/overnight services, up from 27 per cent last year
- 56 per cent of clients receive services at the weekend, up from 54 per cent last year.

88. It is worth noting that the overall number of clients continues to fall reflecting tighter targeting of services to those with the most serious needs.

Exhibit 9

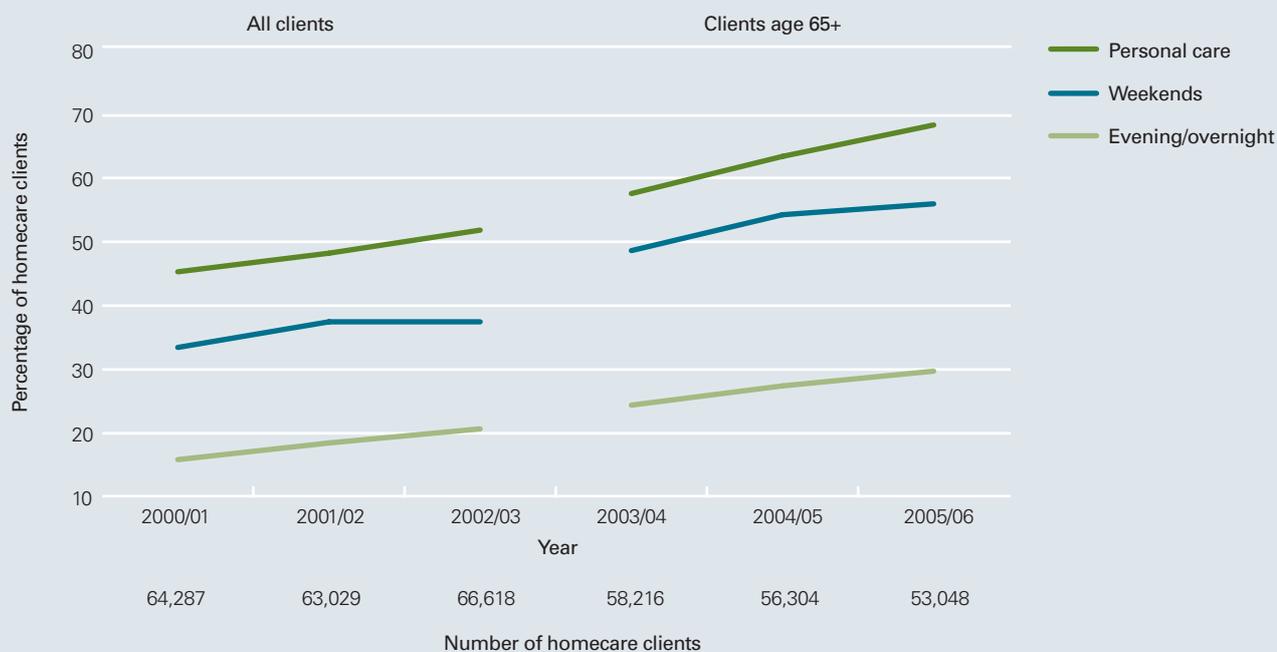
Processes that SWIA would expect to see operating effectively in all councils

- Performance management with clear links to objectives and targets
- Quality assurance
- Effective staff appraisal
- Systematic use of feedback from people who use services and other stakeholders
- A strategic approach to commissioning
- Clear and comprehensive case recording
- Effective arrangements in place for adult and child protection.

Source: Social Work Inspection Agency Annual Report and Accounts 2005/06

Exhibit 10

Proportion of homecare clients receiving care



Source: Audit Scotland

Free personal care

89. Free personal and nursing care was introduced in Scotland in 2002 to provide care for all who need it, irrespective of whether in their own or care homes. Nearly 73,000 people in Scotland now receive personal care services free of charge and expenditure on free personal and nursing care in 2004/05 was £220 million.

90. The Parliament's Health Committee held an inquiry covering free personal care and their report in June 2006²⁰ highlighted concerns about implementation including:

- the operation of 'waiting lists' for free personal care by half of all local authorities
- the level of free personal care funding, which is not increasing in line with inflation
- a failure by the Scottish Executive to enforce clear guidance on key aspects of eligibility, such as the preparation of meals.

91. Uncertainty over charging for meal preparation led to councils seeking further guidance and legal advice. Some councils have stopped charging for meal preparation while others continue to apply charges in specific circumstances. In some cases councils are repaying charges previously imposed.

92. We plan a study on free personal care as part of our future studies programme.

Housing

93. Councils spend around £3 billion on housing services which includes expenditure on their housing stock and accommodation for the homeless.

94. The profile of housing in Scotland has been steadily changing over the last 30 years with around 65 per cent now classed as owner occupied and social renting now around 25 per cent.²¹

95. Access to affordable housing is a concern in some areas in Scotland, and a number of councils have looked to suspend 'right to buy' schemes to prevent further reductions in their housing stock. This has contributed to a decline of 24 per cent in council house sales, from 13,500 in 2003/04 to just over 10,300 in 2005/06. The SPIs show that the proportion sold in the national target of 26 weeks has risen from 57 per cent to 75 per cent over this period.

Homelessness

96. The number of people assessed by councils as homeless or potentially homeless was just over 42,000 during the year.²² This is similar to levels in the previous two years. The proportion of cases reported as returning for reassessment within 12 months has reduced sharply from one in eight to one in 12.²² However, this may reflect an improvement in data management as much as in service effectiveness.

97. Between June 2003 and June 2004, Communities Scotland carried out pathfinder inspections of homelessness services at five

councils. A report²³ published in June 2005 found a considerable variation in performance between the five councils, each with a range of different strengths and weaknesses.

Housing quality

98. The Scottish Housing Quality Standard (SHQS) was announced by the Minister for Communities in February 2004. This includes a set of quality indicators for all houses in the socially rented sector. Registered Social Landlords (RSLs) must ensure that all of their dwellings meet the standards in the SHQS by 2015.

99. The Scottish House Condition Survey for 2003/04²⁴ identified that 70 per cent of social rented dwellings failed to meet all of the criteria in the SHQS, a similar level to 2002. The number of dwellings with more than one criteria failure has dropped slightly since 2002.

100. In 2006 Communities Scotland identified²⁵ that all councils have submitted plans for implementation of the SHQS. Communities Scotland will shortly issue an analysis of findings and conclusions on the readiness of the socially rented sector to achieve the SHQS by 2015.

Housing stock transfer

101. Our 2006 report²⁶ on council housing transfers found that tenants are finding the service provided after transfer is better, new landlords are investing in the housing stock and keeping rent increases within agreed limits and transfers have promoted greater control for tenants.

102. To date 12 transfers have been completed or tenants have voted to

20 *Report into care inquiry*, Scottish Parliament Health Committee, 10th Report 2006.

21 Scottish Executive Housing Statistics.

22 *Operation of the homeless persons legislation in Scotland: National and local authority analysis 2005-06*, Scottish Executive.

23 *Key themes from inspections: Homelessness*, Communities Scotland, June 2005.

24 *Scottish House Condition Survey: Key findings for 2003-04*, Scottish Executive/Communities Scotland.

25 *The Scottish Housing Quality Standard: Position statement on standard delivery plan 2005 submissions*, Communities Scotland, May 2006.

26 *Council housing transfers*, Audit Scotland, March 2006.

proceed with transfers. Over the last year, however, tenants in Highland, Renfrewshire, City of Edinburgh and Stirling voted against transfer. These councils and others that continue to manage housing stock need to continue to manage significant levels of debt, and plan how they will implement and fund the SHQS.

Complaints

103. The Scottish Public Services Ombudsman investigates complaints about most organisations providing public services in Scotland, where a member of the public claims to have suffered injustice or hardship as a result of maladministration or service failure.

104. The Ombudsman's 2005/06 annual report²⁷ shows that local government continues to account for more than half of the total enquiries and complaints received. The largest single category of complaint concerns housing, in particular repairs and maintenance or allocations.

Community safety

105. Community safety is concerned with reducing the actual and perceived risk to individuals and communities from crime, fire, accidents or injuries and anti-social behaviour in general, and is one of the major areas of work for Community Planning Partnerships. A number of SPIs are concerned with services which are relevant to community safety. Full SPI information is available at www.audit-scotland.gov.uk/performance

Crime

106. In 2005/06 about 417,500 crimes were recorded by Scotland's police forces, a drop of about 4.6 per cent on last year's figure of 438,000. The change included a drop of about 1,000 recorded serious violent

crimes, 2,000 housebreakings (12.7 per cent reduction) and nearly 6,000 car crimes (13.6 per cent reduction).

107. The overall proportion of crimes cleared up remained stable at just over 45 per cent. However, there are significant variations among police forces; the percentage clear-up rate for reported crimes in individual forces ranges from 38.2 per cent to 64.9 per cent. There is also significant variation in the clear-up rates between different types of crime.

108. Racially aggravated crime is an important element in the safety of many communities, and over the last two years the number of reported incidents has increased by 37.4 per cent. Racially aggravated crime also has the highest clear-up rate at 69 per cent for 2005/06.

109. The Scottish Executive Justice Department and partners are currently developing a new performance management framework for policing in Scotland to provide a more comprehensive picture of police performance across the full range of policing activity.

110. Audit Scotland is undertaking a performance audit study on police call management that is due to be published in mid-2007. The overall aim of this study is to review the performance of the Scottish police forces in relation to call management and to promote improvement in the service.

Fire and rescue

111. In 2005/06 there were 5,573 accidental dwelling fires in Scotland, similar to the previous year but almost 600 fewer compared to 2003/04. This is a reduction over the three years of 9.4 per cent. There is significant variation in the number of

dwelling fires per 10,000 population across the eight Scottish fire and rescue services ranging from 7.1 per 10,000 to 12.3 per 10,000. The Scottish average is 11 accidental dwelling fires per 10,000 population.

112. The number of incidents resulting in casualties attended by the fire and rescue services was 998 in 2005/06 continuing the slight declines of the previous two years.

113. Fire and rescue authorities are undergoing an extensive programme of service reform following the National Joint Council agreement on pay and conditions in 2003, and new legislation in the Fire (Scotland) Act 2005. This programme of change reflects a more targeted and risk-based approach to prevention, protection and emergency response.

114. We undertook a performance audit study of the fire and rescue authorities in Scotland to assess progress on the implementation of the service reform agenda. Local reports have been prepared for each fire and rescue authority and a national report on the study will be published early in 2007.

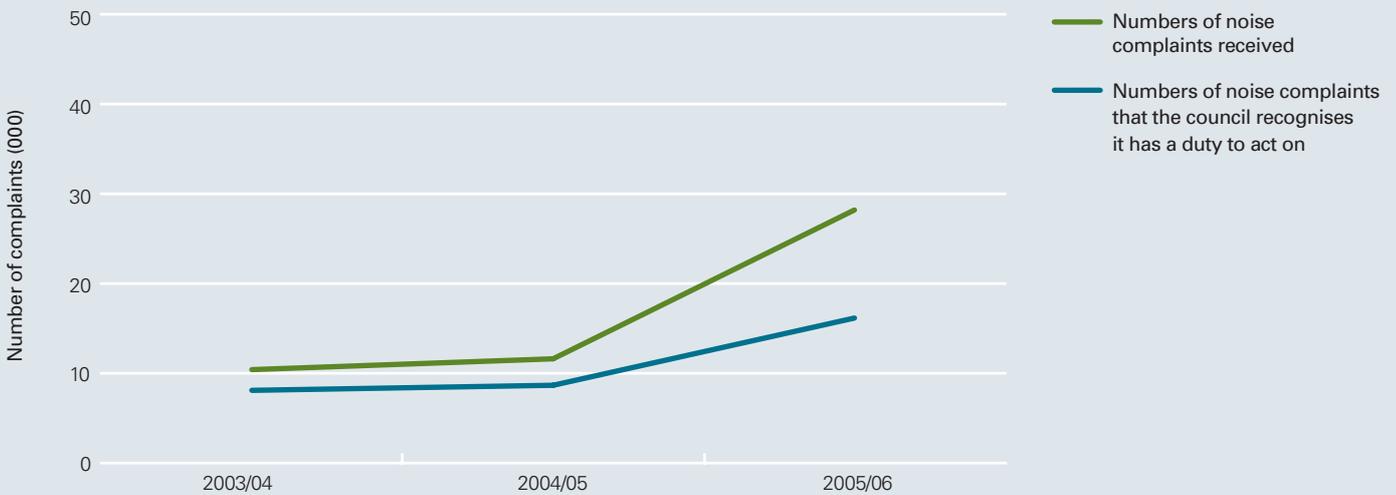
115. Police forces and fire and rescue services are both subject to inspection; police by Her Majesty's Inspectorate of Constabulary (HMIC) and fire by Her Majesty's Fire Service Inspectorate (HMFSI). Audit Scotland works closely with both these organisations to minimise the administrative burden of inspection and promote good practice.

Road traffic accidents

116. The number of people seriously injured or killed as a result of road accidents has remained roughly static over the last three years at just under 3,000. However, over

Exhibit 11

Noise complaints



Source: Audit Scotland

the same period there has been a 13 per cent decline in the number of children seriously injured or killed as a result of road accidents to 363 in 2005/06.

117. A new SPI from 2007/08 on road accidents will be reported on the basis of the level of accidents for every 100 million kilometres travelled per vehicle.

Noise complaints

118. Exhibit 11 shows the extent of the increase in noise complaints received by councils since 2003/04, from approximately 10,000 to just over 28,000. Over the same period the number of such complaints where councils have recognised they have a duty to act under the Antisocial Behaviour etc (Scotland) 2004 has risen from around 8,000 to just over 16,000. This gives an indication of the growing importance of antisocial behaviour for communities and for local government.

119. The antisocial behaviour legislation has led to a change in the way in which the SPI will be reported on from 2006/07 onwards. The new SPI will distinguish between domestic and non-domestic noise complaints and identify the extent to which councils make use of their powers under the legislation.

Waste management

120. The National Waste Strategy²⁸ identified interim waste management targets for 2006 which require councils to achieve a reduction in the amount of biodegradable municipal waste sent to landfill (to 1.5 million tonnes) and an increase in the proportion of all municipal waste that is recycled or composted (to 25 per cent).

121. Since 2000/01, about £254 million has been provided by the Scottish Executive through the Strategic Waste Fund to help councils meet these targets. A similar amount is also due to be spent by the end of 2007/08 as

part of the drive to meet more challenging targets for 2010.

122. The SPIs show that in 2005/06 councils:

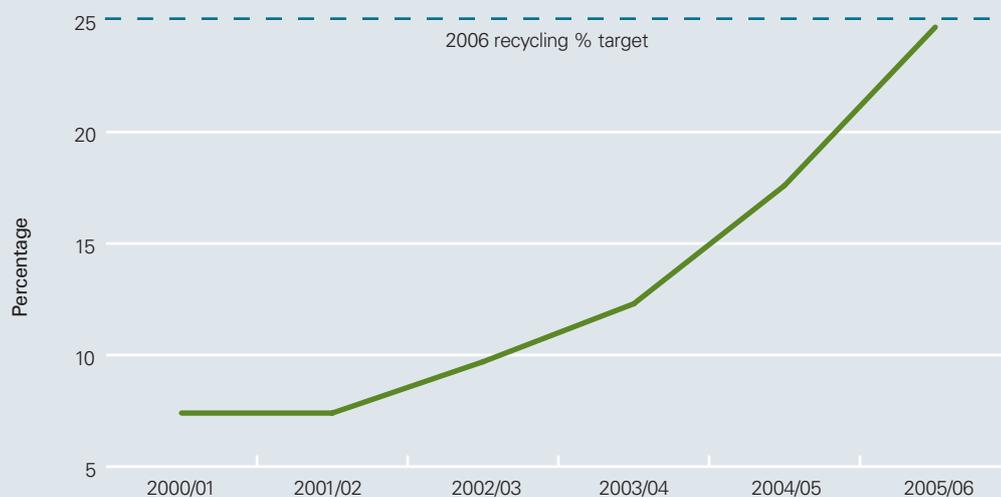
- collected just over 3.4 million tonnes of municipal waste, up from 3.3 million in the previous year
- recycled (or composted) 24.7 per cent of waste, thereby almost meeting the target, up from 17.6 per cent in the previous year (Exhibit 12).

123. Eighteen councils recycled or composted at least 25 per cent of their waste in 2005/06 and a further 11 councils recycled or composted at least 15 per cent of waste.

124. Councils also reported that in 2005/06 they reduced the amount of biodegradable municipal waste sent to landfill to 1.57 million tonnes, thereby nearly meeting the target of 1.5 million tonnes.

Exhibit 12

Percentage of municipal waste recycled



Source: Audit Scotland

125. We are currently undertaking a study on sustainable waste management, to be published in mid-2007.

Trading operations

126. Best Value requires councils to demonstrate competitiveness in the provision of services. The legislation requires them to maintain and disclose trading accounts for significant trading operations (STOs) and for STOs to break even over a rolling three-year period.

127. Last year we reported that some councils are treating the production of trading accounts as a compliance exercise rather than using them to demonstrate that service delivery meets the Best Value requirements. Best Value reports indicate that this is still the case in some councils.

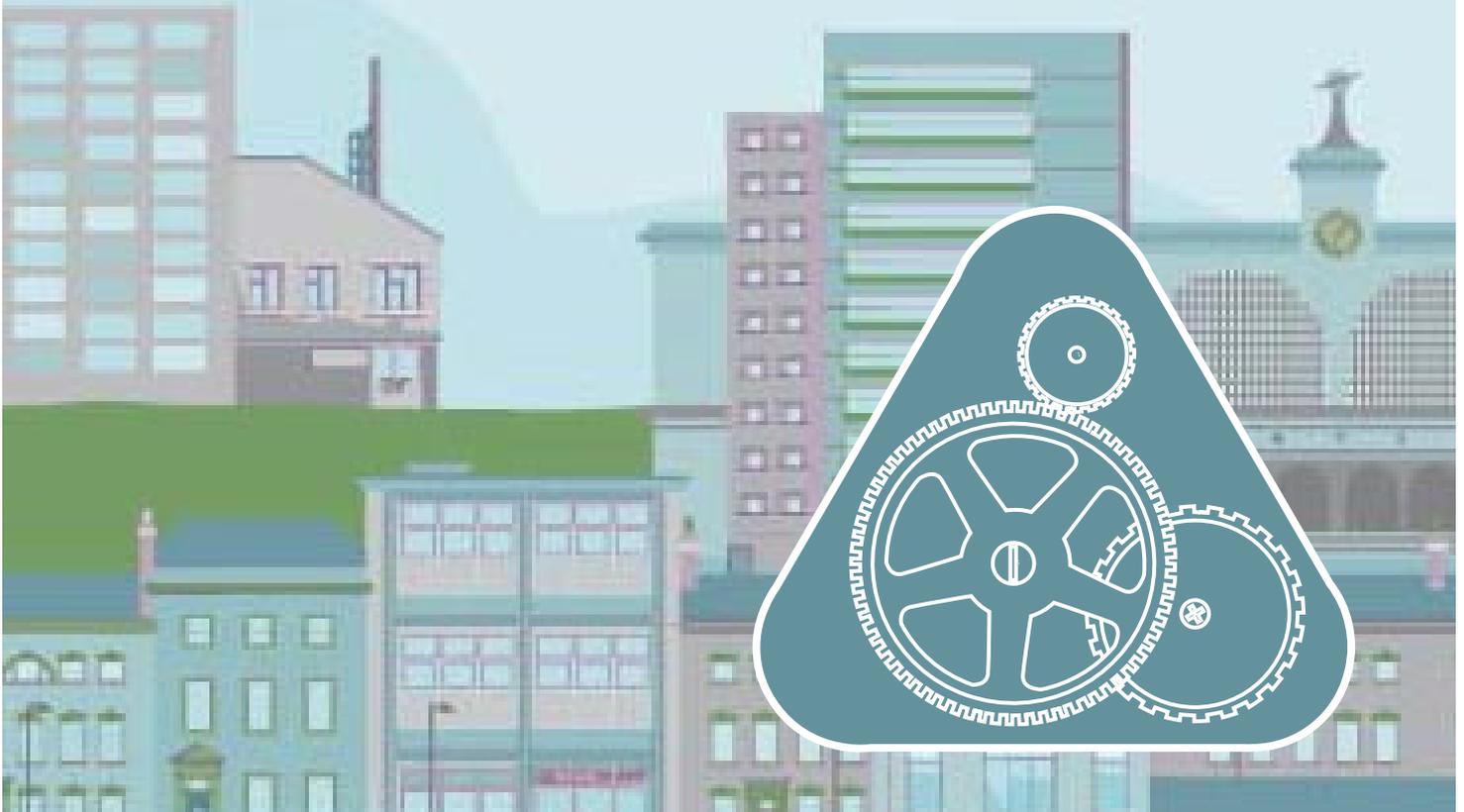
128. The number of STOs has dropped, from 162 in 2004/05 to 140 in 2005/06, as councils reconfigured their STOs or concluded that the services did not meet the definition of a trading operation.

129. In 2005/06, STOs showed an overall surplus of £11.7 million (2004/05: £29 million) and, in the three years to 31 March 2006, STOs have generated surpluses in excess of £86 million.

130. 2005/06 marked the end of the first three-year rolling period for evaluation of the break-even requirement. Of the total 140 STOs, 37 did not achieve break-even. In 23 cases the STOs involved catering or cleaning activities. Equal pay settlements were the sole reason or a major contributing factor to the failure to break even in all these cases.

131. Where there were underlying concerns about trading performance councils have taken steps to review the position and some have decided to seek tenders for the service.

Part 3. Efficient use of resources



Main messages

- Councils are responding to the Efficient Government Initiative but more needs to be done to develop projects which will generate sustainable efficiencies.
- The improving trend of in-year council tax collection continued with more than 93 per cent of the amount due for 2005/06 collected during the year.
- Councils continue to face a range of significant cost pressures, particularly from equal pay claims and in implementing the single status agreement.
- Reserves have fallen for the first time in recent years and in some cases contingencies are below levels set out in locally determined policies.

- Day-to-day financial stewardship in councils remains generally sound but councils still have some way to go to link policy-making with financial planning, and to integrate planning and budget-setting.
- The National Fraud Initiative has generated savings of over £10 million in councils.
- Councils need to adopt a more strategic and integrated approach to workforce planning, asset management and procurement which reflect equalities and sustainable development.

Efficient government

132. Councils apply substantial resources in providing a wide range of vital public services. They spend around £16 billion each year, use assets worth about £22 billion and

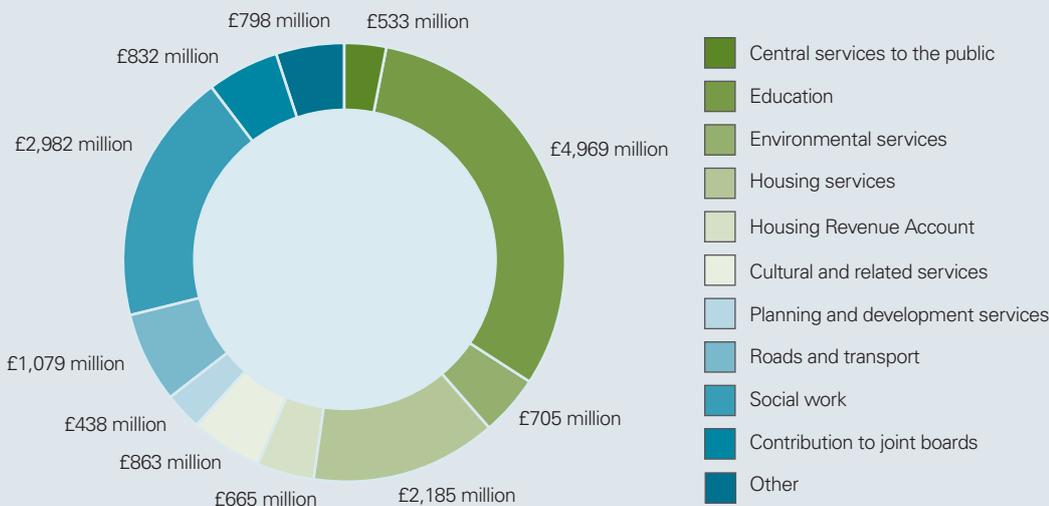
employ around 262,000 full-time equivalent staff.

133. Efficiency means delivering the same services with less money or enabling front line services to deliver more or better services with the same money. Based on current projects, the Scottish Executive anticipates savings in councils of £318 million, £168 million of which has been incorporated into the annual financial settlement provided to councils by the Executive. This presents an immediate challenge for councils as efficiency gains through service redesign are likely to take longer than one year to realise.

134. Councils started work in 2005/06 to identify efficiency gains, but most were implemented in-year and will take longer to be fully realised. It appears across Scotland that councils are controlling their response to the Efficient Government Initiative through their routine budget process rather than developing projects to generate sustainable efficiencies.

Exhibit 13

Spending by service 2005/06 (£ million)



Source: Audit Scotland

135. Overall the position in councils is in line with the findings of a recent Auditor General report on central government and the NHS,²⁹ that more effort is needed to monitor, measure and report efficiency gains and to ensure that appropriate guidance is in place to clarify what constitutes an efficiency. Projects to create time-releasing efficiencies are not well developed.

Financial management

136. Total local government spending on services (Exhibit 13) in 2005/06 was £16 billion (£14.6 billion in 2004/05) which was met by government grants and redistributed income of £11 billion, housing rents and other income of about £3 billion and council tax of £2 billion. In addition, councils spent £1.7 billion on capital projects in 2005/06 (£1.6 billion in 2004/05).

137. Against a backdrop of tightening of central government funding, pressures to contain council tax increases and accommodate

assumed efficiencies, councils are required to make increasingly difficult decisions in balancing demands for improvements in the volume and quality of services.

138. In December 2006, the Scottish Executive announced additional funding of £250 million for 2007/08. Core funding for 2007/08 will rise to £8.7 billion, an increase of 4.7 per cent over 2006/07. In return the Executive expects further increases in council tax collection, downward pressure on council tax increases, effective asset management strategies and an increase in the target for efficiency savings. Councils will also work with the Executive to complete a study into the costs and identify best practice in delivering free personal care.

Income

139. The SPIs show that the collection rates for council tax, non-domestic rates and housing rents continued to rise in 2005/06. For non-domestic rates the overall amount collected rose slightly, to

96.4 per cent compared with 96.2 per cent in the previous year. Housing rent arrears fell overall from 7.4 per cent in 2004/05 to seven per cent in 2005/06, although around a third of councils reported increasing rent arrears.

140. Councils made further progress in collecting council tax. In 2005/06 the proportion of council tax collected for that year during the year exceeded 93 per cent for the first time (2005/06: 93.3 per cent; 2004/05: 92.7 per cent) (Exhibit 14, overleaf).

141. Collecting council tax in the year it falls due is important as the likelihood of collection thereafter declines over time.

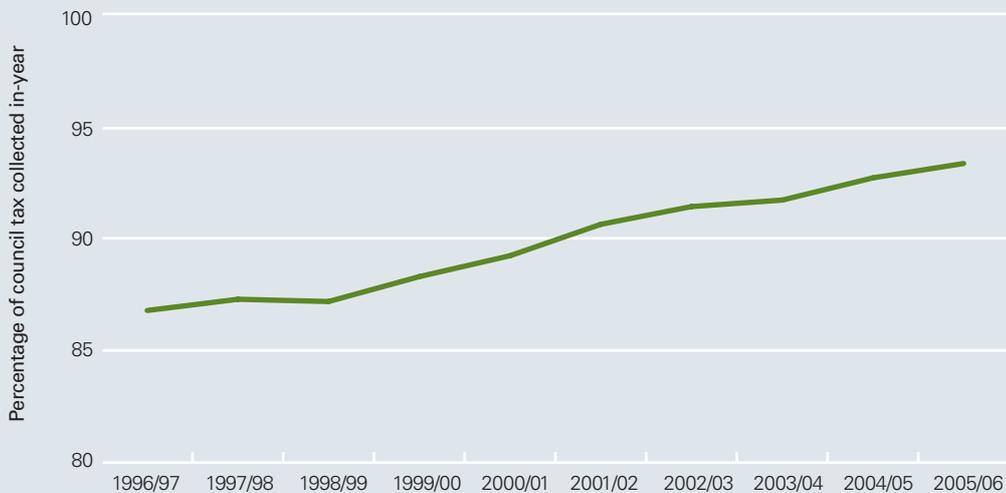
142. Full SPI information for each council is available at www.audit-scotland.gov.uk/performance

Expenditure

143. Councils face a range of financial pressures relating to staff terms and conditions and other legislative requirements.

Exhibit 14

Percentage of council tax collected in-year 1996/97 to 2005/06



Source: Audit Scotland

144. Councils have sought to limit their exposure to equal pay claims by offering compensation to some staff in respect of past service. Overall, councils' 2005/06 accounts show total costs of £280 million and note the possibility of further costs.

145. Moves to agree equal pay claims help to reduce financial risks, but the risk of further claims remains while existing pay and reward structures are in place. Councils are currently working to implement the single status agreement and estimates of the additional costs of that range from two per cent to ten per cent of the current annual pay bill.

146. Local authority pension costs are continuing to rise. For the main funded council scheme employers' contributions are rising and are now typically around 15 per cent of employees' salary. The police and firefighters' schemes are unfunded and there will be significant and increasing demands on future public

spending to meet these costs. Our report³⁰ on public sector pension schemes in Scotland outlined the funding pressures across the public sector.

147. Other financial pressures include increasing utilities and fuel costs, service-specific costs arising from increasing service demands, for example free personal care, and national initiatives such as waste management.

148. Capital expenditure in 2005/06 was £1.7 billion. General Fund capital expenditure was £1.26 billion and housing capital expenditure £421 million. More capital expenditure was financed by borrowing; 45 per cent of general fund capital expenditure in 2005/06 compared to 33 per cent in 2004/05. Borrowing for housing investment also increased, from 11 per cent to 21 per cent of the total. This reflects the greater flexibility councils now have to borrow under the Prudential Code.³¹

Reserves and balances

149. Councils hold reserves to help deal with the effect of uneven cash flows, to build up funds for known and predicted costs and as a contingency for unforeseen expenditure. Individual councils decide the type and level of reserves which they hold as part of their overall financial management.

150. All 32 councils now have policies in place which set out why reserves are held and their intended use. This represents a substantial improvement in accountability and transparency.

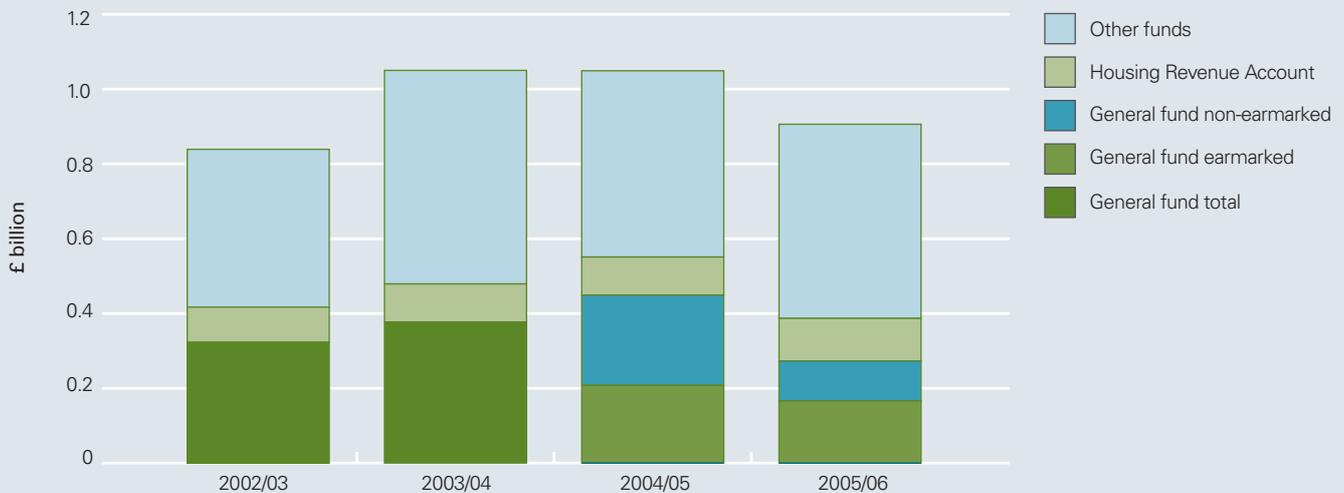
151. Councils' accounts at 31 March 2006 show total reserves of £0.9 billion, compared with £1.05 billion at the end of the previous year. This is the first reduction in the overall level of reserves in recent years. The 2006 figure comprises general funds (£273 million); housing revenue account balances (£114 million); and other reserves set up for specific

30 *Public sector pension schemes in Scotland*, Audit Scotland, June 2006.

31 *The Prudential Code for Capital Finance in Local Authorities*, CIPFA, 2003.

Exhibit 15

Councils' total reserves



Source: Audit Scotland

purposes (£519 million) (Exhibit 15). These figures excluded the substantial funds held by Orkney Islands and Shetland Islands (£198 million and £311 million respectively) arising mainly from harbour and oil-related activities.

152. General funds show a significant overall reduction of more than a third, from £449 million at 31 March 2005 to £273 million at 31 March 2006 with most councils' general funds at a lower level than last year. For the 2006 figure, the accounts show £169 million (62 per cent) as earmarked for specific purposes, with £104 million (38 per cent) unallocated. In 2005, £208 million (46 per cent) was earmarked and £241 million (54 per cent) was unallocated.

153. Across Scotland the unallocated element of the general fund at the end of 2004/05 represented 2.6 per cent of the total net costs of services. This year the unallocated element represents 1.2 per cent of the total net cost. Exhibit 16 (overleaf) shows the position for each council for 2004/05 and 2005/06.

154. Five councils either held no general funds at 31 March 2006 (North Lanarkshire) or had fully earmarked their funds (Aberdeen City, Aberdeenshire, City of Edinburgh, Fife). (Exhibit 16, overleaf).

155. The overall fall in reserves reflects the financial pressures identified in this and previous years. These pressures are set to continue and it is important that steps are taken to maintain reserves and ensure financial stability. A number of councils are taking steps to restore balances to a level that they consider appropriate, as reflected in their reserve policies.

156. The figures in this section are based on those shown in councils' published accounts. Further analysis is required to assess the timing and impact of central government funding on councils' year end financial position.

Financial planning

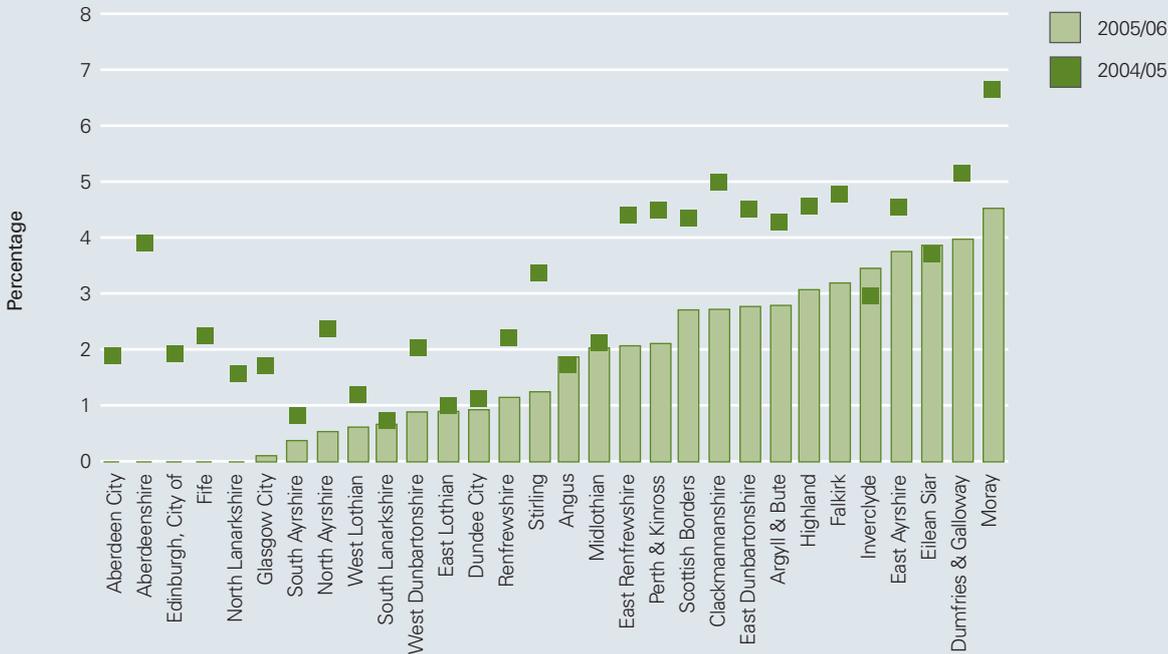
157. There are a number of specific issues which councils need to take account of in their medium and long-term plans:

- the effect of single status and equal pay
- recognition of the full life costs of employing new staff, including future pension costs
- the long-term effect of increased borrowing to finance capital expenditure
- the resources needed to meet Scottish Housing Quality Standards, particularly for councils not pursuing housing stock transfer
- projected demographic changes and the impact of these on social services, including free personal care.

158. Councils acknowledge the need to improve their financial planning and are continuing to develop models to identify the long-term financial impact of Public Private Partnership (PPP) projects, housing modernisation, changing school rolls and waste management. However, more needs to be done to develop comprehensive strategies which reflect the full range of

Exhibit 16

General fund – unallocated element as a percentage of net cost of services



Source: Audit Scotland

council business, including long-term commitments and predetermined levels of reserves.

159. Best Value audits show that councils also have a lot to do to implement policy-led budgeting and to integrate service planning and budgeting processes.

160. New accounting rules will change the presentation of councils' 2006/07 accounts. This provides councils with an opportunity to review the way in which they present budget and summary financial results to elected members and the public.

Public Private Partnerships

161. Public Private Partnerships (PPPs) are an important route for investing in new and improved facilities and services. Councils take a number of issues into consideration in deciding whether to use this route, including the expertise available in the private sector, the risk to the council, affordability and long-term funding implications. Specific revenue support

for some PPP projects is provided by the Scottish Executive.

162. Council projects account for 56 per cent (£2.2 billion) of agreed PPP deals and 50 per cent (£1.3 billion) of future deals in the Scottish public sector. Most projects (£3.3 billion, or 92 per cent) relate to the schools estate. Other projects undertaken by local authorities include waste management, ICT and car parking.

163. We are currently undertaking a study to review the effectiveness of the recent investments in improving the Scottish school estate. The study will also follow up the recommendations of the 2002 report *Taking the initiative*.³²

Common Good

164. Councils are responsible for common good funds within their area and for ensuring that common good assets are properly recorded and insured. These are audited as part of the councils' accounts, taking account of the nature and value

of assets held. Councils' 2005/06 accounts show net assets in common good funds of £189 million, with annual expenditure in the order of £10 million.

165. To discharge their stewardship responsibilities, councils need to maintain accurate asset registers which identify common good assets as such, distinct from the general body of assets under council control.

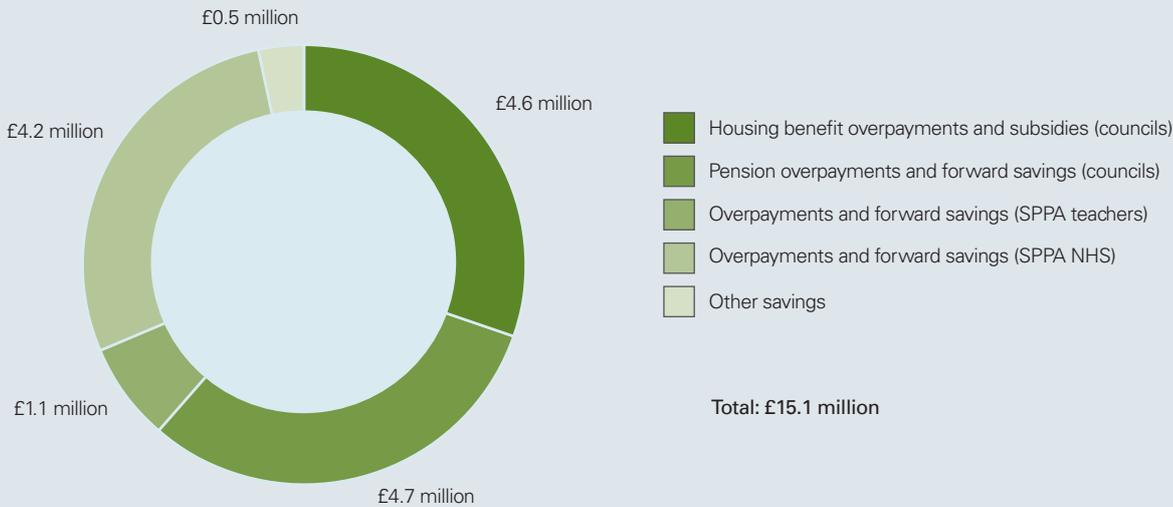
166. There is a continuing public interest in common good assets and the Scottish Parliament's Local Government and Transport Committee initiated an enquiry into Common Good during 2006 which is ongoing as at February 2007.

National Fraud Initiative

167. The National Fraud Initiative (NFI) is a UK exercise which brings together and matches data from local authorities and other public bodies to help identify fraud and error in the public sector.

Exhibit 17

Analysis of savings made from 2004/05 NFI in Scotland



Source: Audit Scotland

168. We compared information from local authorities about benefit applicants, employees and pensioners. Information about students was collected from the Student Awards Agency for Scotland and teacher and NHS pensioners' data was collected from the Scottish Public Pensions Agency. Overpayments and savings of more than £15 million were found by public bodies (Exhibit 17) and were the focus of our report in 2006.³³ Over £10 million relates to councils.

169. The scope of the NFI will be widened for the next exercise. Health bodies will take part for the first time, and councils will also provide information that should help them to trace former tenants' arrears. Participating bodies will investigate data matches from early 2007 onwards, and we will report in spring 2008.

Accounts and audit

Accounts

170. All councils and 33 of the 35 related local authority bodies submitted their 2005/06 accounts for audit by the statutory deadline of 30 June 2006. The accounts for Orkney and Shetland Valuation Joint Board and West of Scotland European Consortium were submitted shortly after.

171. While accounts are generally submitted on time in some cases the quality could be better, to ensure full compliance with the disclosure and other requirements of the Accounting Code.³⁴ The main changes required reflect the difficulty that some councils experienced in applying the new group accounting requirements. Other changes related to equal pay claims and settlements, and adjustments required for the revaluation of council housing and other assets.

Financial audit

172. Timely completion of audits is an important part of public accountability. The Accounts Commission required auditors to complete the 2005/06 audits by 30 September 2006. Thirty one of the 32 councils and all 35 joint boards and other bodies were completed by that date. The audit was delayed at Shetland Islands due to a qualification arising from the Council's failure to comply with the group accounting requirements. The opinion was issued on 31 October.

173. Eilean Siar's accounts were also qualified. The auditor disagreed with the Comhairle's accounting treatment for grants totalling £1.8 million and also reported that the Comhairle had not revalued its housing stock. While at both Shetland Islands and Eilean Siar the qualifications involved technical accounting matters, audit qualifications are significant. In 2004/05 there were no qualifications.

³³ No hiding place: The National Fraud Initiative in Scotland, Audit Scotland, May 2006.

³⁴ Code of Practice on Local Authority Accounting in the UK 2005: A Statement of Recommended Practice, CIPFA.

174. For 2005/06, the deadline for auditors' annual audit reports was advanced by a month to 31 October 2006. The annual audit reports for 27 councils (out of 32) and 30 related organisations (out of 35) were received by the earlier deadline. Annual audit reports for 2005/06 are available at www.audit-scotland.gov.uk

Workforce management

175. The number of staff employed in local government in March 2006 was 262,600 (full-time equivalent), two per cent more than the previous year. The main increase was in non-teaching school staff arising from the implementation of the Teachers' Agreement.

176. Workforce-related issues remain at the forefront of local authority business as councils deal with equal pay, single status and proposed changes to the local government pension scheme. At the same time, councils need to look ahead, to anticipate the effect of possible changes at senior manager level around the time of the 2007 elections. More generally, changes in demands for services and the way in which services are delivered are likely to affect staff numbers and skills.

177. Best Value audits indicate that councils need to develop a more systematic, strategic approach to recruitment and retention.

178. In recent years councils have worked hard to fill social work vacancies and recent statistics from the Scottish Executive show that there has been a degree of success. In education the Executive has set a target to increase teacher numbers to 53,000 by 2007. At 31 March 2006 there were 52,200 teachers.

The Executive announced additional funding during 2006 to assist councils to employ an additional 450 teachers.

Equal pay and single status

179. It is unlawful for employers to discriminate between men and women where they are doing the same or similar work, work regarded as equivalent, or work of equal value. Action is being taken by councils to meet their statutory obligations and to compensate certain employees.

180. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). Only one council, South Lanarkshire, had fully implemented single status as at October 2006.

181. The original national single status agreement specified that implementation should take place by April 2002. Following difficulties in establishing a model job evaluation scheme, this was extended by agreement between local authorities and unions to April 2004. There is still significant variation across councils in the progress in implementing the agreement. There are concerns among employees and, as negotiations stretch on, relationships become more strained and there is an increasing risk of industrial action.

182. The Scottish Parliament's Finance Committee held an inquiry into single status in 2006 which focused on the likely cost of implementing equal pay and whether councils can meet the one-off cost. The Committee's report³⁵

was published in March 2006 and recommended that negotiations continue to reach agreement as soon as possible and that councils look at ways of restoring reserves once compensation has been paid.

183. The implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service. Until the single status agreement is implemented there remains the possibility that councils could be judged to have contravened the equal pay legislation.

184. In summary, the financial pressures on councils' budgets from equal pay and single status are significant and there are wider implications which are affecting staff morale and employee/employer relations.

Sickness absence

185. Reducing sickness absence is a key component of the Efficient Government Initiative. All councils have strategies in place for managing sickness absence and are able to quantify sickness absence in terms of days lost and as a percentage of the available working days.

186. SPIs show that council staff and teachers in Scotland took just over three million days off sick in 2005/06, equivalent to 5.1 per cent of working time. This equates to an average of just over a week off sick per teacher and nearly 2.5 weeks per other employee.

187. Sickness absence rates for police support staff fell slightly from 5.2 per cent to 5.1 per cent in 2005/06 but the rate for police officers saw a slight increase from 4.4 per cent to 4.5 per cent. The

sickness absence level for firefighters fell from 7.4 per cent to 6.4 per cent, and for fire support staff from 6.3 per cent to 5.4 per cent.

Equalities

188. Ensuring equality in the workplace is a key element of workforce management. Current issues are reflected earlier in this part of the report and in [Part 2](#).

189. The proportion of women among the highest earners employed by councils continues to rise. In 2005/06, 31.7 per cent of the highest two per cent of earners were women, up from 29.6 per cent in 2004/05 and of the highest five per cent of earners, 38 per cent were women, up from 36.6 per cent.

Asset management and procurement

Asset management

190. Effective asset management requires long-term planning for assets based on robust management information.

191. Data collected from councils' accounts show that councils had around £380 million of surplus assets at 31 March 2006 held for disposal. More generally, around a third of councils hold information on the occupancy rates of their buildings and approximately half currently share buildings with other organisations although most others are considering the options for doing so.

192. Best Value audits indicate that councils are continuing to develop asset management, but more work is required to put in place plans for all assets to ensure a strategic approach to asset management. CIPFA in Scotland has recently issued a guide

to best practice³⁶ which encourages councils to take a more corporate approach.

193. The SPIs show that in 2005/06 councils assessed just over 43 per cent of their service buildings as meeting the requirements of the Disability Discrimination Act 1995, compared to 37 per cent the previous year.

Procurement

194. The Efficient Government Initiative requires public bodies to consider e-procurement and review their procurement practice. The McClelland report³⁷ found that there have been significant improvements in the public sector but that skills and procurement practices need to be upgraded and consideration given to advancing procurement.

195. Councils are reviewing their procurement strategies and policies. Most are involved in collaborative purchasing with other organisations and are considering whether this can be extended. More needs to be done to consider and develop centralised procurement. Although not all councils are currently using e-procurement they have plans to consider this further.

196. It is important that councils ensure that robust monitoring arrangements are in place to ensure that they can demonstrate efficiency savings as they are realised.

Sustainability

197. Best Value requires councils to contribute to the achievement of sustainable development. This means securing a balance between social, economic and environmental well-being in the impact of their

decisions and activities. This is a developing and difficult area for councils and there can often be a tension between delivering social and economic improvements and achieving environmental sustainability.

198. Best Value audits show that councils are increasingly recognising the importance of sustainable development. But much of the progress made to date has been reactive, for example in considering proposals for wind farms and other environmental developments.

199. Councils are beginning to establish a systematic, corporate approach to sustainable development, often together with their Community Planning partners. This needs to be underpinned by monitoring systems to measure the impact and extended across all council services.

36 *Capital Planning and Option Appraisal – A Best Practice Guide for Councils*, CIPFA Directors of Finance.

37 *Review of Public Procurement in Scotland – Report and Recommendations*, John F McClelland CBE, March 2006.

Part 4. Developing the audit



The audit approach

200. Public audit supports the democratic scrutiny of local government. Audit takes a number of different forms and our approach has evolved significantly in recent years. The introduction of the audit of Best Value and Community Planning has brought a significant new level of accountability and we are working to integrate all our audit work in order to maximise the value of audit for citizens and for audited bodies.

Priorities and Risks Framework

201. Our Priorities and Risks Framework (PRF)³⁸ identifies national priorities and risks ([Exhibit 18](#)) and links these to local and national audit activity. This informs all our audit work and helps to ensure a quality and value added audit. The PRF is developed in consultation with local government, inspectorates, the Scottish Executive and other organisations to identify the key issues and is updated every year. The PRF is available on our website, www.audit-scotland.gov.uk

Best Value and Community Planning

202. Best Value audits reach conclusions about councils' corporate performance and about how well they are supporting continuous improvement in their performance. By the end of 2006 we had issued 16 Best Value reports which are available on our website. We aim to report on the remaining councils by the end of 2008. We are currently considering how best to disseminate more detailed information on emerging themes and areas where more work is required.

203. Having completed audits of half the councils in Scotland, the Accounts Commission recently launched a review of the Best Value audit process to learn lessons from the experience to date and to start preparing for the next cycle of audits. The review consists of three stages:

- public consultation inviting submissions from interested parties

- an independent report on the Best Value audit process to date
- meetings between the Commission and council leaders/ chief executives and other key stakeholders.

204. No major changes will take place until all 32 councils have had a Best Value audit. The meetings with councils will take place after the 2007 elections.

205. The Commission is currently considering how to apply its responsibilities for auditing Best Value to the different circumstances of the police and fire services.

National studies

206. In July 2006 the Commission undertook wide-ranging consultation on the programme of national studies for the period up to 2008. Current studies and topics in the new studies programme are set out in [Exhibit 19](#).

Exhibit 18

Priorities and Risks 2006/07

Governance & performance management	Efficient government & efficient use of resources
Supporting political governance	Financial planning
Community Planning & partnership working	Workforce management
Performance management	Procuring & managing assets

Source: Audit Scotland

Exhibit 19

Local government studies programme

Local government-based studies	Cross-cutting studies	Follow-up studies
<ul style="list-style-type: none"> • Fire and rescue services • Equalities • Leisure services • Asset management 	<ul style="list-style-type: none"> • Sustainable waste management • Police call management • Improving Scotland's school estate • Management of long-term conditions • Civil contingency planning • Mental health services • Free personal care • Strategic procurement • Delivering an integrated transport system 	<ul style="list-style-type: none"> • Dealing with offending by young people • The Teachers' Agreement • Road maintenance • Community equipment and adaptations • Community Planning

Source: Audit Scotland

Performance information

207. Every year we publish SPI information on our website. This shows the performance of councils over time and in comparison with other councils. They also provide detailed profiles of individual councils. The SPIs remain under continuous review and each year some changes are made in consultation with stakeholders. New SPIs which will be reported for the first time in 2006/07 relate to:

- the condition/suitability of operational accommodation
- domestic noise complaints
- abandoned vehicles.

208. To improve the quality of performance information we are involved in two projects to develop performance frameworks for councils and police authorities. The council project includes the Scottish Executive Public Services Reform and Efficiency Group, COSLA, SOLACE and the Improvement Service. The police project includes the Scottish Executive Justice Department, the Police Authority Convenors Forum, HMIC and the chief police officers association (ACPOS).

209. The approach to the 2006 SPI Direction has been strongly influenced by its desire to support the progress of these projects and, recognising their development, no changes were introduced for council or fire and rescue service indicators for 2007/08, with only minimal changes to police SPIs.

Work with other scrutiny bodies

210. We continue to work with other scrutiny bodies including HMIE, HMIC, SWIA, HMFSI and Communities Scotland. We draw on their findings to inform our Best Value audits and national studies and auditors contribute significantly to those bodies' inspections of the performance of individual services. The Executive has set up a review of scrutiny which is due to report in summer 2007 and we will be contributing our view to that review and taking part in discussion about any changes which result.

Auditors

211. The Accounts Commission appoints auditors to local authorities and its policy is to rotate audit appointments at least once every five years. This is a safeguard against perceived or actual threats to auditors' objectivity and independence. The latest change takes effect from financial year 2006/07. Where the audit continues to be carried out by Audit Scotland staff, the engagement lead and other key staff are changed.

212. The appointed auditors for 2005/06 and 2006/07 are listed in [Appendix 1](#) and [Appendix 2](#) respectively.

Appendix 1.

Audit appointments 2005/06

Aberdeen City Council	Henderson Loggie
Aberdeenshire Council	Audit Scotland
Angus Council	Audit Scotland
Argyll and Bute Council	Audit Scotland
Clackmannanshire Council	KPMG LLP
Comhairle nan Eilean Siar (Western Isles Council)	Audit Scotland
Dumfries and Galloway Council	Audit Scotland
Dundee City Council	Audit Scotland
East Ayrshire Council	PricewaterhouseCoopers LLP
East Dunbartonshire Council	Audit Scotland
East Lothian Council	Audit Scotland
East Renfrewshire Council	KPMG LLP
City of Edinburgh Council	Audit Scotland
Falkirk Council	PricewaterhouseCoopers LLP
Fife Council	Henderson Loggie
Glasgow City Council	Audit Scotland
Highland Council	Audit Scotland
Inverclyde Council	Audit Scotland
Midlothian Council	Audit Scotland
Moray Council	Tenon Audit Ltd
North Ayrshire Council	PricewaterhouseCoopers LLP
North Lanarkshire Council	Audit Scotland
Orkney Islands Council	Audit Scotland
Perth and Kinross Council	Audit Scotland
Renfrewshire Council	Audit Scotland
Scottish Borders Council	Scott-Moncrieff
Shetland Islands Council	PricewaterhouseCoopers LLP
South Ayrshire Council	KPMG LLP
South Lanarkshire Council	Audit Scotland
Stirling Council	Scott-Moncrieff
West Dunbartonshire Council	Audit Scotland
West Lothian Council	Audit Scotland
Argyll, Bute and Dunbartonshires Criminal Justice Social Work Partnership Joint Committee	Audit Scotland
Authorities Buying Consortium	Audit Scotland
Ayrshire Valuation Joint Board	KPMG LLP

Central Scotland Joint Fire and Rescue Board	PricewaterhouseCoopers LLP
Central Scotland Joint Police Board	Scott-Moncrieff
Central Scotland Valuation Joint Board	KPMG LLP
Clyde Muirshiel Park Authority Joint Committee	Audit Scotland
Dunbartonshire and Argyll & Bute Valuation Joint Board	Audit Scotland
East of Scotland European Consortium	KPMG LLP
Forth Estuary Transport Authority	Audit Scotland
Glasgow and Clyde Valley Structure Plan Joint Committee	Audit Scotland
Grampian Joint Fire and Rescue Board	Audit Scotland
Grampian Joint Police Board	Henderson Loggie
Grampian Valuation Joint Board	Tenon Audit Ltd
Highland and Islands Fire Board	Audit Scotland
Highland and Western Isles Valuation Joint Board	Audit Scotland
Lanarkshire Valuation Joint Board	Audit Scotland
Lothian and Borders Fire and Rescue Board	Audit Scotland
Lothian and Borders Police Joint Board	Audit Scotland
Lothian Valuation Joint Board	Audit Scotland
Mugdock Country Park Joint Management Committee	Audit Scotland
Northern Joint Police Board	Audit Scotland
Orkney and Shetland Valuation Joint Board	PricewaterhouseCoopers LLP
Renfrewshire Valuation Joint Board	Audit Scotland
Strathclyde Concessionary Travel Scheme	PricewaterhouseCoopers LLP
Strathclyde Fire and Rescue	Audit Scotland
Strathclyde Joint Police Board	Audit Scotland
Strathclyde Passenger Transport Authority	PricewaterhouseCoopers LLP
Tay Road Bridge Joint Board	Audit Scotland
Tayside Contracts Joint Committee	Audit Scotland
Tayside Fire and Rescue Board	Audit Scotland
Tayside Joint Police Board	Audit Scotland
Tayside Valuation Joint Board	Audit Scotland
West of Scotland Transport Partnership Joint Committee	Audit Scotland
West of Scotland European Consortium	Audit Scotland

Appendix 2.

Audit appointments 2006/07

Aberdeen City Council	Henderson Loggie
Aberdeenshire Council	Audit Scotland
Angus Council	Henderson Loggie
Argyll and Bute Council	RSM Robson Rhodes LLP
Clackmannanshire Council	RSM Robson Rhodes LLP
Comhairle nan Eilean Siar (Western Isles Council)	Audit Scotland
Dumfries and Galloway Council	Audit Scotland
Dundee City Council	Audit Scotland
East Ayrshire Council	Audit Scotland
East Dunbartonshire Council	KPMG LLP
East Lothian Council	Audit Scotland
East Renfrewshire Council	Audit Scotland
City of Edinburgh Council	Audit Scotland
Falkirk Council	Audit Scotland
Fife Council	Scott-Moncrieff
Glasgow City Council	Audit Scotland
Highland Council	Audit Scotland
Inverclyde Council	Audit Scotland
Midlothian Council	Audit Scotland
Moray Council	Audit Scotland
North Ayrshire Council	Audit Scotland
North Lanarkshire Council	PricewaterhouseCoopers LLP
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South Lanarkshire Council	PricewaterhouseCoopers LLP
Stirling Council	Audit Scotland
West Dunbartonshire Council	KPMG LLP
West Lothian Council	Audit Scotland
Argyll, Bute and Dunbartonshires Criminal Justice Social Work Partnership Joint Committee	KPMG LLP
Authorities Buying Consortium	Audit Scotland
Ayrshire Valuation Joint Board	Audit Scotland
Central Scotland Joint Fire and Rescue Board	Audit Scotland

Central Scotland Joint Police Board	Audit Scotland
Central Scotland Valuation Joint Board	RSM Robson Rhodes LLP
Clyde Muirshiel Park Authority Joint Committee	Audit Scotland
Dunbartonshire and Argyll & Bute Valuation Joint Board	KPMG LLP
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Glasgow and Clyde Valley Structure Plan Joint Committee	Audit Scotland
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Grampian Joint Police Board	Henderson Loggie
Grampian Valuation Joint Board	Audit Scotland
Highland and Islands Fire Board	Audit Scotland
Highland and Islands Transport Partnership	Audit Scotland
Highland and Western Isles Valuation Joint Board	Audit Scotland
Lanarkshire Valuation Joint Board	PricewaterhouseCoopers LLP
Lothian and Borders Fire and Rescue Service	Audit Scotland
Lothian and Borders Police Joint Board	Audit Scotland
Lothian Valuation Joint Board	Audit Scotland
Mugdock Country Park Joint Management Committee	KPMG LLP
Northern Joint Police Board	Audit Scotland
North East of Scotland Transport Partnership	Audit Scotland
Orkney and Shetland Valuation Joint Board	Audit Scotland
Renfrewshire Valuation Joint Board	Audit Scotland
Strathclyde Concessionary Travel Scheme	KPMG LLP
Strathclyde Fire and Rescue	PricewaterhouseCoopers LLP
Strathclyde Joint Police Board	PricewaterhouseCoopers LLP
Strathclyde Passenger for Transport	KPMG LLP
South West Regional Transport Partnership	Audit Scotland
South East Transport Partnership	Audit Scotland
Shetland Regional Transport Partnership	Audit Scotland
Tay Road Bridge Joint Board	Audit Scotland
Tayside Contracts Joint Committee	Audit Scotland
Tayside Fire and Rescue Board	Henderson Loggie
Tayside Joint Police Board	Henderson Loggie
Tayside and Central Scotland Transport Partnership	Henderson Loggie
Tayside Valuation Joint Board	Audit Scotland
West of Scotland European Consortium	Audit Scotland

Overview of the local authority audits 2006



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