

Priorities and Risks Framework



2008/09 – 2010/11 National Audit Planning Tool for Local Government
November 2008

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 Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Foreword

Local government in Scotland has a key role in developing the quality of life in local communities and vital public services including education, social work, housing, roads, refuse collection, leisure services, police services and fire and rescue services. It also has to see that public money is spent wisely and properly.

Services delivered directly, or in partnership with others, involve substantial resources; councils spend around £18 billion each year, employ around 229,500 full-time equivalent staff and use assets worth about £26 billion. Currently there are significant pressures on finances: the economic downturn, meeting the needs of an aging population, requirements such as single status and new national policy expectations such as school class sizes and waste management. These pressures necessitate even greater emphasis on efficiency and the effective use of resources.

In the past year, the concordat between the Scottish Government and COSLA has been signed. The concordat provides more flexibility in how councils spend money and deliver services; in return they are required to give clear commitments through Single Outcome Agreements to achieve outcomes that are important to the government's national policies. The national priorities in the concordat cover activities that are not delivered exclusively by councils and achieving progress requires joint working among partners at a local level. From 2009, SOAs will have to be agreed through community planning partnerships between councils and other public bodies such as health boards and enterprise companies.

The focus on outcomes does not remove the need for good management processes and robust information about the quality, accessibility and value for money of services. Statutory duties relating to Best Value, Community Planning and Public Performance Reporting remain in place and need to be supported by effective performance management systems.

Significant changes are occurring in the scrutiny of public services. The Accounts Commission is assuming a coordinating role to ensure that scrutiny bodies work together to assess risks and plan scrutiny work. In 2009 we move on to the second round of BV audits (BV2) and we are currently implementing a programme of improvements in the audit process to ensure that it continues to support improving services in local government.

Against this background, I am pleased to present our Priorities and Risks Framework (PRF) for 2008-09 to 2010-11. This is now a well established part of our approach to local government audit. In producing the PRF we improve our understanding of local government business and its current context and in discussing the key national priorities and the risks to their achievement with councils as part of our local audit planning, we collect important information which informs our audit approach. We also know that councils obtain value from our application of the PRF locally which helps confirm and inform their assessment of the potential risks they face.

Caroline Gardner, Controller of Audit

Introduction

Background

1. The local government environment within Scotland has continued to evolve since we issued the last Priorities and Risk Framework document in 2007. The Concordat between COSLA and the Scottish Government has led to the successful development and signing of Single Outcome Agreements (SOAs) between all thirty two councils and the Government by June 2008. Half of these first phase SOAs were developed with Community Planning Partnerships (CPPs).
2. The 2009-10 SOAs are expected to be endorsed by CPP Boards and signed by the Scottish Government, by councils, by the statutory community planning partners and other public bodies in the planning partnerships. The evolving nature of the SOAs will bring fresh challenges and risks in respect of governance, accountability and performance management.
3. In November 2008, the Scottish Government announced a series of proposed reforms to the scrutiny landscape in response to the Crerar report. Audit Scotland, on behalf of the Accounts Commission, is developing a shared approach to risk assessment and planning to enable the delivery of more streamlined and better co-ordinated scrutiny in local government.
4. As part of a more integrated approach to scrutiny we are developing an overarching corporate assessment framework which reflects our theory of improvement, that: *Effective leadership, good governance and sound management are necessary conditions for the delivery of sustainable continuous improvement and effective outcomes*. The corporate assessment framework will be used as a primary component of our revised approach to the audit of best value and will also be reflected in the PRF process and our audit planning.
5. The PRF is now a well established part of our audit approach and this year we have moved to a three year period covering 2008-09 to 2010-11 which we will update annually to reflect changing priorities and related risks. In this edition of the PRF we also provide more detail about the role of the PRF, and its connections with our other work, including our programme of national performance audit studies and our audits of Best Value and Community Planning.
6. As in the past, we have consulted with colleagues in local government on the content of the PRF by means of a stakeholder meeting and we are grateful to them for their advice and guidance.

The role of the PRF

7. The PRF is used by auditors to help plan the risk-based audits of councils. It identifies the key national priorities facing councils and the main risks to their achievement. This helps to ensure that audit work takes account of sector specific national priorities and risks.
8. The PRF is designed primarily to inform local audit planning, but it is also an integral part of the overall approach to local authority audit. In summary, the PRF sets out the priorities for local government and the main risks to their achievement as we see them; the Sector Plan reflects our assessment of the audit priorities, what we need to do and how we are going to go about doing it; and Overview Reporting brings together the outputs and outcomes from the audit work to show themes, trends and other matters we wish to highlight.
9. Auditors discuss the risks contained in the PRF with councils and the national view through the application of the PRF is combined with the auditor's understanding of the key priorities and risks operating at the local level. This overall assessment of risk informs the auditor's decisions on where to target audit resources. This approach helps meet the requirements of the Code of Audit Practice and International Standards on Auditing which require auditors to obtain an understanding of the client's business and environment.
10. Local discussions on the PRF represent an important annual engagement with the most senior management in councils. They have the potential to make a significant contribution to our intelligence gathering and national reporting and influence our programme of national performance audit studies. The application of the PRF also provides a useful source of early intelligence for the Accounts Commission about the risks facing the local authority sector. Throughout this document most references are to the issues and risks facing councils, however many of the issues will also apply to joint boards and other bodies.
11. It is important to note that auditors do not carry out detailed audit work on all the matters set out in the PRF. Also, we recognise that even though the steps taken by councils to address issues in the PRF may be weak, it does not necessarily follow that the risks will crystallise. We also acknowledge that risks exist in all organisations committed to continuous improvement. The objective is to be risk aware, with sound processes for risk management, rather than risk averse. Organisations that seek to avoid risk entirely are unlikely to achieve Best Value as risk assessment (weighing up possible risks and rewards) is key to identifying opportunities.

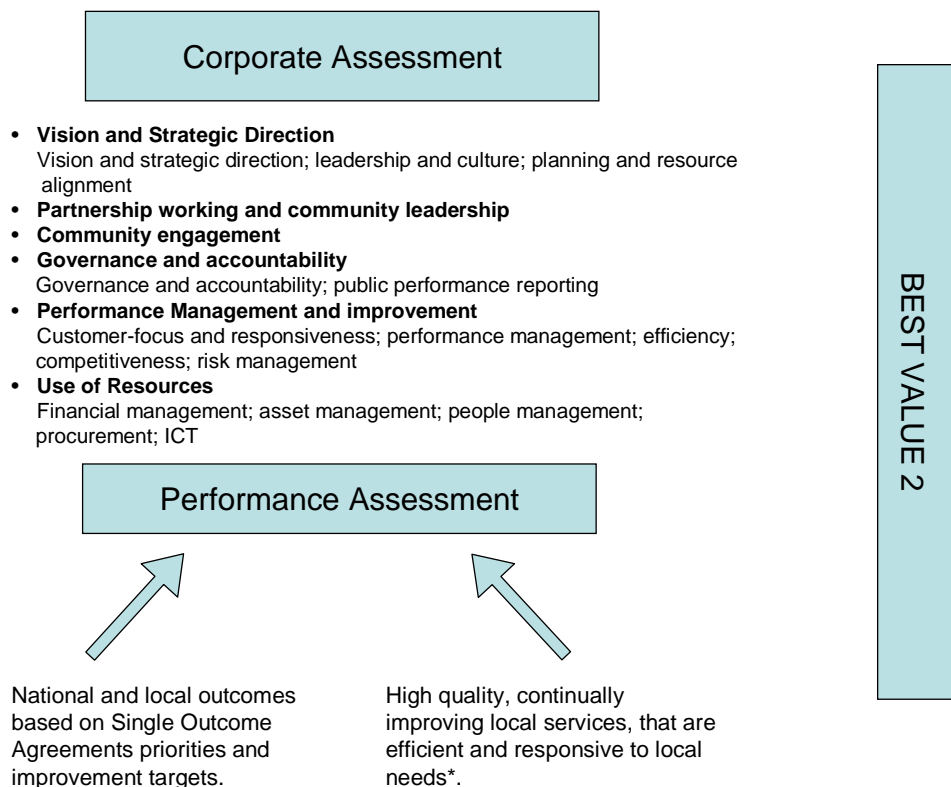
Links with the audit of Best Value

12. Outputs gathered through the application of the PRF; other intelligence such as Best Value findings and follow-up work; the views and risk assessments of inspectorates; self assessments and other performance analysis are playing a key part in ensuring that the second round of Best Value audits (BV2) is proportionate and reflects the national context and local circumstances. The PRF process is making an important contribution to streamlined scrutiny.
13. In February 2008, the Scottish Government invited the Accounts Commission to take on a gate keeping role, through Audit Scotland, in relation to local government scrutiny, with the aim of moving to a position where Best Value is the key corporate assessment tool and is better aligned with other corporate audit and performance processes.
14. The Commission welcomed the opportunity to work with other scrutiny bodies to carry out their role in providing assurance about the performance of councils and supporting improvement as efficiently and effectively as possible, and to contribute towards better public services for the people of Scotland.
15. Spring 2009 will be a watershed for most of the scrutiny bodies in local government, with major decisions due to be made about the future of BV audits and HMIE's INEA inspections; the completion of the first cycle of the HMIE-led child protection inspections and the first cycle of SWIA's performance inspections; the possible implementation of HMIE-led Services for Children inspections; and likely changes to the minimum frequencies of inspection for the Care Commission.
16. Whilst the Scottish Housing Regulator's baseline cycle of inspections of local authority housing and homelessness services is not due to be completed until 2009/10 it is committed to supporting the introduction of a single framework for assessing local authority performance.
17. The Government's National Performance Framework (NPF) assumes a continuing programme of inspection of child protection in local authority areas regarding outcomes for vulnerable children. Indicator 13 of the NPF is founded on the proportion of inspection reports that are positive.
18. The Commission has therefore agreed to work with the other scrutiny bodies over the next nine months to develop and pilot a shared approach to risk assessment and planning, to enable the delivery of more streamlined and better co-ordinated scrutiny in local government.
19. The work completed during 2008 has allowed the Commission to identify those councils where there is an immediate opportunity to improve the co-ordination of scrutiny. Round table meetings for each of these councils have been held to co-ordinate the planned work, and a schedule has been produced setting out the targeted scrutiny activity and the improvements made. Whilst the primary purpose of

these meetings was to deal with short-term improvement in scrutiny scheduling and secure more proportionate scrutiny responses, the meetings also provided useful insights into how the Commission might assess risk for future joint scrutiny planning and strengthen reliance on the work of other scrutiny bodies.

20. The Accounts Commission is committed to the development of the Best Value audit (BV2) in the light of their experience of the first round of audits.
21. The Commission has agreed with colleagues in the other scrutiny bodies that this work can fulfil the requirement for a single corporate assessment of local authorities. The audit framework includes a risk-based and proportionate corporate assessment (exhibit 1) and the Commission is committed to working together to develop it so that it fulfils the requirements of all the scrutiny bodies in this area.

Exhibit 1
The audit framework for Best Value 2



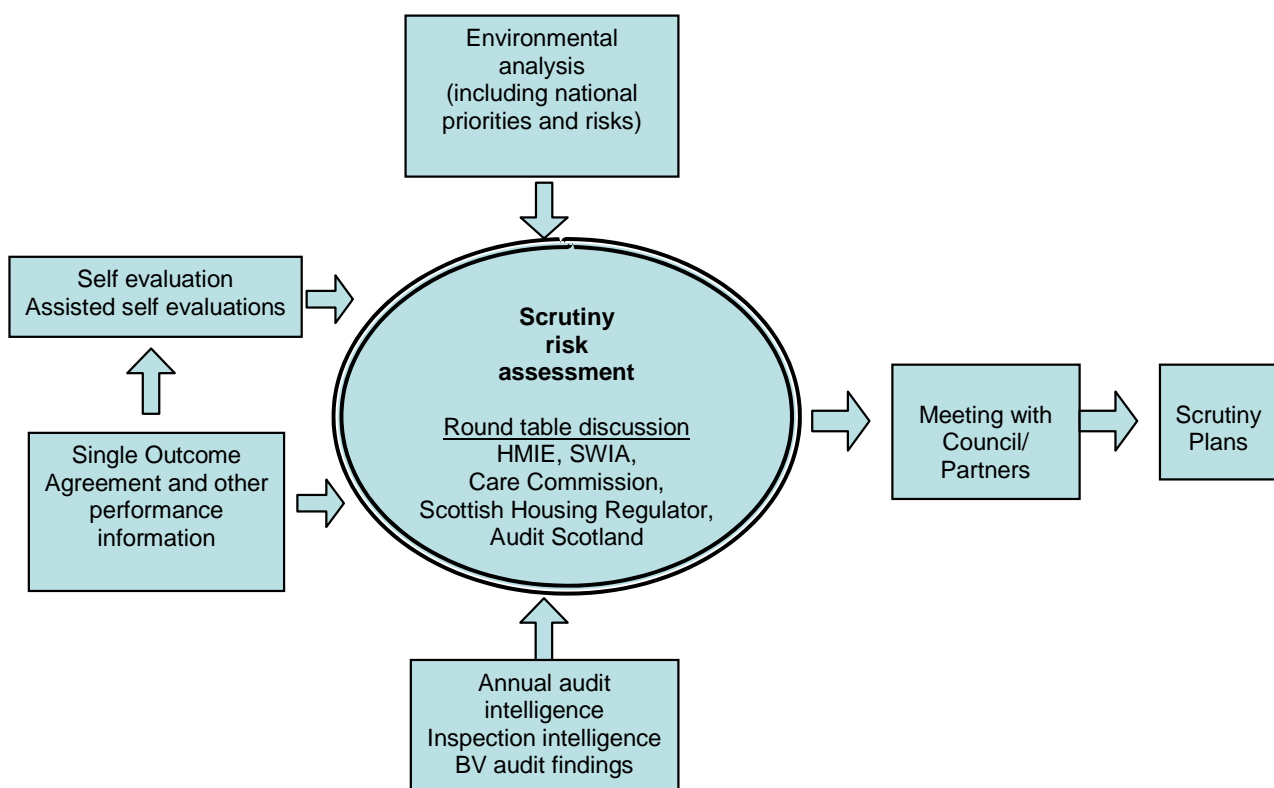
* National outcome 15

Source: Audit Scotland
National Outcome 15 – Our public services are high quality, continually improving, efficient and responsive to local people’s needs

22. One of the distinctive features of BV2 is the central role of risk assessment. Current thinking is that a shared risk assessment would be carried out annually for each council; this would form the starting point for planning, leading to a rolling three year scrutiny programme and a plan for each council. The scrutiny plan would set out the detailed scrutiny activity to be undertaken during this period, and how and when this work will be undertaken (with the caveat that there will always be a need for regulation to be able to react swiftly when a significant problem is identified). Note that the timing of a second programme of HMIE child protection inspections will be considered as part of the BV2 scrutiny plan.
23. A potential model for delivering the shared scrutiny risk assessment and joint scrutiny planning is shown at exhibit 2. This model also reflects the recent proposals from the Reducing Burdens Action Group to Scottish Ministers designed to deliver a proportionate and intelligence-led approach to audit and inspection.

Exhibit 2

Shared scrutiny risk assessment and joint scrutiny planning



Source: Audit Scotland/RBAG report to Ministers

24. Effective risk assessment needs good intelligence on the organisation being assessed. This is likely to include a range of quantitative data (e.g. service performance activity, quality and cost) supported by qualitative information.

Looking Forward – Shared Risk Assessment

25. There is still a good deal of work to do to develop a risk assessment methodology that offers assurance that planned audit and inspection activity is both proportionate and adequate, but the Commission and Audit Scotland are confident that this can be delivered in 2009. Achievement of this, however, will also require a much stronger commitment from local government in developing consistently good performance management systems that can provide the performance information required. As Crerar pointed out, responsibility for performance lies primarily with service providers and external scrutiny arrangements should complement performance management arrangements.
26. Experience to date has confirmed that there is real commitment from all the scrutiny bodies to this work but this is a complex issue and there are many challenges still to overcome, including:
- trust and reliance on the work of each scrutiny body
 - the need for enabling legislation
 - risk management and a mechanism for resolving disputes about the scrutiny required
 - communication with local government and other stakeholders.
27. Expectations are that this work will lead to reductions in the overall cost of scrutiny and also to improvements in effectiveness. This will require changes in working practices and changes in the focus of our work. As part of that process we anticipate seeing more flexible use of resources and a greater emphasis on risk assessment and improvement support.

Cross cutting issues

28. In addition to the headings under the corporate assessment heading at Exhibit 1, there are a number of cross cutting issues that are important elements of the overall audit approach, including equality and diversity, and sustainability.

Equality and Diversity

Why equality and diversity are important issues

29. Equality and diversity are widely recognised as fundamentally important factors in the sound management of a modern, effective organisation – whether in the private or public sector. The Accounts Commission, through appointed auditors, has the opportunity and authority to assess and report how well councils are meeting their equalities responsibilities.
30. Councils can find it hard to understand and manage the full range of their equalities obligations. Equalities legislation has developed piecemeal since the 1970s to the point where there are now nine major pieces of discrimination legislation; around 100 statutory instruments setting out connected rules and regulations; and more than 2,500 pages of guidance and statutory codes of practice.
31. The legislation that may apply in a particular set of circumstances is not always obvious. Certain legislation is specific to a particular equality strand, such as race or gender. Other legislation is more generic and touches on all equality strands.
32. The form and function of equalities legislation has evolved over the years. The early legislation on race equality was most concerned with bodies' organisational arrangements compared to some later legislation, where the impact on people has greater emphasis. The equality duties on race, gender and disability vary in their style and requirements and have different reporting timescales. Councils tell us they see benefits in managing their equalities responsibilities in a more harmonised way, legislation permitting.
33. In November 2008 the Accounts Commission published a report titled '*The impact of the race equality duty on council services*'. The report found that while councils have developed policies on race equality they now need to ensure that these have a positive impact on people from minority ethnic communities, through the design and delivery of services. The report concludes that councils need to build a better understanding of the needs of their minority ethnic communities; mainstream their approach to race equality; and give more priority to race equality in delivering services.

Key risks

Councils risk continuing to follow a culture of compliance

34. Findings from the recent study into race equality and from audits of best value and community planning indicate that councils tend to feature a compliance culture on equalities issues. Councils have tended to focus on meeting their legislative commitments rather than trying to define the equalities outcomes they wish to achieve – for example by developing documents such as an equality

scheme for each of the three core duties on race, gender and disability. However, these high-level arrangements have not always linked into key processes such as service planning, service delivery or performance reporting.

Councils risk refining their management arrangements without ensuring they make an impact

35. Councils have concentrated on embedding organisational arrangements and processes, such as improving community engagement and consultation, staff training, performance management and reporting on employee monitoring. While these are all important, they are not an end in themselves and it is paramount that a council's intended outcomes are also clear. Councils have often found themselves falling short of mainstreaming equalities at all levels of their organisation. If councils do not have a clear set of objectives at corporate and service levels, they risk suffering from a lack of explicit direction, and from being in a weak position to deliver the benefits to employees and communities that their equality duties anticipate.

Councils risk being unable to evidence their performance against their equality duties

36. The study into the impact of the race equality duty found that councils have difficulty giving a clear, evidence-based account of their performance against the race equality duty. Best value audits paint a similar picture on other equality strands, such as gender and disability. Councils have, overall, conducted very few impact assessments on services and are poor at planning prioritised programmes of impact assessments across the full range of services they deliver. Councils find their performance on these more recent aspects even harder to evidence: age, sexual orientation and religion/belief.
37. If councils cannot systematically evidence their approach to equalities and their performance, they are at risk of being criticised by their electorate, their workforce and the Equality and Human Rights Commission (EHRC). The EHRC recently came close to taking action against Aberdeen City Council over its approach to impact-assessing the consequence of closing a specialist day care centre.

Looking forward

38. Audit Scotland continues to promote the equalities agenda at a number of levels:
- Audit Scotland's corporate plan 2007-10 sets out commitments with an equality dimension: support for democratic scrutiny; maximising the value of the audit; and building an effective and efficient organisation
 - Statutory Performance Indicators cover aspects of equalities
 - Equality issues are a standing item in each Best Value audit
 - Diversity and equality issues are considered in the scoping of new national studies.

39. Specific aspects of authorities' arrangements may come under scrutiny as part of a risk-based approach and could include such issues as how the legislation is enforced; how equalities issues are managed in service provision; changes to service design and delivery; recruitment and selection; public performance reporting; how complaints on equalities issues are recorded and responded to.
40. The recent Accounts Commission report on race equality recommends that councillors and senior managers in councils ensure race equality is incorporated into the improvement management approaches they have already established under Best Value, and do more to identify and share good practice. It also calls for support from key national organisations including the Equality and Human Rights Commission, Scottish Government, Improvement Service, Convention of Scottish Local Authorities, and the Society of Local Authority Chief Executives and Senior Managers. Many of the report's findings and recommendations are relevant to how authorities address their other equality responsibilities.
41. In June 2008, the UK government published plans for a new equality bill. The bill is intended to pave the way for a single equalities act for the UK and bring race, disability, sex and other grounds of discrimination within one piece of legislation, under one over-arching equality duty. Under the new bill, the government also plans to: outlaw age discrimination; require more transparency by public bodies; extend the scope of positive action in recruitment; and strengthen provision for enforcement action. The present statutory equality duties on race, gender and disability all remain in place until such time as a Single Equality Act arrives. Lessons learnt by councils from meeting the race equality duty should be helpful in securing their effective delivery on any new duty.

Sustainability

42. Best Value audit work to date highlights that in relation to sustainability, the primary focus of council efforts have been on waste management and energy management, where they have been supported in recent years by external funding. There is a real risk that progress towards the government's wider sustainability agenda and proposed targets will be insufficient. At present the majority of local authorities are unable to demonstrate their contribution to sustainability and there remains significant scope to develop performance management systems and introduce quality of life indicators (as referred to in statutory BV guidance) to strengthen this.
43. Local authorities play a pivotal role in helping achieve the Scottish Government's overall purpose to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. Our approach to auditing their contribution to this and their impact on climate change is developing and will be shaped in the near future by the introduction of climate change legislation.

44. The Scottish Government recognises that climate change is one of the most serious threats we face as a global community and is determined that Scotland will play a leading role in the international effort to reduce greenhouse gas emissions. All sections of Scottish society need to take action on climate change. In this context, the whole of the public sector in Scotland has a fundamental role to play, showing leadership on its own account and setting and delivering policies that encourage and enable action by others. To this end the government is introducing a Scottish Climate Change Bill that will include enabling provisions to allow duties to be placed on public bodies to take action on climate change.
45. The Scottish Government is committed to working in partnership with other parts of the public sector in responding to climate change. An example of this commitment is Scotland's Climate Change Declaration, a voluntary declaration signed by all Scottish local authorities committing them to contribute to the delivery of Scotland's and the UK's climate change programmes, including actions to address greenhouse gas emissions from their own operations and to encourage and work with others in the local community to take action to reduce emissions and to adapt to the impact of climate change. The Scottish Government supports the Sustainable Scotland Network to provide assistance to local authorities in meeting their commitments in Scotland's Climate Change Declaration. The Scottish Government has also entered into Single Outcome Agreements with each local authority which are aligned with the National Performance Framework and has issued guidance to public bodies to ensure that they too are aligned with the National Performance Framework, which includes targets to reduce emissions over the period to 2011 and by 80% by 2050.
46. The target to reduce Scotland's greenhouse gas emissions by at least 80% by 2050 (from the 1990 baseline set in the Kyoto Protocol), is one of the most ambitious in the world. It will form the keystone of the Bill. The Scottish Government is clear that emissions reductions should be achieved in the most cost effective way possible in support of its commitment to increasing sustainable economic growth in Scotland. Setting an ambitious long-term emissions target will not be enough in isolation to drive the emissions reductions that are required. The Bill will therefore establish:
- an interim target to reduce Scotland's greenhouse gas emissions by 50% by 2030 (achieving this 50% target by 2030 will require average annual emissions reductions of greater than 3% from 2010); and
 - a robust statutory framework based on annual targets to ensure action is taken continuously over the period up to 2050. These annual targets will be based on expert advice from the UK Committee on Climate Change and will be set more than 10 years in advance so that private and public sector organisations can plan with certainty over the longer term.

47. The Scottish Climate Change Bill will place strong duties on Ministers to report progress towards meeting the emissions reduction targets set by the Bill. In addition, the Bill will also require regular reporting of Ministers' plans and policies to help Scotland adapt to the effects of climate change.
48. Other aspects of the Bill that will have an impact on local authorities include:
- **Energy efficiency action plan:** the importance of helping people to consume less energy, thereby reducing emissions and saving money, is reflected in the Bill requiring Scottish Ministers to produce an energy efficiency action plan which is regularly reported upon, reviewed and updated.
 - **Waste reduction and recycling:** helping Scotland to become a zero waste society is one of the Scottish Government's priorities and the Scottish Climate Change Bill will include enabling powers to allow Scottish Ministers to make regulations to reduce waste and encourage recycling.
 - **Improving the energy performance of existing non-domestic buildings:** many existing non-domestic buildings in Scotland have inadequate levels of thermal insulation, and inefficient heating and cooling systems. Scottish Ministers want to encourage building owners to carry out improvement work which increases the energy performance of their buildings. This will not only save money on future energy costs but will help to reduce the emissions that these buildings produce. Consultation on specific proposals for improving the energy performance of existing non-domestic buildings is ongoing. If any legislative measures are needed to take forward the policies which result from this consultation it is anticipated that these will be incorporated in the Scottish Climate Change Bill.
 - **Renewable heat:** Scottish Ministers aim to build a commercially viable, diverse, renewable heat industry in Scotland in support of meeting the Scottish Government's proposed 2020 renewable energy target of 11% of heat demand to come from renewable sources. The Bill will contain enabling powers to allow the creation of regulations to promote and incentivise the generation of heat from renewable sources.
49. Another example of sustainability is demographic change and its impact on demand for services. In particular Scotland's ageing population profile will lead to a rising demand for social care services, which current arrangements do not provide for. Demographic changes will also affect demand for schools, demand for places may decline in some areas and rise in others, and other services.
50. The issue of how organisations plan for and achieve sustainability is one of the most challenging long term questions facing the public sector and this is reflected throughout this document. As ever, careful long term planning is crucial.

Structure of the 2008-09 – 2010-11 PRF

51. To better align our PRF as part of a more integrated approach to scrutiny we have adopted the proposed overarching corporate assessment framework. This reflects our theory of improvement: *Effective leadership, good governance and sound management are necessary conditions for the delivery of sustainable continuous improvement and effective outcomes.*

52. To promote the links described above between the PRF and other work, we have set out this year's PRF under headings that reflect those we are using to develop the corporate assessment for Best Value 2(BV2) (Exhibit 1). As such, the section headings are:

- Vision and strategic direction
- Partnership Working and Community Leadership / Engagement
- Governance and Accountability
- Performance management and improvement
- Risk management
- Use of resources (financial management; people management; asset management; procurement; information management)
- Service priorities and risks.

Priorities and Risks Framework

Vision and Strategic Direction

Why are vision and strategic direction important?

53. Councils that perform well are ambitious and have clear aims and objectives for delivering high quality services that provide Best Value and meet the needs of their local community. Member and officer leadership of the council are responsible for promoting this vision effectively and ensuring its achievement, with support from staff and partners. The overall aims should be backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery.
54. A council's vision should reflect a clear sense of purpose where:
- the council understands the key geographic, demographic, economic, environmental and social contexts in which it and its partners are operating.
 - the council has set out a clear vision of how it will work with partners to address key local, national, and for larger councils, international, challenges and ensure the wellbeing of local communities.
 - the vision clearly shows that the council is committed to continuous improvement and it should be based on the views of local communities, citizens and customers.
 - the council's ambitions are stretching and challenging and will make a real difference for local people. However they must also be realistic and achievable.
 - the ambitions clearly reflect the scale of the issues and opportunities locally, and are based on a mature and accurate assessment of the council's current performance position, and capacity to improve.
 - there is a good balance between national and local priorities, and it is clear how they are linked.
55. The strategic direction of the council will be supported through open and inclusive leadership and a culture where:
- the process for prioritising council activity is open, fair and inclusive. All councillors are able to properly consider and contribute to the development and review of council priorities and the approval of related strategies for their delivery
 - the council's leadership ensures support for its priorities amongst the local community, partners and other stakeholders through effective communication and engagement

- members promote and clearly communicate the council's vision and priorities to staff. This task is shared with Chief Officers who work with members to provide a consistent, visible, and shared leadership message
- the council is recognised externally and by its staff as providing effective political and managerial leadership, and there is confidence in its capacity to secure continuous improvement in local services
- there is a holistic and crosscutting approach to the delivery of council priorities, with evidence of effective collaborative working across the council, both organisationally and geographically
- within the authority, people are aware of the council's priorities and enthusiastic and determined to achieve them
- the council can demonstrate that it maintains its focus on core priorities and is not distracted by difficulties such as minor operational matters. Initiatives are only undertaken when it is clear that they will contribute to longer-term goals.

56. A clear direction of travel for the council will be achieved through a well aligned system for service and resource planning where:

- the community strategy sets out clear actions and SMART (specific, measurable, achievable, resourced and timed) targets, broken down into short, medium and long-term deliverables
- elected members and officers understand the implications of the priorities for their activities, with resources allocated and managed in a way that reflects priorities. Where necessary, resources are shifted to match needs demonstrating clarity over what are and are not council priorities
- priority setting is supported by a clear and well understood planning framework which ensures that effective links are made between corporate and service priorities, reflecting local community needs. Strategic priorities and plans are regular reviewed to ensure that they remain relevant to changing circumstances
- the planning and budgeting framework delivers detailed and realistic plans, linked to available resources, to achieve the authority's goals at service delivery level
- the council's priorities are translated into more detailed strategies and plans, both statutory and otherwise
- staff are aware of council priorities, committed to them and know how their work is contributing to their delivery
- plans and strategies are regularly reviewed, on a cycle appropriate to their purpose.

Key Risks

57. All councils have a set of key documents that reflect their aims and objectives, such as Community Plans, Single Outcome Agreements and Corporate Plans. A common risk area is where these are not linked to more detailed strategies and from operational plans, such as service plans and budgets. Another is that they are not informed or influenced by a good understanding of the views of service users or the needs of local communities – the increasing diversity of which needs to be recognised. In some cases, these key documents are developed without effective involvement of elected members.
58. A fundamental aspect of good management of public services is the ability to respond to competing demands with limited resources. If councils do not make clear and transparent decisions about priorities and stick to these, any strategies and plans based on these will be difficult to achieve. If the priorities for a council - for the short, medium and long terms – are not communicated effectively to staff and to communities, this will also act as a barrier to progress. In particular, managing user expectations about service delivery by explaining priority areas, and identifying areas that are not or are low priority, is an essential element of this.
59. Our Best Value audit reports make it clear that the performance of both the political and managerial leadership in a council is critical to the success of the whole organisation. This includes the performance of the corporate management team and the senior managers that report to it. Weaknesses in this area can have a cascading effect across the council and adversely impact on services.
60. A key role for leaders is to clearly communicate expectations. In poor performing councils it is common for both political and managerial leadership to be weak at this. In these councils leaders do not champion key priorities, expected levels of performance and clear targets, and they do not stick to priorities, becoming diverted by less important matters. Changes within the organisation are often poorly explained and communicated, showing that the leadership fails to recognise that staff need space and time for learning and development.
61. The general quality of working relationships between all officers and members, and also the respective individuals – particularly the council leader and chief executive – can strongly influence the impact and efficacy of the council and its services. Problems will arise if there is not a clear and common understanding of members' strategic leadership role and the limitations that should be set on their involvement in detailed operational management issues. If senior managers do not respect political direction and do not balance their professional advice with being responsive to the policy priorities of the council administration, there will be difficulties in these relationships.

62. If member training and development is not effective it will not address specific objectives or lead to improvements in performance, and will not address competency areas which are becoming increasingly important for the future – such as partnership working.
63. Our audit work has also identified a common risk that can be described as the “policy to practice gap”. This is where strategic aims and priorities are not properly translated into actions with clear milestones and measures to allow progress to be monitored. Service plans should be key elements of this process.
64. Similarly, we have identified poor connectivity between service planning and resource plans, including budgets. It is common in many councils for there to be a traditional incremental approach to budgeting, rather than one that is strongly influenced by the specific strategic objectives and priorities agreed by the council for the period concerned.

Looking Ahead

65. There are a number of significant changes taking place in the local government environment that will impact on vision and strategic direction issues. These include the shifting relations between central and local government as expressed by the 2007 concordat.
66. One of the main strengths of the concordat and the Single Outcome Agreements (SOAs) is in providing a more rational way for the relationship between the Scottish Government and councils to be managed. As an expression of how authorities will respond to the national policy priorities and how these priorities will play in the particular local area concerned, the SOAs will provide greater clarity on the direction to be taken on specific issues.
67. However, the SOAs are specifically designed to address Scottish Government priorities at a high level and are not inclusive of all the responsibilities or activities that a council carries out. It will be important in the future that effective integration takes place between the vision and strategic direction established by a council and the demands made on the council by addressing the national priorities. It will be essential that this provides cohesion and avoids conflict.
68. The development plans for the SOAs from 2009-10 mean that Community Planning and partnership working will be much more significant for councils. Whilst all councils have been engaged in Community Planning activity for some time, the delivery of SOAs at Community Planning level in future means that council leaders and senior managers will need to work with their local partners – such as NHS bodies – to ensure a greater integration of their respective plans and strategies. This will also impact on resource plans. There is potential for collaborative advantage, but also the possibility of confusion and conflict.

69. Councils are responsible for leading Community Planning activity. As Community Planning Partnerships take on increased significance for key policy areas at a local level, there may be implications for councils and elected members. It is important that councils are aware of these factors and begin to make plans to address any risks that arise.

Partnership Working and Community Leadership / Engagement

Why are effective partnerships and community leadership important?

70. This section of the PRF focuses upon those risks which councils need to manage in relation to their involvement with a wide range of partnerships. More specifically, it concerns councils' duties under the Local Government in Scotland Act 2003, to initiate, facilitate and maintain a Community Planning process and their role in ensuring effective leadership within local Community Planning Partnerships.
71. Councils work with a range of other agencies and groups, including the community themselves. Many council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues such as inequality, where a range of determining factors must be addressed. Effective partnership working should also result in added value and additional or better outcomes than would have been delivered by partners acting alone.
72. Councils are often engaged in a variety of complex and changing partnerships, some of which may be voluntary and unique to the locality, other that are statutory and may be operating across a wider regional geography, such as transport partnerships. Other partnerships may have a separate legal identity, such as arms length organisations and charitable trusts; or result in significant new roles, such as councils' recent assumption of responsibilities for local enterprise activities.
73. The Local Government in Scotland Act 2003 provides the statutory basis for community planning. The Act requires councils to initiate and facilitate the process and places a duty on health boards, the enterprise network, the police and fire services, Strathclyde Passenger Transport Authority and subsequently Regional Passenger Transport Partnerships, to participate. Councils are also required to invite other relevant public, private and community bodies in the area to participate as appropriate.
74. Audit Scotland's baseline study on community planning, Community planning: an initial review, June 2006, identifies the challenges then facing community planning partnerships (CPPs). It makes recommendations for action by councils, partner organisations and CPPs themselves. Many of these challenges remain and councils should be utilising the evaluation framework within the report, along with other improvement tools, to improve the effectiveness of partnerships.

75. The majority of ring-fencing of funding was removed as part of the concordat and councils are now able to retain their efficiency savings for the first time. This coupled with partner organisations' contributions towards SOA outcomes, means that partnerships are responsible for significant amounts of public money.
76. Individual councils are also likely to be in a variety of complex and changing partnership relationships. Examples of these include arms length organisations, charitable trusts, group arrangements for certain activities such as transport, justice and pensions, and the recent assumption by councils of responsibilities for local enterprise activities.
77. Good partnership working is also key to a council's ability to demonstrate effective community leadership as part of their pursuit of Best Value. This includes the development of a 'shared vision' for their area and mobilising the full range of local service providers to work in partnership to implement that vision. Effective community leadership also requires that the community is engaged in a meaningful and representative manner, as a partner in developing and delivering the vision for their area. Elected members, community groups and individual citizens in communities have a particular role to play in helping to ensure that partnership priorities, plans and investment are responsive to local need.

Key Risks

Leadership

78. Councils may not be providing effective leadership to ensure partners are committed to Community Planning and have a shared vision for the community which is evidence based and reflects local needs.
79. Partner agencies should have a shared understanding of the priorities for the area and the roles which they each play in delivering them.

Sharing Information

80. Partnerships need to have a shared understanding of the communities' they serve, so that they can agree priorities and ensure decisions about services are based upon strong evidence of need. Elected members should have access to a range of intelligence about the issues communities face, to enable them to scrutinise service performance and assess whether needs are being met.
81. Relevant information may not be collected and shared in a systematic way, may be out-of-date or inaccurate, resulting in poor connection between strategic priorities and the issues an area is facing. Partner agencies may not share information at service level, resulting in fragmented services and barriers to effective case management.

Governance & Accountability

82. Partnership governance and accountability arrangements may be insufficiently developed. There may be a lack of clarity regarding lines of communication, areas of responsibility, delegated authority and scrutiny arrangements. Ineffective governance arrangements may reduce the extent to which partnership structures are empowered to make decisions. This may impact upon their ability to drive forward change at a strategic level and to deliver better or additional outcomes as a result of acting together.

Community Engagement

83. Consultation and engagement with local communities and service users may be poorly co-ordinated or insufficiently linked to wider community empowerment activity; councils may be failing to ensure partnerships take account of the National Standards for Community Engagement and communities may not be fully engaged as partners in the decision-making processes which affect them.

Planning and implementing priorities and actions

84. Councils may not fully involve all partners in developing partnership plans and strategies, such as Community Plans and SOAs. This can result in fewer resources being available from partner agencies to support delivery, poor co-ordination of local services and difficulties in developing productive joint working arrangements at both operational and strategic levels.
85. Partnership plans may place most emphasis on national priorities, lack a clear vision for the local area, or may not reflect a shared understanding of need or prioritisation of desired outcomes.
86. Strategic priorities may not be fully integrated within council or partners' corporate and service plans, resulting in poor alignment of services towards agreed strategic priorities.

Resources

87. Councils may lack clear arrangements for linking Community Planning priorities to financial and service planning processes, including those of partners, resulting in insufficient resources being available to deliver agreed outcomes.
88. Councils may be unable to identify mainstream resources to support initiatives previously funded through ring-fenced monies. This could result in the loss of some local services and difficulties in engaging the voluntary sector and other service providers in the Community Planning process.

Performance Management and reporting

89. Arrangements for tracking progress towards shared priorities and high-level outcomes may not be linked to performance management at service level, or partners may be unwilling to share service

performance information, reducing partnerships' ability to jointly review and reconfigure services to ensure delivery of agreed outcomes.

Looking Ahead

90. Councils will be submitting reports on the delivery of their 2008-09 SOAs in autumn of 2009 and from April 2009 SOAs will be formally agreed between the Scottish Government, councils and their community planning partners. This will place even greater responsibility upon partnerships, increasing the potential impact of the risks outlined above.
91. In our view, poor performance against SOA targets may affect future funding from central government, which could add to the significant financial pressures faced by councils, especially if low levels of retained efficiency savings and erosion of reserves are also evident.
92. Audit Scotland intends to review Community Planning arrangements (CHPs and CHCPs) as part of our work programme in the 2008–10 period. The Scottish Government is also intending to review arrangements late in 2008.

Governance and Accountability

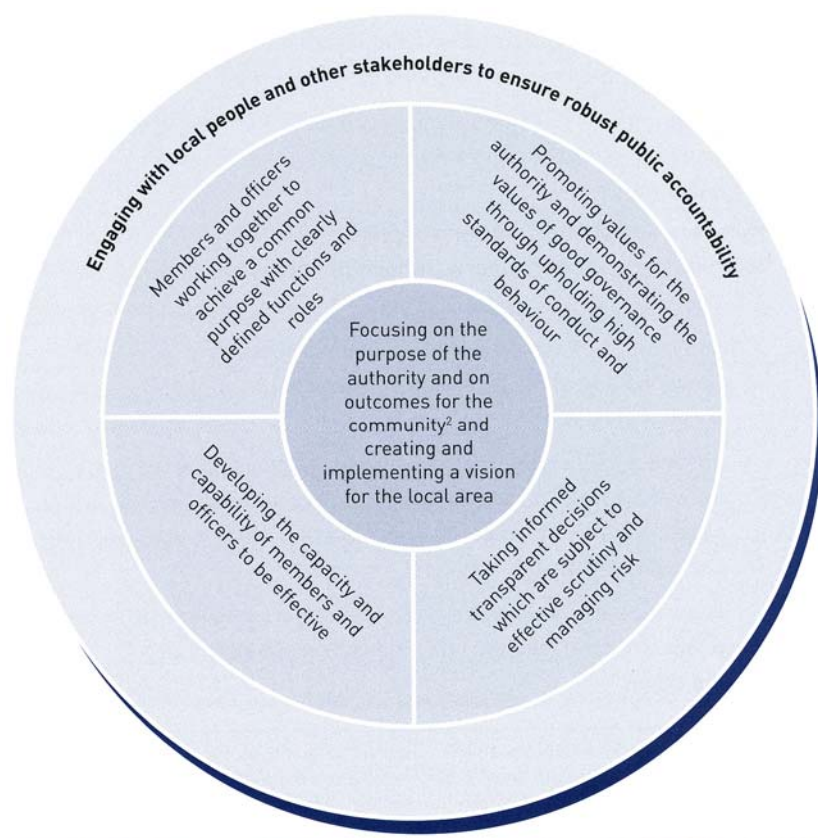
Why is governance important?

93. Governance is about direction and control of organisations. It is concerned with structures and processes for decision-making and accountability. Good governance means that the way local authorities operate is based on sound decision-making and an effective process to support it. CIPFA/SOLACE's 'Delivering Good Governance in Local Government Framework' and an accompanying guidance note for Scottish authorities were published in 2008.
94. The guidance includes a self-assessment framework and auditors will be encouraging self-assessment to be used by councils. The guidance also links this form of self-assessment to the concordat and honest self-assessment may be expected to lead to more proportionate audit arrangements.
95. Councillors exercise their role within the overall political governance framework that they decide is most appropriate to local circumstances. The mechanisms to ensure effective scrutiny are not prescribed in statute or in guidance and a number of different approaches are possible. The overarching requirement for elected members is to ensure that their council fulfils its statutory duty to secure Best Value, making choices on priorities and decisions on service delivery on the basis of evidence and performance.

96. If political governance is to be effective, elected members need high quality support from council officers. This includes access to key information of suitable quality, provision of professional advice and support to develop their knowledge and skills. In this regard, the changeover to multimember wards appears to have been carried out smoothly, on the whole.

Exhibit 3: The Principles of Good Governance

The following six core principles are taken from *'The Good Governance Standard for Public Services'* [2004] developed by the Independent Commission on Good Governance in Public Services and have been adapted for local government purposes.



Source: CIPFA/SOLACE *'Delivering Good Governance in Local Government'*

97. Increasingly councils are working with companies, trusts and other external organisations to deliver a range of services, such as leisure and other services which provide social benefit. The important principles set out in the 'Code of guidance on funding external bodies and following the public pound' (published jointly by the Accounts Commission and COSLA, in 1996) are therefore of increasing relevance. The Code and the Accounts Commission's *'Following the Public Pound'* national performance report (published in March 2004) underline the need for good governance and clear accountabilities, in relation to both finance and performance. Where councils set up or engage external organisations to deliver services and decide that elected members are to represent the council on boards of companies or on trusts, councils must ensure that those members are properly supported and that they are clear about their roles and responsibilities.

Key Risks

The role and development of elected members

98. There may be an absence of clarity about the role of individual elected members within the overall political governance framework, including Community Planning bodies. Roles and expected competencies of councillors should be clearly defined.
99. Elected members may not have access to appropriate training and development tailored to their continuing needs and the competencies they require to be effective in their role.

Support available to elected members

100. Councils may not always be able to demonstrate that they have taken informed and transparent decisions and these decisions may not be subject to effective scrutiny, challenge and risk assessment.
101. The information provided to elected members may not be of sufficient quality to enable them to make decisions based on evidence and performance. Information submitted to members in areas such as performance, outcomes, use of resources and options appraisal should be of high quality and clearly show performance against strategic and service objectives, so that members have the necessary background information and understanding to base their decisions on sound evidence.
102. Professional support from officials may not be effective in ensuring that decisions are consistent with existing commitments and are properly founded on evidence and performance. Reports provided to members should contain details of the resource implications relevant to the issue being considered.
103. Advice given may not be effective in ensuring that a shared vision for the council's services and priorities is established, that clear choices are made which are consistent with this vision and these are affordable and sustainable. Senior officials should manage their relationships with members to ensure that difficult choices are adequately addressed and decisions are properly founded on evidence and performance.

Working with external organisations

104. The reasons for establishing an external organisation or for supporting an existing external organisation, the intended benefits and the links with the council's objectives may not be clear.
105. Councils may not make clear the extent of their financial commitment, limitations, nor the circumstances in which they will review the funding relationship and, where appropriate, terminate the relationship.

106. Monitoring and reporting arrangements for financial and service performance may not be agreed or implemented, preventing appropriate scrutiny and action by the council funding the external organisation.

107. There may be an absence of clarity about the role of individual elected members who are asked to represent the council on the boards of trusts, companies and other arms length external organisations. Roles and expected competencies of councillors should be clearly defined.

Looking Ahead

108. Pressures on budgets are likely to lead to increasingly difficult choices for councils in allocating budgets and deciding on which services to provide and at what level. Elected members will require further training and development and good quality information from officers to support them in their role.

109. The shift to Single Outcome Agreements (SOA) requires a further and increased emphasis on performance management which provides reliable evidence of achievement to all stakeholders. Elected members have a key role in ensuring delivery against their SOA by scrutinising performance and holding officers to account. Elected members need to be supported in relation to SOAs and, at the same time, in delivering on their continuing requirement to achieve Best Value.

110. As councils look for innovative ways of providing services there is likely to be further consideration of the use of arms length external organisations. At the same time, councils will need to reassess whether external organisations established some time ago continue to provide the best fit with current aims and objectives. The current economic climate means that there will be financial pressures on external organisations which in turn may affect council finances and, ultimately, the provision of vital local services. Maintaining good governance and clear accountabilities is essential in such circumstances, as is ensuring that elected members who represent the council as a company director or trustee understand and are supported in these roles.

Performance Management and Improvement

Why are performance management and improvement important?

111. Good governance and the achievement of Best Value rely on having good information on which to base decisions about allocating resources to competing demands, improving service delivery and managing performance. Effective performance management at both service and corporate levels is essential to achieve intended objectives, and to assist elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils need to know

how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.

112. The Controller of Audit's 2007 overview of the local authority audits concluded that the lack of consistent and robust performance information limits an in-depth analysis of service performance in councils. In particular, if councils are to meet the challenges ahead, they will need to increase the focus on:

- significantly improving performance management and balanced public reporting to demonstrate delivery of the outcomes approach, including partnership and arms length arrangements
- developing robust baseline data, against which improvements in service delivery can be measured and demonstrated, and good quality management information to inform decision-making and to demonstrate efficiency gains and service outcomes
- seeking users' views in a more systematic and consistent way and using complaints to inform service improvements.

113. Performance management is a core issue for local government, of key importance in achieving national and local policy objectives and providing quality services. The statutory duty of Best Value requires councils to demonstrate continuous improvement in services and to address equality and sustainability duties. Effective management of performance should demonstrate whether or not objectives have been achieved, monitor standards, highlight areas for action and act as a driver for service improvement and allocation of resources.

114. The concordat between the Scottish Government and COSLA agreed in November 2007 set out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government for the period 2008-09 to 2010-11. A central proposal was the creation of a National Performance Framework that includes a Single Outcome Agreement (SOA) between each council and the Scottish Government based on 15 key national outcomes.

115. The national outcomes reflect the Scottish Government's National Performance Framework but are also in line with corporate and community plan commitments across local government and Community Planning Partnerships in Scotland. Through the concordat, councils are committed to supporting progress at national level through improvement in outcomes at local level.

116. SOAs are in place for all councils and will continue to develop during 2008-09 and beyond. Approximately half were developed in consultation with Community Planning partners, but from 2009-10 the Scottish Government will agree all local SOAs with Community Planning Partnerships.

117. It has been emphasised, throughout the development of the concordat arrangements and the SOAs that the evolving National Performance Framework does not remove the responsibilities councils have under Best Value to effectively manage their performance and report to the public on their results. The promise to councils of a more streamlined external scrutiny regime is founded on the realisation of improved performance management and more effective self-assessment.
118. Councils are currently seeking to assess their existing information, identify gaps and review their performance management systems so that the SOA is part of the process rather than a separate or additional reporting mechanism. Good performance management will convert the aspirations for high level outcomes contained in the SOAs into concrete plans and actions. Effective and regular monitoring of progress will ensure that the right direction is being maintained and will identify any corrective action needed. This will increase the likelihood of targets and outcome objectives being achieved.
119. Good quality performance information is essential for informed decision making and allows elected members to scrutinise performance and hold management to account for service delivery. Councils also require accurate performance information to report regularly to the public on all aspects of their activities.
120. Councils have a duty to make arrangements for the reporting to the public on the outcomes of the performance of their functions, under the Local Government in Scotland Act 2003. Councils report annually on delivery against the commitments in their SOAs and this will enable the Scottish Government to identify the contribution made to national outcomes.
121. PPR provides a mechanism for councils to demonstrate accountability so that stakeholders are told what quality of service is being delivered and what they can expect in the future. It is important that information is provided in a clear and concise manner and that actual performance is aligned with identified key aims, objectives and areas for improvement. Information also needs to be balanced, highlighting both good performance and areas for improvement. These principles are strengthened through the SOA process as each party is mutually accountable for the delivery of the agreed outcome and can hold each other to account for the delivery of specific commitments.
122. Councils need to be particularly aware of the information they are collecting and reporting as they continue to develop the necessary management information systems to support their single outcome agreements. This is an evolving process where the outcomes need to be clearly explained to stakeholders.
123. The concordat confirmed that the Scottish Government would provide more flexibility for councils in how they delivered services. This however requires improved outcomes from councils and therefore increases the need for effective performance management.

124. There has been speculation about the role that audit might play in relation to SOAs. However, no agreement has yet been reached between central and local government, including Community Planning Partnerships, about detailed performance management requirements, accountability for results on SOA performance or how effective public reporting can be achieved at a local level.
125. The development of the Best Value audits (BV2) is taking account of the emergence of SOAs. In the meantime auditors will seek to understand the approach the council and its partners are taking to monitoring performance against the 2008/09 SOA and using this to inform the developing 2009/10 SOA. Auditors will have a particular interest in how the planned outcomes and targets are underpinned by resource plans and sound performance management. They will not audit performance against SOAs, but instead will develop a view of how well the agreements contribute to effective planning and performance management.

Key Risks

Corporate priorities

126. Priorities and objectives may not be clearly articulated at corporate or service level or may lack specific and measurable outcome targets. As a consequence, resources may not be targeted effectively at priority areas and there is a risk that councils may not achieve their aims. Councils should have clearly defined corporate priorities which are identified and cascaded through plans, including the community plan, corporate and service level plans. These plans should contain measurable performance targets.
127. Corporate and service plans may not integrate with and provide linkages between resources (budgets, workforce and asset management plans) and performance to demonstrate whether outputs and outcomes have been maintained, improved or have deteriorated.
128. Clear links may not exist between community plan/corporate objectives and the SOA, making it difficult for councils to demonstrate the relevance of their agreed local outcomes and indicators.
129. Statutory duties, such as those associated with equalities issues or the need to consider sustainable development, may not be addressed throughout the organisation to a minimum standard. Steps should have been taken to ensure that the council complies with statutory duties on equalities and sustainable development and that minimum standards are addressed throughout the organisation.

Performance indicators

130. The right things may not be measured, meaning that the council may be unable to demonstrate the quality, effectiveness or cost of its services overall. Councils may not have systems to collect the relevant information to report on the delivery of agreed outcomes, especially those included in the new

SOAs. In the absence of the best available indicators to track and support delivery of local outcomes, councils may be using less relevant indicators simply to provide national comparability. For example, there may be an over-reliance on SPIs to the exclusion of local performance measures simply because that information is already easily accessible. Performance measures should be in place which assess cost and quality for each area of activity and focus on the outcomes and experience of users.

131. Performance information may not be produced on a timely basis and be quality controlled to ensure it is robust. Depending on the level of detail to be measured and reported, it may be a time consuming exercise to capture the data. Subsequently, the performance report may not fit particularly well with council committee cycles resulting in significant delays between the period covered by the data and date it is considered. This may impact on the effectiveness of decision making. Arrangements should be in place to ensure performance information is produced when required and is of a high standard to facilitate effective performance management. Performance information should result in clear remedial action to address any poor performance and the effectiveness of remedial action should be monitored.
132. Baseline performance data may not have been established so that performance can be compared over time. Councils may be unable to demonstrate that they are meeting their statutory duty of Best Value, which requires continuous improvement in services, or demonstrate achievement of SOA targets.
133. Minimum service standards may not have been established or published, with the result that the public are unaware of the quality of service they are entitled to expect or how the standard of service compares with other councils. A clear framework outlining what is expected of services should be in place and communicated to the local community.

Monitoring performance

134. Performance management may be ineffective. Deficiencies in information or monitoring may mean that the causes of poor performance are not properly identified to allow appropriate remedial action, or that successful performance may not be identified and used for organisational learning.
135. An effective performance management framework should be in place and operating throughout the organisation. This should include effective monitoring of performance over time, against corporate and service objectives, including those arising from community plans and SOAs, and against 'best practice' quality standards or those achieved by others.

Involving users

136. Information collected from users through consultation and feedback may not be routinely linked with the performance management system and used to improve service delivery. In particular, information on complaints should be part of performance management frameworks to demonstrate that issues have been resolved and improvements made.

Performance reporting

137. Service users and the wider public may not receive balanced information about performance. As a result, statutory duties may not be met, democratic accountability may be ineffective and the expectations of residents and customers may not be properly managed. Appropriate information should be provided to the public on targets, actual performance and planned improvements. This should provide a balanced view of performance and cover core service delivery as well as initiatives and new projects.

138. In our view, failure to demonstrate progress against SOAs may have implications for councils in terms of the agreements set out in the concordat. Mechanisms are developing to measure progress against SOA targets. Where partners are involved, more consultation and agreement on reporting dates and requirements will be necessary to ensure a common understanding of the challenges and to enable the council and partners to collectively demonstrate the progress being made by the area. While an annual SOA progress report is required, supporting mechanisms to collect and report outcomes should be central to performance management systems.

Looking ahead

139. In view of the Accounts Commission's continuing interest in seeing improvements to the way that councils manage and report on their performance, this will continue to be a priority area for auditors at both local and national level.

140. In keeping with the overall direction that current changes in the local government environment are taking, the Commission has proposed a significant shift in the annual direction for the Statutory Performance Indicators that will apply from April 2009. The proposals involve a more broadly drawn and flexible direction than in the past. It will consist of two elements:

- information chosen by local authorities about certain key functions which demonstrate how they meet their Best Value obligations and how they balance their national responsibilities with local priorities relating to local needs
- a reduced number of specified performance indicators on issues of particular concern to the Commission.

141. The Commission has underlined the point that reporting on SOAs is not, in itself, sufficient to fulfil the duty on local authorities to demonstrate Best Value. It believes that the new direction is consistent with the Commission's objectives for:

- bringing the SPI Direction into line with the Best Value statutory duty
- reducing the dependence on SPIs as the main source of reported performance information in some councils
- placing responsibility for demonstrating Best Value with local authorities where it belongs
- emphasising the need for local authorities to further improve local performance management and public performance reporting
- encouraging the use of locally determined and robust PIs relating to local needs and objectives
- maintaining the role of public reporting of performance information in holding local government to account for its performance.

142. Alongside the developments arising from SOAs, Crerar and BV2, this new approach to SPIs will require councils to move from a compliance culture to one where more responsibility and ownership is taken of council performance, with choices being made about how best to monitor and measure service activity throughout the council.

143. In support of this environment, councils are being encouraged to adopt a robust standard of performance management by adopting systems such as the Public Service Improvement Framework that is based on EFQM quality systems and is supported by the Improvement Service. Individual councils may have chosen this route or gone for another, but it is important that any alternatives are to at least a similar standard.

144. The Commission is currently developing its arrangements for the future audit of Best Value (BV2). This will involve a more risk based and proportionate approach for councils and will be consistent with a more streamlined scrutiny regime as recommended by Crerar. The Commission is also in contact with other scrutiny bodies to ensure consistency and efficiency in the post-Crerar developments, and it is clear that better performance information within councils and robust self-assessment will support better targeted and proportionate scrutiny.

145. With the emergence of SOAs at Community Planning Partnership level from April 2009, the question of attribution for performance that relates to joint working, partnerships and high level strategic objectives will be of increased significance. The relative responsibility on the part of individual partners for achieving an outcome is often difficult to identify, and councils should be considering how best this can be achieved.

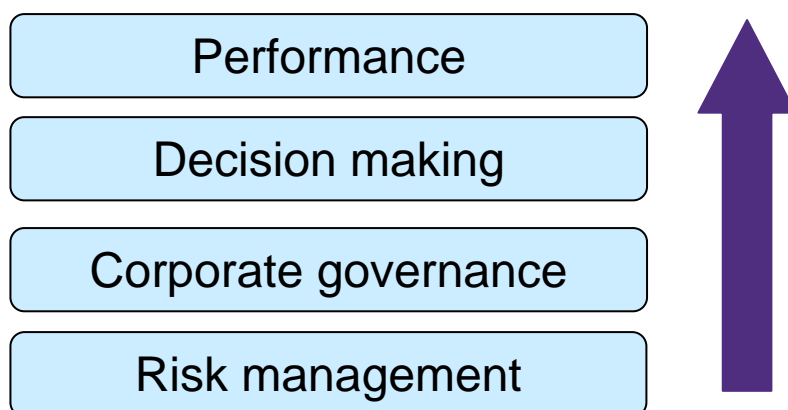
Risk Management

Why is risk management important?

146. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process by which risks are identified, evaluated and controlled. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance.

147. Local authorities in Scotland operate in a dynamic environment and face an increasing demand for diverse and higher quality services, within an overall context of tighter financial settlements. As expectations increase and methods of delivering services become more diverse, local authorities inevitably face more risks. Good risk management is necessary to address these risks, and is important for ensuring public services are delivered effectively and that councils are well run.

Exhibit 4 – Why is risk management important



Source: Grant Thornton UK LLP

148. In recent years there have been a number of high profile incidents within local government in Scotland that have highlighted the need for improved risk management across the sector, these have included child abuse cases, failing schools, financial mismanagement and cases of member or officer misconduct.

149. Councils with mature governance arrangements embrace the concept of risk, recognising that awareness, discussion and management of risk represents strength in their management arrangements.

150. Councils that are too risk averse are unlikely to achieve best value and deliver excellent performance as they are likely to miss opportunities for improvement. Effective risk management requires leadership and innovation across the organisation, together with an ability to identify and assess possible courses of action, weighing up possible benefits and risks before taking a decision. This optimises outcomes and impact for citizens and service users.

151. Members are ultimately responsible for risk management within local government because of the link to the achievement of policy objectives. Members must understand risk management and exercise leadership to set the right tone within their organisations to ensure risk management is effective. Members must ensure that risk awareness and management are part of the culture of local government and embedded within existing management processes.

152. Councils' risk management arrangements should include:

- a clear policy, strategy and procedures that are widely disseminated and understood, and are reviewed periodically to ensure that they are promoting effective practice
- effective management of corporate / strategic risks (those directly relating to the achievement of a key corporate priority), including senior management and members regularly considering and updating the corporate / strategic risk register
- effective management of departmental risks by management teams through the use of risk registers, including procedures for the escalation of risks that could impact on the achievement of corporate priorities
- consideration and management of risks arising from council involvement in partnerships
- effective management of risks in delivering projects and explicit consideration of risk, by senior management and members, when making key decisions and initiating significant projects
- a clear understanding that risk management is part of the quest for innovative solutions and is about carefully considering the risks, as well as the benefits that they may bring
- robust and consistent arrangements for embedding officer and member understanding and ownership of risk management
- sufficient dedicated resource to support the development of risk management across the council

- clarity of links to other corporate processes, such as performance and financial management, to guard against risk management being regarded as a stand-alone, administrative activity
- Consideration of group and partnership governance and risk management arrangements.

Key Risks

Policy, strategy and procedures

153. There is a risk that councils are not clear on what their overall strategy is for managing risk and in communicating how this should work in practice. Councils should adopt a risk management policy and strategy which provides an overview of the strands of activity that comprise the risk management system. The strategy should set out how risk management is embedded into other corporate processes.
154. In order to promote and manage the consistent application of effective risk management, councils should develop, communicate and provide training on a more comprehensive set of procedures to supplement the policy and strategy. Both the strategy and procedures should be reviewed periodically to ensure that they are promoting effective practice.

Corporate risk management

155. Councils may not be effectively managing corporate / strategic risks to the achievement of their key objectives.
156. Councils should maintain a corporate risk register that is a high level document sitting above more detailed departmental registers. Senior management and members should regularly discuss how risks are being managed, what new risks are emerging and suggested deleted risks, before updating the register. There should be an annual process of updating the corporate risk register to reflect strategic risks from departmental and other risk management processes.
157. Corporate risk registers should include risk identification, description, scoring, mitigating controls identification, evaluating and testing the effectiveness in controls in managing risks and action planning for additional controls required, to facilitate the effective management of corporate risks.

Departmental risk management

158. There is a risk that councils are not effectively managing departmental risks, which could impact on the quality of service delivery and could contribute to failure to achieve corporate objectives.

159. Councils should actively manage risk as a routine part of departmental management. Management teams should own and maintain risk registers through regular management meetings, as part of the other core business reporting such as financial and performance management.

160. There should be established procedures for the escalation of risks that could impact on the achievement of corporate priorities. When things go wrong, departments should consider the effectiveness of risk management procedures, and implement lessons that could be learned.

161. Councils should issue guidance and training to assist departments in consistently embedding risk management.

Partnership risk management

162. There is a risk that councils may not effectively consider and manage risks arising from their involvement in partnerships. As more functions are discharged through the use of partnerships, risks arising from insufficient clarity over accountability increase.

163. Councils should ensure that processes are in place to obtain required assurances over the management of risk in its significant partnerships to prevent unnecessary exposure to partnership risk.

Project risk management

164. Councils may not have effective arrangements in place for the management of risk in delivery of projects. Project failure, missed deadlines, significant cost overruns and an inability to demonstrate value for money are examples of some of the risks that have materialised in past public sector projects. These highlight the need for effective project risk management.

165. Councils should adopt recognised project management principles, which include the maintenance of risk registers by experienced project managers. It is important that appropriate escalation procedures are in place to alert senior management and members if project delivery is likely to vary significantly from plan, so that the implications for the achievement of corporate objectives can be considered.

Risk management in key decisions

166. There is a risk that councils do not consider the risks related to making key decisions that commit them to action and expenditure. It is essential that councils consider the risks, as well as the opportunities, of options in order to make the best quality decisions they can.

167. Councils should ensure that all key strategic decisions, including the initiation of major projects, are subject to an assessment to consider the risks as well as the opportunities presented by the decision. Evidence of the decision making process, including the risk assessment, should be retained so that councils can review them, and learn lessons, if required.

168. There should be a clear understanding that risk management is not about preventing innovative solutions but is about carefully considering the risks, alongside the benefits, that they may bring.

Officer and member understanding and ownership

169. Without consistent officer and member understanding and ownership of risk management, there is a risk that councils will not achieve more than a paper exercise that fails to manage risks.

170. Councils should carry out a sustained programme of awareness raising, training and support to facilitate officer understanding of risk management and their responsibilities in relation to it. Additional support to be targeted into areas where effective practice has not emerged, if possible, drawing on existing good practice from within councils.

171. Separate awareness raising, training and support should be provided to all members, including further support for executive members responsible for decision making and for Audit Committee and scrutiny members to enable them to fulfil their responsibilities.

Risk management resourcing

172. There is a risk that councils will fail to embed effective risk management if they do not devote sufficient dedicated resource to support the consistent development of risk management.

173. Councils should determine the level of corporate and departmental resource required to implement and maintain risk management, with reference to the identified needs to maintain strategies and procedures and provide training and support to senior management, departments and members. This should be done as part of wider considerations around the resource required to embed effective governance.

174. Councils may also opt to have a corporate risk management group, to support consistent implementation of risk management policy and strategy, to support SMT in managing corporate risks, engage departmental leads in risk management and help to spread good practice.

Integration with other corporate processes

175. Councils may not effectively link risk management with other corporate processes, such as performance and financial management. This increases the chance that risk management is regarded as a periodic, stand-alone, administrative activity, separate from day to day management.

176. Councils should ensure that officers and members recognise that risk management will be most effective, and more interesting and relevant, if linked to service and financial performance management. Many councils are beginning to explicitly report performance and risk issues together through management team meetings.

Looking Ahead

177. Many councils will already have elements of good risk management within existing structures and processes. The challenge for most councils will be to raise the profile of risk management within their organisations and to make risk management an everyday part of policy development and service delivery planning and management.

Use of Resources

Financial Management

Why is financial management important?

178. Councils administer large sums of public money within a complex financial and policy environment, often as key partners in delivering central government and local policy objectives. Financial management is critical to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities.

179. Good financial management is about efficiency, effectiveness, best value and tight financial control. Councils need to oversee budgets, monitoring should be ongoing and financial performance reviewed regularly. The audit committee should have a tight grip on the challenge and scrutiny of budgetary control and financial reporting systems.

180. Annual revenue expenditure on local authority services is in the region of £18 billion. It is financed from government grants and redistributed income of over £8 billion, rents and other income of over £8 billion and council tax of over £2 billion.

181. Revenue funding to Scottish local government is expected to grow from £10.2 billion in 2008/09, to £10.6 billion in 2009/10 and £11.0 billion in 2010/11. This means real terms increases of 2.16%, 2.25% and 1.67% respectively based on the level of inflation assumed by HM Treasury within the spending review.

182. The political make up of Scottish local authorities and the need for increased levels of consensual politics mean that current and future administrations in local authorities must plan carefully to deliver improved and innovative agendas and plans for effective long-term service delivery. The commitment, within the concordat, to deliver a freeze in council tax at 2007-08 levels clearly affected the ability of local authorities to raise additional revenue or finance service developments. Although the Scottish Government included an additional £70 million per annum to compensate councils for the gap created by a council tax freeze, it is unclear whether this is sufficient to deliver all their priorities. Council tax increases however still remain at the discretion of individual local authorities.

183. Because of challenging constraints on resources, councils must make increasingly difficult decisions to balance demands for improvements in both the volume of services delivered and in the performance of those services. However service cuts should not be an automatic reaction to tight finances. Efficiencies should be considered first and options appraisals carried out.

184. Local government will be expected to continue to deliver efficiency savings over the next three years. The expected level of efficiency savings to be met for the period 2008-09 – 2010-11 has been set at 2% per annum. Councils are allowed to retain all of these efficiency savings to redeploy in meeting ongoing pressures and to address local priorities.

185. Councils are reporting significant financial pressures in 2008-09 and beyond, including:

- equal pay (addressing disparity between male and female pay and conditions) and associated legal costs
- single status (the cost implications of merging the pay and working arrangements for APT&C and manual employees)
- waste initiatives (incorporating the National Waste Strategy, working towards meeting the EC Landfill Directive, recycling targets and refuse collection)
- education pressures (including reducing class sizes, free school meals and increasing the quality of school estates)
- increases in costs above inflation in significant areas e.g. energy
- increasing demands and pressures in relation to social care services
- cost of living pay award increases for employees.

Global financial events

186. There have been a number of events in the global economy and banking system in 2008 that are likely to have significant medium and long term implications for the financial pressures and risks faced by councils. In the short term, risks include:

- councils and other bodies with money invested in collapsed banks
- capital expenditure delayed due to the reduction in capital receipts from a depressed property market
- PPP projects being delayed or cancelled due to a lack of funding
- sales may not proceed as they are not considered to provide Best Value in current conditions.

187. In the medium to longer term, challenging economic conditions may lead to:

- tighter government funding as the economy slows down
- higher demand for certain services as unemployment rises
- declining revenues from commercial or charging activities as demand falls.

188. Councils themselves may encounter opportunities to acquire assets for development at lower than expected prices and there may be an expectation by central government that capital programmes are accelerated to boost the construction sector in the downturn.

189. Global events may also have far reaching consequences for local authorities' pension funds. The latest triennial revaluation is due in several months' time. Employer contribution rates may come under further pressure as a result of lower pension asset valuations.

Ring Fenced Funding

190. The Scottish Government has committed to a reduction in the level of ring-fencing for funding. This provides councils with greater flexibility to choose where resources are applied. It is therefore essential that councils have effective systems in place to prioritise expenditure according to their policy commitments.

191. One significant area of ring fencing which remains relates to the newly created Fairer Scotland Fund. This fund, £145 million per year from 2008-09 to 2010-11, replaces seven previous funding streams and is a ring fenced grant for three years. The fund will be used to enable Community Planning Partnerships to work together to address issues in relation to improving lives and regenerating communities.

192. From 2009-10 all Single Outcome Agreements will be between the Scottish Government and Community Planning Partnerships. It is essential that budgets are established which ensure the achievement of the outcomes within these agreements. Councils must also be able to demonstrate the impact and achievements they have made alongside their partners with the funding received rather than merely demonstrate that the funding has been spent on initiatives approved by the Scottish Government.

193. To achieve the priorities for their communities, councils need a flexible budget process, aligned to the planning cycle, to enable them to direct resources to where they are most needed. The Best Value audits show that few councils were able to demonstrate that they use the priorities identified in their corporate plan as a basis for setting budgets.

194. Funding and investment decisions have an impact on the future availability of resources and, therefore, on the delivery of services over the longer term. For example, councils have made long-term financial commitments to PPP projects with a combined capital value in excess of £3 billion. In addition, local authority debt totals some £9 billion and will require to be financed from existing resources. Employing new staff also has a significant whole life cost for a council beyond the traditional annual establishment budget, such as future pension costs. It is important that financial plans address the long term sustainability of councils' income and expenditure.
195. The Scottish Government's business plan, *Taking Forward the Scottish Futures Trust*, supports the creation of a Scottish Futures Trust Initiative. It is the intention that, through the issue of public sector bonds, funding can be secured at rates cheaper than PFI or PPP and therefore more infrastructure could be delivered per available resources. This initiative is to be developed over the next few years.
196. The timing of the Scottish Spending Review 2007 (SSR07) has resulted in the first year of its funding period being aligned with the first full financial year of the new electoral term. This provides Scotland's local authorities with a clear opportunity to develop work programmes and priorities that can be properly reflected in three year financial planning documents.

Key Risks

Budgets and budgetary control

197. Budgets may be incremental and set corporately to meet overall spending plans. These may not reflect a prioritisation of individual service need and may not receive the necessary commitment from service officers. As a result, there could be a disproportionate budgetary pressure on different parts of the council leading to a reduction in service delivery or over-spending. The council should have arrangements in place to prioritise budgetary demands. These should be applied consistently throughout the year and supported by an underlying costing mechanism that can provide comparable data across the council's activities.
198. As financial pressures build, such as increasing demand from vulnerable clients, budgets may not be reviewed to reflect the changes, or may be subject to top-slicing without a review of overall priorities, resulting in potential overspends or an ineffective use of resources. The council should 'horizon scan' and actively monitor and assess the ongoing impact of significant financial pressures, and the extent to which the financial plan covers the medium to long-term taking into account existing commitments and projections.
199. Capital projects may not be linked to revenue budgets and may not be effectively managed to avoid slippage. Arrangements should be in place to identify slippage as it occurs and take appropriate corrective action and steps should also be taken to ensure capital funds are not obtained in advance of need.

200. Councils may not have a sound budgetary control system in place, including formal accountability and budget control arrangements for budget holders, finance staff and elected members. Financial monitoring and forecasting should enable management to consider its financial position and forecast outturn for a given period, identifying trends and variances. This should lead to prompt action to investigate variances from the plan and take corrective action as appropriate. The system should allow a council to establish whether the outcomes achieved through its use of resources accord with those identified in key policy and planning decisions.
201. Councils may not be able to effectively identify sufficient efficiency savings to enable them to deliver the proposed level of services. Councils should monitor and evidence efficiency savings against efficiency targets and deliver the required levels of efficiencies to meet their policy objectives.
202. The lack of linkage between revenue and capital budgets may result in ineffective planning or delays in the completion of policy and project objectives.

National influences

203. The pressure to freeze council tax levels may contribute to sub-optimal, or unaffordable decisions on investment and/or quick wins but not in sustainable savings initiatives. Also, it seems possible that council tax debt non-payment could increase if the public believe that it is likely to be abolished.
204. The 2008-09 Single Outcome Agreements (SOAs) were finalised following the approval of the 2008-09 council budgets. There is a risk that the budgets are not aligned to the priorities and outcomes included within the SOAs.
205. With the reduction in the level of ring fenced, initiative or non-recurring monies, it is important that councils are able to demonstrate that the outcomes expected are still being delivered as well as the local priorities of individual councils. Poor planning, or receipt of funds late in the year, may result in inefficient use of the funding or failure to achieve national or local priorities.
206. There is also a risk that councils may not deliver the cost and service efficiencies expected from shared services.

Joint working

207. The approach to financial planning may not support effective joint working, restricting the ability to achieve Community Planning objectives. Financial information systems may not be sufficiently integrated or flexible to enable strategic planning with partners. Councils should ensure that financial planning and decision making is effectively co-ordinated with partners and financial information systems in place should be able to support joint working.

208. Financial pressures and potentially tight settlements may have resulted in resources being used to deliver council priorities rather than partnership initiatives.

Financial Governance

209. Senior management within a council needs to understand fully the financial environment in which the organisation operates. It needs to foster a culture in which individual and collective responsibilities for the stewardship and use of resources and financial accountability to external stakeholders are taken seriously and financial skills are valued and developed. The development of the organisation's strategic and corporate plans should be informed by a proper understanding and appreciation of their financial implications.

210. The finance director can make an important contribution to the effectiveness of the organisation and help the authority to demonstrate openness and transparency in the way it operates and conducts its business. At the same time, the finance director has an absolute and overriding responsibility to discharge his or her statutory duties as the authority's 'S95 Proper Officer'. In practice this means that the finance director carries a responsibility for managing the totality of the authority's financial affairs in all of its dealings. In addition he or she has a fiduciary responsibility to local citizens.

211. To be able to fulfil these statutory responsibilities effectively and to facilitate robust corporate governance, the finance director needs to be at the heart of the authority's decision making process and play a key role in the organisation – not only to ensure that finance views carry appropriate weight in policy and decision making but also so that he or she is able to intervene with authority if proper standards are not being met at any time.

212. CIPFA have published a statement on the role of the finance director in local government. As well as identifying finance directors' key roles and related tasks, the Statement sets out a number of principles that CIPFA believes authorities should observe when considering the finance director's position and influence within the organisational structure.

Long term planning

213. There is a risk that council's long term plans may not reflect the recent economic downturn and the risk of a recession, possible issues might include:

- the expected length of a likely recession
- the impact of a recession on partner organisations and major suppliers
- the increased importance of efficiency savings
- the possible need to re-examine local policy objectives and priorities
- the likely impact on capital programme if dependent on future capital receipts

- changes in the pattern of demands on services
- impact on fees, charges and other revenues
- pressures for increased local procurement.

214. There may be a failure to integrate financial planning with corporate/service planning and performance management processes. This could result in resources not being targeted to priorities or reflect changing demographics (including the impact of migration). There should be a clear link in councils between the financial plan and corporate/service plans which transparently matches resources to priorities and focuses on 'whole spend' rather than only additional funding or new activities.

215. There is a risk that councils do not have long term plans or that they will be ineffective if there is a lack of a sustainable, robust and affordable approach to capital planning that is clearly linked to corporate priorities, is based on comprehensive asset management plans, and involves a sound system of capital prioritisation and option appraisal.

216. There may be an absence of a corporate strategy for managing reserves which could result in funds being accumulated unnecessarily, or, more likely, an inadequate cushion held to deal with emergencies. With reserves being used to meet pressures such as equal pay they may fall below the level agreed as council policy and thereby increase the risk to financial stability. Financial plans should support adequate levels of reserves and balances. Where appropriate, councils' plans should include programmes and timescales to build reserves and balances back up to appropriate levels.

217. There may be an absence of a long term borrowing and investment strategy for the management of the council's cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities; and the pursuit of optimum performance, consistent with those risks. Recent events with collapsed banks have given these issues, critical to the management of council finances, a renewed profile.

218. Plans may not be in place for the use of ring-fenced funding, with monitoring and reporting procedures to demonstrate how funds have been used, and whether exit strategies are in place for the end of the funding stream.

Financial Reporting

219. Up-to-date financial and non financial performance information should be provided to councillors and management on a timely basis. This should be presented in a form that is tailored to user needs, is easy to understand and highlights the key financial issues that they need to be aware of. For its part, senior management need to provide timely, accurate and balanced information about its stewardship and use of resources and its non financial performance to the council's different stakeholders. Such information should be presented in a form tailored to meet their needs.

220. Public reporting of councils' performance should go beyond a basic account of areas of income and expenditure. Public bodies operating best practice should ensure that external reports make clear how financial resources have been used, how these have contributed (or not) to the achievement of their key corporate objectives, and what their impact has been. Effective public performance reporting is a key characteristic of Best Value.

221. Additional risks over the period relate to the financial reporting of councils' group accounts with added complexities. Other issues relate to the financial reporting of significant trading organisations (STOs), councils' common good and trust funds.

Training

222. Sufficient financial expertise may not be available within councils to deliver effective financial management. Authorities should ensure that a continuing and well-structured programme of staff development and training on financial issues is in place. The capacity of finance departments to function efficiently can be put at risk where there is an over-reliance on individuals to complete the key processes with no contingency plans in place if they are not available or leave the service.

223. Elected members of an authority who are members of the audit function or scrutiny arrangements may not have received appropriate financial and scrutiny training. Relevant training programmes should be in place for elected members and ongoing support should be available.

Looking Ahead

224. The Scottish Government recently concluded a consultation on proposals to replace the council tax with another form of locally based income tax and expects to publish an analysis of the consultation responses in autumn 2008.

225. Councils should look at innovative ways of creating savings in such areas as partnerships and business process transformation exercises such as 'value chain analysis' – a detailed authority wide analysis of resources and activities. The approach analyses common activities and processes undertaken across departments and the level of staffing resources involved.

226. CIPFA/LASAAC has announced a new governance framework for the Code of Practice on Local Authority Accounting. The new Code for 2010/11, when local authorities will complete their transition to IFRS-based reporting, will be prepared under the oversight of the Financial Reporting Advisory Board (FRAB) rather than the Accounting Standards Board (ASB) as for previous years. The new FRAB-linked framework for the Code will allow local government to participate directly in the same standard setting process as central government and the NHS.

227. During the period 2010-11 International Financial Reporting Standards (IFRS) are being introduced for local authority accounts. These standards require a number of disclosures and information not previously part of local authority accounts and councils will have to undertake training and other activities to enable staff to comply. There is a risk that councils will not comply with the standards and this could result in audit qualifications or missed deadlines for accounts submission.
228. The introduction of separate financial statements for local government pension funds is expected with increased stakeholder attention on the financial reporting and management of pension schemes.

People Management

Why is people management important?

229. Councils decide their corporate priorities and how they will deliver services that meet the needs of local communities. The successful achievement of council objectives and the delivery of high quality services, whether directly by council staff or by others who are monitored by council staff, depends on the capacity, capability, competency and motivation of the workforce.
230. In March 2008 the number of staff employed in local government was 229,500 (full time equivalent), which accounts for 50% of the total public sector employment in Scotland. Staff costs are the greatest single item of spend in every council.
231. Workforce related issues are currently at the forefront of local government business, as councils continue to deal with outstanding equal pay claims including those at industrial tribunal. In addition, a number of councils have yet to implement the single status agreement. Councils also need to implement the age discrimination legislation that was introduced in October 2006 and consider the proposed changes to the local government pension scheme. The financial implications of all these matters are significant and will affect employer/employee relationships.
232. The single status agreement between local government employers and trade unions has been in place since 1999 and involves merging the pay and working arrangements for APT&C and manual employees. The agreement gives councils the opportunity to review existing policies and employment arrangements to bring to an end outdated working practices, while complying with equal pay requirements. In 2007-08 as councils continued to implement single status agreements there are ongoing threats of strike action and low staff morale. There remain a number of councils that are still in the process of negotiating pay and grading structures in order to comply with single status and risk facing additional equal pay claims and/or equal value claims.

233. The Local Governance (Scotland) Act 2004 introduced a range of measures. It is generally accepted that, in part due to the age profile of the current senior management post holders within local government, including head teachers, that many will take the opportunity to retire or otherwise leave local government service. This presents challenges to ensure that effective succession planning is in place in what will be a period of significant change up to and beyond the current financial year.

234. At the same time councils need to continue to plan for changes at senior manager level. They also need to consider how changes in demands for services and the way in which services are delivered will impact on staff numbers and skills.

235. As part of its drive for efficiency, the Scottish Government promotes good workforce management and encourages shared services as a way of releasing efficiency savings and driving up service quality and consistency. These proposals will continue to have a significant impact on workforce needs and workforce planning in the future as councils look for more efficient ways of providing services.

236. The changing nature of councils' work means that partnership working is an increasing aspect of local authorities' activities. Councils should consider working more collaboratively with other agencies in order to obtain better labour market data, respond to staff shortages and deliver joined up services to the community.

237. The 2007-08 PRF work indicated that councils continue to experience difficulties in recruiting and retaining experienced staff, notably in social work (particularly in rural areas) and in education.

Key Risks

Single status and equal pay

238. The implementation of the single status agreement will continue to affect employer/employee relations and, in turn, may affect service delivery and the achievement of corporate objectives and performance improvements. There is also a risk that councils incur extremely high legal costs in defending some equal pay cases. They should review their position on outstanding cases at regular intervals.

239. The ongoing costs of equal pay, single status and age discrimination may not be properly budgeted for. Councils should ensure that pay and reward systems meet legislative requirements under the Equal Pay Act and that any areas of discriminatory practice have been addressed. All relevant costs should be included in appropriate budgets with the ongoing financial implications fully considered.

240. In implementing the single status agreement, the opportunity to review and redesign services or modernise working practices may not be taken. Councils should take the opportunity when implementing the single status agreement to review, redesign and modernise working practices.

Workforce management

241. A workforce strategy will identify risks in relation to workforce matters, covering issues such as health and safety, equalities, business continuity and succession planning. A comprehensive workforce strategy may not be in place. Councils should ensure a strategy is in place to address health and safety, equalities, business continuity and succession planning issues.
242. Councils' employment and recruitment policies may not be fully in line with its commitments and legislative requirements. Councils should also ensure that employment and recruitment policies are in line with commitments and legislation as well as ensuring they are applied in a consistent manner across each department.
243. The performance of all staff may not be regularly assessed and staff may not be actively supported in improving and/or developing their skills. Councils should have performance assessment processes in place which link performance assessment to training, re-skilling and development strategies.
244. Staff surveys are important to establish staff attitudes and determine whether the workforce feels valued and that their skills and knowledge are used effectively and to the full. A recent staff survey may not have been carried out.
245. Information on current and future service demand and capacity may not be sufficiently robust or accurate to inform decisions to support workforce management, planning, recruitment and development. Councils should quantify workforce requirements in terms of both numbers and skills of staff in the short, medium and longer term and should ensure this takes account of service redesign from best value reviews and other changes in working practices, training, service delivery and resources.
246. Information on the age profile and career intentions of current senior management, and other key staff groups where there are recruitment difficulties, is important to inform succession planning. Councils should ensure processes are in place to ensure relevant information is available to allow succession planning.

Efficient use of resources

247. Workforce management may not be sufficiently linked to the financial strategy, leading to problems in meeting employee related costs, including pensions, in the longer term. Councils need to consider workforce management along with financial strategies.
248. There is a risk of reluctance by a council, its members or senior management, to consider organisational restructuring or whether shared services could bring benefits. This may limit best use of capacity and/or available skills across the organisation and between potential partners. Workforce

plans and strategies should be aimed at achieving both corporate objectives and the objectives of community partnerships and therefore should be linked to both corporate and community plans.

Absence management

249. Arrangements for managing absence may not be effective in tackling abuse and work-related causes of ill-health and in supporting staff so that they can return to work. Councils should have arrangements in place to ensure all absences are adequately managed.

Looking Ahead

250. The implementation of single status will continue to be an issue for a number of councils for 2008-09 and possibly moving forward into 2009-10. A number of councils continue to struggle to reach agreement with staff and unions.

251. It is recommended that where they have not already done so, councils consider joining the national recruitment portal to help address recruitment problems.

Asset Management

Why is asset management important?

252. This section of the PRF focuses on the strategic and operational management of assets. The appropriate use of assets in the right location can make the difference between good and poor service delivery. Good asset management helps to ensure that frontline services are delivered in the most effective and efficient way. Effective asset management can release resources, generate both revenue and capital savings, and improve value for money in service delivery. There can be a considerable opportunity cost in holding assets, such as tying up resources in retaining property not in use or not fully utilising assets.

253. Best value requires councils to demonstrate the sound use of the resources in their control, covering physical assets as well as financial resources and human resources. Definitions of assets vary, with the focus traditionally being on capital assets such as infrastructure, land and buildings, but the principles of good asset management also extend to other assets such as vehicle fleets, stock, IT and other equipment.

254. Scotland's councils control and manage a substantial portfolio of assets in delivering public services. The total value of capital assets alone is in the order of £26 billion and includes land and buildings, vehicles and equipment. Councils spend around £2 billion annually in acquiring new assets or enhancing existing assets and the annual running costs associated with managing and financing assets constitute the second highest element of revenue budgets after employee costs.

255. Asset management is high on the Scottish Government's agenda. A review of public sector asset management was commissioned by the Cabinet Secretary for Finance and Sustainable Growth to consider the status and quality of the management of buildings in the central government sector. The outcome of this review was published in January 2008. In May 2008 the Scottish Government published "Taking Forward the Scottish Futures Trust" which aims to support the effective planning funding and delivery of public sector infrastructure investment. The Scottish Parliament Finance Committee is also carrying out an inquiry into the methods of funding capital investment projects during 2008.
256. The Local Government in Scotland Act 2003 reduced central control over local authority capital expenditure and replaced it with a prudential regime which enables councils to invest as long as their capital spending plans are affordable, prudent and sustainable. Capital investment decisions need to be underpinned by a robust asset management planning process which ensures all options are considered and that decisions represent the best fit to corporate objectives.
257. Asset management is one of the five efficient government work-streams. Under the new local government funding arrangements agreed with the Scottish Government, all efficiency savings achieved are retained by councils. If, however, anticipated efficiency savings are not achieved this will have an adverse financial impact for the councils.
258. A Statutory Performance Indicator on the proportion of operational accommodation that is suitable for current use, condition and suitability has been in place since 2006-07, reflecting the increased recognition of the importance of asset management. The information generated for this SPI should form useful information on how well councils manage their physical assets. The Federation of Property Societies have also developed a suite of indicators which can be used to manage assets.
259. Councils are also responsible for the stewardship of common good funds within their area and for ensuring that common good assets are properly recorded and insured. Councils' 2007-08 accounts show net assets in common good funds of £175 million, although the completeness and accuracy of this figure is uncertain. It is important that Councils establish which of the assets they have title to are common good assets. Councils are required to maintain accurate asset registers which identify common good assets as distinct from the general body of assets under council control.¹
260. Councils will need to quickly work towards compliance with current and forthcoming regulation schemes by the Office of the Scottish Charities Regulator (OSCR) and guidance on Common Good introduced by CIPFA/LASAAC during 2008.

¹ LASAAC Accounting for the Common Good Fund – A Guidance Note for Practitioners December 2007

261. Asset management involves full life cycle management of assets in order to maximise their advantage. It covers acquisition and disposal, replacement and improvements and the maintenance and management of capital assets. Councils need to take a strategic approach to asset management, viewing assets as a corporate resource to support new ways of working, including partnership working. Best value also requires councils to find a balance between quality and cost in decisions relating to the procurement and use of assets, and requires a sustainable long-term approach to asset management.
262. Optimising the use of assets is key to ensuring efficiencies are achieved. Councils need to consider the impact of holding surplus assets or of low occupancy levels in operational assets as well as looking for opportunities to share assets either internally or with partners.
263. Asset management does not operate in isolation but is intrinsically linked with financial management and procurement decisions. Long term, robust decision making at the development stages of capital projects can have a positive impact on the environment as well as minimising costs in the future. Councils should consider not only the internal impact of major asset management decisions but also the impact on partner organisations and the environment.
264. Effective management of council assets is likely to bring a number of benefits including:
- making council buildings work better for staff and service users, including
 - ensuring new or refurbished buildings support current and future service and capacity requirements
 - complying with sustainable development requirements
 - providing a means of targeting investments to minimise the risks associated with the assets
 - providing clear evidence of asset performance
 - providing an opportunity to obtain Best Value in the costs associated with holding, managing and disposing of council assets.
265. Annual reports by local external auditors in councils and audits of Best Value and Community Planning suggest that effective asset management is at an early stage of development in many councils. Few councils had good corporate asset management arrangements in place. While some had a good corporate approach but poorly developed service asset management (or vice versa), in others both a corporate and service based approach were lacking.
266. Audit Scotland's is currently undertaking studies of asset management in the councils and the NHS. Copies of the project brief for each study are available on our website. Information collected during each study, including assessments of each council's arrangements for asset management and benchmarking data, will be made available to auditors and audited bodies after publication. Each

report will contain a number of recommendations which auditors will wish to follow up, the reports are due to be published in winter 2008 (NHS) and spring 2009 (Local government).

Key Risks

Strategic planning

267. Asset management may not be viewed as an integral part of the strategic and business planning process, with the result that business planning may not be supported by the most appropriate asset base. The financial consequences of acquiring, holding and maintaining assets may not be recognised in financial planning. Councils should ensure there are clear links between the corporate business planning process and asset management strategies. Asset management plans should be regularly reviewed and updated to support strategic objectives. Councils should ensure there is a clear commitment to asset management throughout the organisation, with elected member and officer roles clearly set out and supported by training.

268. A corporate approach to asset management and utilisation may not be taken, which could result in a failure to take advantage of economies of scale or opportunities to share. Opportunities for sharing property or other assets with other organisations for the benefit of the community as a whole may not have been considered. Council should ensure good asset management principles are proactively promoted in organisations over which the council has significant influence. A corporate approach to asset management should be undertaken, including opportunities for sharing and scope for the development of greater professional expertise.

Information management

269. Information on asset condition and suitability may not be used to inform management proposals for new investment and maintenance plans. Councils should ensure information on asset condition as reported in SPIs and elsewhere is complete and accurate, reflected in up to date asset registers and used to inform financial and service plans. Key performance indicators in relation to cost and utilisation should be used to maximise the use of assets and identify efficiency savings.

270. Councils may not have established which assets to which it has title are common good assets. Accurate and complete asset registers which identify common good assets as distinct from the general body of assets under council control should be established to enable councils to meet their stewardship responsibilities.

Systems and techniques

271. Costs and time frames may not have been estimated to bring assets currently not in a satisfactory condition or accessible to disabled people up to an acceptable standard. The council should ensure such estimates have been carried out.

272. The value of anticipated efficiencies from better asset management may not have been established. Given that efficiency savings have been built into the new financial arrangements between central and local government, the council should establish, record and monitor the levels of efficiency savings from asset management to support its financial planning processes.
273. Asset management often involves making choices between options. Option appraisal frameworks appropriate for councils' circumstances and supporting this decision process may not be in place. Robust option appraisal frameworks should be developed which can then be translated into option appraisal processes to help councils reach decisions on capital investment. A key part of this process would be to undertake post implementation reviews to determine whether the capital projects met the original objectives and to take forward any lessons learned.
274. Asset management systems may not be fully developed. Action plans to address issues and to ensure appropriate systems are put in place should be developed.
275. The opportunity cost of holding assets not in use or formally declared as surplus, or holding excessive stocks, may not be considered as part of the overall approach to asset management, with the result that resources may be tied up which could be redirected to frontline services. Councils should consider opportunity cost as an integral element of the asset management approach, with these costs identified, reported and used to inform the decision making process.

Other asset management risks

276. Without good asset management arrangements in place there are risks that:
- the financial consequences of acquiring, holding and maintaining assets may not be adequately recognised in financial planning leading to budget pressures in future and poor value for money
 - information on current and future service demands may not be sufficiently robust to support planning for asset acquisition, maintenance and disposal; or support progress in ensuring buildings meet the requirements of the Disability Discrimination Act
 - poor maintenance records in asset management systems may lead to increased safety risks and, in the worst case, cause injury which could lead to prosecutions
 - poor information on common good properties in asset registers could lead to unforeseen problems with capital projects, for example, the proposed new use for land not being permitted
 - councils may not be able to identify and dispose of unsuitable assets or those in poor condition with adverse affects on services
 - councils could be retaining more assets than they need to deliver services leading to under-utilisation and poor value for money.

Looking Ahead

277. The recent economic downturn and associated decline in property values may result in councils' property investments performing at a poorer level than anticipated, with some facing significant reductions in capital receipts. This may affect the viability of some capital programmes; councils may decide to retain some property assets until the market improves, but will need to identify and consider the potential associated costs.
278. The introduction of the Scottish Futures Trust (SFT) may assist councils' capital investment plans in the future. However, if the trust eventually emerges as a procurement vehicle only, there is a risk that some council capital schemes may need to be revised to take account of the amount of funding available.
279. Full compliance with LASAAC guidance on the accounting treatment of common good funds by 31 March 2010 may create specific challenges for individual councils.
280. The need to procure infrastructure for the 2014 Commonwealth Games may also have an impact on some councils' programmes of work.
281. CIPFA's Local Government Directors of Finance Section, Scotland have issued a 'Guide to Asset Management and Capital Planning'. The purpose of the guide is to provide councils with practical advice on how to create asset management plans and capital investment plans for all assets using a framework to collect the right information. The guidance seeks to ensure that asset management planning is linked to service planning, capital planning and financial planning.

Procurement

Why is procurement important?

282. As stated by the Cabinet Secretary for Finance and Sustainable Growth in May 2008, "*the people of Scotland rely on public bodies spending their budgets wisely and rightly expect that public contracts should deliver the best possible value for money while supporting high quality public services with due consideration to the impact on the local and global environment.*" To achieve this, all parts of the public sector should actively participate in the drive for improved public procurement with particular emphasis on avoiding duplicated effort, disconnected and inefficient contract arrangements, or lack of engagement with the public procurement reform programme.
283. Local authorities across Scotland spend around £4.1 billion annually on purchasing goods and services. As part of the Efficient Government Initiative it was anticipated that financial savings of £200m could be achieved through improved procurement procedures across the whole of the public sector. In light of this, in 2005 the Scottish Executive commissioned John McClelland to carry out a

detailed review of public sector procurement in Scotland to examine current structures and organisations, skills and capabilities, practices and procedures, indicators and targets and opportunities for new techniques.

284. In March 2006, the McClelland Report was published and it concluded that in most areas examined the main public sector procurement processes still had weaknesses in resources, skills, organisation structures and practices. The report stated that these issues constrained the ability of public sector organisations, including local authorities, to secure Best Value and cost savings from their procurement activities.

285. This challenged local authorities to make significant improvements in procurement in a relatively short time frame. The complexity and scale of rising to this challenge demand the initiation and management of a co-ordinated programme or work. In most local authorities a programme of work has commenced and includes initiatives at all levels and across all organisations within local government, including:

- changes to policy
- delivery of cross-sector collaboration and structures to support it including the establishment of a centre of expertise (Scotland Excel)
- improving procurement management information
- enhancing skills and practices
- improving procurement efficiency (e-procurement)
- improving supplier relations.

286. To provide an update on progress, in December 2007, the Scottish Local Authorities Chief Internal Auditors' Group published the results of a national review of local authority compliance with best practice procurement arrangements set out following the McClelland Report which reported overall compliance at 50 percent. This review covered the key issues of:

- accountability and governance
- structure and organisation
- systems and performance reporting
- conduct of best practices
- compliance with the procurement handbook.

287. Following the publication of the McClelland Report, the Scottish Government recognised that there is potential for a better focus on commodity expertise through the creation of centres of procurement

excellence. In April 2008, Scotland Excel was set up to provide collaborative contracts which would offer the potential for substantial savings across the local authority sector. Scotland Excel would concentrate on category B contracts as defined by the McClelland Report (ie high value commodities and services considered to be unique to a sector but common across that sector). Category A contracts, high value cross sector contracts, would be administered by a new national centre of excellence, while lower value category C contracts would continue to be administered by individual purchasing authorities.

288. Scotland Excel currently has 27 local authorities as members and believes that available savings on category B contracts exceed £35 million each year.

Key Risks

289. A key risk for local authorities will be a failure to fully engage with the procurement centres of excellence. However, while membership of Scotland Excel is likely to provide authorities with access to a range of collaborative contracts of the type recommended by the McClelland Report as being likely to provide best value, it is crucial that local authorities have procurement strategies in place that are fit for purpose. They also need to be able to demonstrate that their procurement and governance arrangements comply with the standards set out in the McClelland Report.

290. In particular, in order to be in a position to maximise procurement efficiencies and savings, local authorities need to ensure that their own purchasing strategies and systems contain a number of key features. Issues that authorities should examine include whether:

- procurement activities are represented at senior levels within councils and that the responsibilities of individuals in the procurement function are clear and recognised
- an appropriate procurement strategy has been adopted
- adequate numbers of procurement professionals and other properly trained staff should be in place
- appropriate structures exist within councils to ensure that procurement is handled in a corporate manner. Where it is not corporately led, procedures must permit the collaborative assessment between service departments of procurement need
- effective information sharing and management information systems exist, including benefit tracking systems for performance management purposes
- a good system of supplier engagement is in place to supply meaningful liaison and feedback, both at the procurement stage to fully explore contract specifications and during the contract period.
- effective contract management is in place to assess contract performance

- full recognition of sustainability issues during the procurement process is established
- full compliance with legal obligations, including EU procurement rules, exists.

Looking Ahead

291. Procurement will be given increasing attention by Audit Scotland, with a national study started in September 2008 and due to report in early 2009. The aim of this study is to provide a position statement on progress made by the reform programme in implementing the McClelland report recommendations.

292. Our study of the reform programme will provide a high-level review of progress being made against the McClelland recommendations across the main public service sectors. The study will identify the overall objectives of the reform programme; the main structural changes at national and sector level that have taken place as a result of the reform programme; and the further changes that are planned.

293. Audit Scotland is also developing a Best Value Procurement toolkit, to be available later in 2008. This is part of our strategy to develop a suite of products to allow a structured evidence based judgment to be developed on an organisation's approach to the use of resources and its achievement of Best Value. Other toolkits in development include: Financial Management; Information Management; and Efficiency. The toolkits may be used to facilitate reviews of individual public bodies' performance in these areas in due course, and as required, in accordance with the more proportionate, risk-based principle for Best Value audits.

Information Management

Why is information management important?

294. Information regarding citizens is a key resource for local authorities to be able to manage services effectively. There is pressure from government to modernise and integrate service support systems to increase efficiency. ICT investment carries a significant risk of over-spend with new technologies and transforming working practices presenting challenges for improving governance and internal control. In the last few years, local authorities have invested in e-procurement, contact centres and better web-sites, as well as improved ICT infrastructure. In many cases, these services are operational and should now be achieving their objectives.

295. The Data Protection Act 1998 (DPA), Freedom of Information (Scotland Act) 2002 (FOISA) and other pieces of legislation increase the requirements for effective information management across all aspects of local government. The public and other stakeholders have a need for easy access to information. They also have a higher awareness of data protection and information issues following

incidents such as the HMRC and confidence in public stewardship of information is required to achieve the "Customer First" agenda.

296. 'Customer First' is a Scottish Government sponsored programme developed in partnership with Scottish local authorities and managed under the direction of the Improvement Service. An initiative being developed as part of the Programme is the 'OneScotland Portal' which will provide a convenient access to public services and information in Scotland. The main projects within the Customer First programme are:

- Citizens Account – a database hub fed by local Citizens Account databases verified by the General Records Office for Scotland which holds the names and unique address information for all the citizens of Scotland (around 5.2m records). The Citizens Account should ensure that public sector staff have immediate access to service information and the details of customers.
- DNA Scotland – a 'definitive national address' database of property references (around 2.8m) based on the local Corporate Address Gazetteers. This then forms the property backbone for the Citizens Account 'hub' with 'spokes' to each Scottish local authority.
- Customer Relationship Management – based on the Citizens Account, a single point of contact (either by telephone or on line through the One Scotland portal) to inform Scottish local authorities of changes of address or other 'life events'.
- Entitlement Card – a multifunctional card used for young people, concessionary travel, and library and leisure services.
- National Infrastructure – a data communication infrastructure and the national database, ensuring secure communications and resilience.

297. In December 2007, the Scottish Government issued the paper "Shared Services – Guidance Framework" which sets out a challenging new agenda. This was followed up with "Efficiency Delivery Plans 2008-11" issued in May 2008. In addition to the impact of the National Performance Framework and Single Outcome Agreements, these will all lead to greater flexibility in the delivery of services to meet local needs. Undoubtedly ICT facilities will be utilised to help in the achievement, reporting and measurement of this agenda, which will in turn contribute to the overall "Scotland Performs" initiative.

298. Another impact of the National Performance Framework is the 32 local authorities in Scotland finalising Single Outcome Agreements, which set out how there will be greater flexibility in the delivery of services to meet local needs. Undoubtedly ICT facilities will be utilised to help in the achievement, reporting and measurement of this agenda, which will contribute to the overall "Scotland Performs" initiative.

299. Data sharing initiatives will inevitably be part of the process by which the above agenda laid out in the National Performance Framework will be delivered. However, the National Performance Framework

has the potential to impact ICT in a number of other ways, and these include the requirement for a “greener” Scotland. The Green ICT agenda, as it is known, while including Scotland’s carbon footprint, does have a wider horizon, having been adopted by the Westminster Government from European directives like Waste Electrical and Electronic Equipment (WEEE) 2002/96/EC and 2003/108/EC, and is mentioned in the Lisbon Treaty.

300. The Scottish Resilience Civil Contingencies Unit on behalf of the Scottish Government has issued guidance. This unit has developed a business plan and targets for the coming year relating to “emergency planning and response”. Local government will be required to provide input, and part of this will be suitable provision for and contribution to ICT contingency.

Key Risks

Data Handling and Security

301. The responsibility for data handling and security may not be considered as a corporate requirement, and instead handled at a local or service based level. This way of working could lead to inconsistent working practices. The absence of corporate policies and guidelines in place to ensure the organisation can fulfil its commitments in relation to data handling and security requirements will increase the risk of lost or stolen data.

Citizen information

302. Information regarding clients may be held at service or departmental level and not be shared at a corporate level. This lack of sharing may lead to the delivery of services being less efficient and effective.

303. Inclusion of a citizen’s details on the Citizens Account database requires consent. Such consent may be implied where a citizen requests the use of a multifunctional card such as a library card or concessionary travel card, though limited to that element of the service taken. The absence of appropriate consent or ineffective security measures surrounding the database and the communications infrastructure, may lead to a breach of the DPA.

304. The Entitlement Card is not introduced as an identity card for citizens. However, one of the benefits for cardholders that is put forward is that the card does function as a new form of identity such as proof of residence or age, validated by the local authority. There is a risk that the local procedures for issuing or replacing cards are not equally robust in every authority to provide such proof.

ICT investment

305. Investment in computer systems and ICT infrastructure may not be subject to corporate management team control and instead performed at a local or service based level. Councils without an adequate process in place to ensure all significant investment is in line with strategic targets may fail to achieve the desired outcomes.
306. ICT services that have been introduced may not have been subject to assessment and corresponding comparison or benchmarking with stated objectives, including business cases. Councils which do not make all significant expenditure the subject of project / programme management might fail to ensure best value and the consistency of implementation will not be assured.

Legislative environment

307. The responsibility for compliance with information legislation may not be considered as a corporate requirement, and instead handled at a local or service based level. This way of working could lead to inconsistent working practices and possible unnecessary duplication of effort. A lack of corporate policies and guidelines in place to ensure the organisation can fulfil its legal commitments in relation to information processing legislation may increase the risk of non-compliance with legislation.

Government initiatives

308. Sponsorship of the OneScotland Portal may not be supported at the correct level with appropriate involvement from a representative of the corporate management team.
309. Stewardship of the National Performance Framework and Shared Services initiatives may not be subject to corporate management team control and instead performed locally or based on specific services.
310. Single Outcome Agreements and Scotland Performs may not be supported at the correct level with appropriate involvement from key representatives of the corporate management team.
311. Green ICT may not be considered as a corporate requirement and instead handled at a local or service based level. This way of working could lead to inconsistent working practices and possible unnecessary duplication of effort.
312. There is a risk that governmental initiatives and directives, including all of the above topics, are not being sponsored at the appropriate level within the organisation and progress is not being reported on a regular basis. Councils may fail to achieve the desired outcomes.

Infrastructure

313. ICT contingency in the context of councils' 'emergency planning and response' may not be considered as a corporate requirement and instead handled at a local or service based level. The Scottish Resilience Civil Contingencies Unit on behalf of the Scottish Government has issued guidance which defines councils' responsibilities. Councils may not have carried out risk assessments and developed plans.

Looking Ahead

314. Audit Scotland is in the process of carrying out a national study on Civil Contingencies Planning and this will be reported in spring 2009.

315. The Scottish Government has conducted a review of data handling, mainly covering central departments including Health at this time, but local government can expect to be involved in the follow up to the report "Data Handling in Government" issued in June 2008.

316. The Scottish Government has also set up a group of privacy and security experts to scrutinize how local government services handle personal data. The group will develop a draft set of guiding principles for Scottish public bodies in an effort to protect individuals' privacy. It will cover services that use ICT, such as online council tax payments, using cards in libraries and paying for parking by mobile phone. Once developed, a consultation on the draft principles will follow in early 2009.

317. The Scottish Government also intends to bring forward proposals for Data Classification in early 2009, for consultation. Progress in this area should be used as part of follow up to data handling work conducted in 2007/08.

318. Audit Scotland plans to engage with the Improvement Service in order to gain assurance on the governance of the national programme and projects as well as the controls in place to safeguard the integrity of nationally held records. In addition, the development at local level, and the progress made on the local projects will be subject of discussion. It is worth noting that local authorities are at various stages of scoping and implementation of the Customer First initiatives.

Service Priorities and Risks

Why are service priorities and risks important?

319. The Scottish Government emphasis on streamlined, better co-ordinated scrutiny means that it is important that audit and inspection agencies understand each others' businesses, be aware of the risks in each others' sectors, and share intelligence to avoid overlap and duplication of scrutiny activity.

320. Key to this agenda is the Scottish Government's request to the Accounts Commission (in response to Crerar recommendation 38), to put in place arrangements to streamline and reduce the burden of scrutiny for local authorities by gate-keeping corporate scrutiny activity and co-ordinating service inspection.

321. Audit Scotland (on behalf of the Accounts Commission) is working closely with inspectorates on this through an operational scrutiny group which is made up of all of the scrutiny bodies involved in the audit and inspection of local government (HMIE, SWIA, the Scottish Housing Regulator, the Care Commission and NHS QIS).

Key Risks

322. Whilst audit and inspection are quite distinct, we have several areas of shared interest. Obvious areas for local government include:

- strategic service challenges
- the quality of service leadership
- service governance and performance arrangements.

323. Appendix A sets out the key education, social work and housing services challenges identified by inspectorates.

Looking ahead

324. Consideration is being given to the introduction of an annual shared risk assessment process involving all the relevant scrutiny bodies, with Best Value criteria at its centre, as part of the Best Value 2 development process.

325. If implemented, that risk assessment process would form the starting point for all joint scrutiny planning, leading to the agreement of a rolling three to five year scrutiny plan for each council. The scrutiny plan would set out the detailed scrutiny activity to be undertaken during this period (both corporate and service-based) and how and when this work will be undertaken. Decisions on this matter are likely to be made before the end of March 2009.

326. On the 6th November John Swinney announced his proposed reforms to the scrutiny landscape in response to the Crerar report. The key changes affecting the local government sector are:

- a single scrutiny body for care and social work will be created covering the functions of the Social Work Inspection Agency, the Care Commission (minus its regulation of independent healthcare) and Her Majesty's Inspectorate of Education's (HMIE) current responsibilities for inspecting child protection and the integration of children's services
- HMIE will maintain their focus on raising educational standards, stimulating improvement and promoting self evaluation, whilst also continue to ensure that education works with other services to support the development and well being of all children in Scotland
- a single new health body will be created bringing together the existing functions of NHS QIS and the Mental Welfare Commission, together with the scrutiny and regulation of independent healthcare currently undertaken by the Care Commission

327. The structural reform will be delivered by 2011 and reflected in a Public Services Reform (Scotland) Bill due to be introduced early next year, or through specific legislation relevant to the policy area.

328. Audit Scotland will continue to work with all of the organisations affected to deliver more streamlined and better co-ordinated scrutiny through the Accounts Commission's gatekeeping role, throughout the transition period, so that joint scrutiny planning arrangements can be embedded within the new scrutiny landscape.

Appendix A

Key challenges identified by Inspectorates

Background

The following summaries of key challenges facing local government were provided by Inspectorates.

HMIE

- Implementation of curriculum for excellence – this is a major change to the education curriculum affecting schools and other learning services such as youth work. Expectation of local solutions rather than centrally imposed national curriculum. Consequently need to ensure progress and not a culture of waiting to be told what to do.
- Single Outcome Agreement – three NPF indicators are tied to HMIE inspection – school, pre-school and child protection inspection. As inspections counting towards the councils performance begin to amass it will be important to ensure that the council is responding positively.
- New inspection models – Based on rigorous and accurate self-evaluation. Not just in schools but in wider services. Need to monitor how councils are responding to this new era in quality improvement.
- Inter-disciplinary responses to key SG policy initiatives such as ‘Get it Right for Every Child’ (GIRFEC), ‘More Choices More Chances’, Skills Strategy and especially Early Years Strategy. Family support, giving children the best start and improving children's health and well being. Also encouraging learning for life to ensure responsive and flexible workforce. How are Community Planning partners ensuring these positive outcomes?

SWIA

The risk of serious harm to the public arising when services fail to protect vulnerable children and adults in need of protection, or fail to manage a serious sexual or violent offender well enough is particularly important – failure here increases the probability of serious incidents. Services in these areas are usually delivered in complex partnerships between agencies and are resource-intensive, and it is always impossible to eliminate risk. The important concept here is ‘defensible decision making’, summarised briefly, this would be the test ‘has the service done everything reasonably expected of a professional competent body to assess and manage the predicted risks to an individual or family’.

Strategic Commissioning is a very specific aspect for the procurement of services and an important concept in social work that is about planning, developing and procuring the right services to help:

- focus service development on the right outcomes
- get the balance right between in-house and externally purchased services
- make services more personalised to individual needs
- put service users in control of their own care arrangements
- promote new and innovative ways of meeting need
- shape the social care marketplace to support independent living
- achieve best value.

SHR

- Councils' capacity to deliver on the 2009 and 2012 homeless targets.
- The level of corporate prominence given to homelessness services (particularly in the context of SOAs).
- Impact of reducing receipts from land / house sales as a consequence of the slow down in the housing market (and the wider tightening in the lending world) on fundability of housing capital investment programmes, including the Scottish Housing Quality Standard (SHQS).
- Quality of information base to support effective housing asset management, particularly the planning to achieve the SHQS.
- Impact of central service recharges to the HRA on rent setting and resource availability to housing.

Further information

Cross cutting Issues

- Equality and Human Rights Commission Scotland website - <http://www.equalityhumanrights.com/en/scotland/pages/ehrcscotland.aspx>
- Sustainable Development Commission (SDC) Scotland - <http://www.sd-commission.org.uk/scotland.php>

Vision and Strategic Direction

- Audit Scotland Community Planning report – Community Planning: an initial review - http://www.audit-scotland.gov.uk/docs/central/2006/nr_060616_community_planning.pdf
- The Local Government in Scotland Act 2003 - Statutory guidance on Community Planning - Scottish Government - <http://www.scotland.gov.uk/Resource/Doc/47237/0028845.pdf>
- Improvement Service website -Community Planning useful links - <http://www.improvementservice.org.uk/useful-links/commplan/>

Partnership Working and Community Leadership / Engagement

- Audit Commission report “Governing partnerships: bridging the accountability gap” – <http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=1CDA0FEF-E610-463c-B3F3-220F607B1A2C&fromREPORTSANDDATA=NATIONAL-REPORT>
- Improvement Service website has links to a large number of documents aimed to improving partnership effectiveness – <http://www.improvementservice.org.uk/>
- Fairer Scotland Fund information - <http://www.scotland.gov.uk/Topics/Built-Environment/regeneration/fairer-scotland-fund>
- Community Health Partnerships – <http://www.show.scot.nhs.uk/sehd/chp>
- Community Planning Partnerships guidance notes - www.scotland.gov.uk/Publications/2004/04/19167/35260
- Regional Transport Partnerships – <http://www.scotland.gov.uk/Topics/Transport/regional-partnerships>

- Community Justice Authorities
<http://www.scotland.gov.uk/Topics/Justice/criminal/19556/commjusticeauth>
- For Scotland's children: Better integrated services for children - Scottish Government –
<http://www.scotland.gov.uk/library3/education/fcsr-00.asp>
- Community Safety website –
http://www.infoscotland.com/infoscotland/servlet/controller?p_service=Content.show&p_applic=CCC&pContentID=46&pMenuID=1&pElementID=5

Governance and Accountability

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- Transforming Public Services – The Next Phase of Reform - Scottish Government -
<http://www.scotland.gov.uk/Resource/Doc/130092/0031160.pdf>
- Local Government in Scotland Act 2003 -
<http://www.opsi.gov.uk/legislation/scotland/acts2003/20030001.htm>
- Local Government in Scotland Act 2003 – Statutory Guidance on Public Performance Reporting
<http://www.scotland.gov.uk/Publications/2005/01/20531/50061>
- Elected Member Leadership in Best Value – Advisory Note - Scottish Government -
<http://www.scotland.gov.uk/Resource/Doc/35596/0028835.pdf>
- Review of Remuneration Arrangements for Local Authority Councillors - Scottish Local Authorities Remuneration Committee - <http://www.scotland.gov.uk/Resource/Doc/90455/0021760.pdf>
- Renewing Local Democracy – Report of the Widening Access to Council Membership Progress Group
<http://www.scotland.gov.uk/Resource/Doc/36496/0024802.pdf>
- Improvement Service Website - <http://www.improvementservice.org.uk>
- Corporate Governance in Local Government – A Keystone for Community Governance – CIPFA/SOLACE, available from CIPFA
- Guidance notes on Delivering Good Governance in Local Government -
www.cipfa.org.uk/panels/corporate_governance/good_gov_briefing.cfm

- 'Code of guidance on funding external bodies and following the public pound' (1996) and 'Following the Public Pound': published by the Accounts Commission in March 2004: http://www.audit-scotland.gov.uk/docs/local/2003/nr_040311_following_public_pound.pdf
- Improvement and Development Agency (IDEA) website - <http://www.idea.gov.uk/idk/core/page.do?pagelId=1>

Performance Management and Improvement

- The Local Government in Scotland Act 2003 - Statutory guidance on Best Value – Scottish Government www.scotland.gov.uk/Resource/Doc/47237/0028846.pdf
- Scottish Budget Spending Review 2007. Concordat between the Scottish Government and local government. <http://www.scotland.gov.uk/Publications/2007/11/13092240/concordat>
- Value For Money in Public Sector Corporate Services – Public Audit Forum 2007 <http://www.public-audit-forum.gov.uk/performanceindicators.pdf>
- Choosing the Right Fabric - A framework for Performance Information - <http://www.nao.org.uk/guidance/focus/fabric.pdf>
- Scotland Performs <http://www.scotland.gov.uk/About/scotPerforms>
- The concordat between the Scottish Government and COSLA - 15 key national outcomes: <http://www.scotland.gov.uk/About/scotPerforms/outcomes>
- The Improvement Service has a useful sight for performance management resources in a Scottish context. There are a number of useful documents on its website <http://www.improvementservice.org.uk>
http://www.improvementservice.org.uk/index.php?option=com_docman&task=cat_view&gid=19&Itemid=43
- The Improvement and Development Agency has a useful website with a number of resources on performance management <http://www.idea-knowledge.gov.uk/idk/core/page.do?pagelId=76209>
- Review of performance improvement models and tools - IDEA 2006 www.idea-knowledge.gov.uk/idk/aio/1551334;
- A Manager's Guide to Performance Management - IDEA and Audit Commission www.idea-knowledge.gov.uk/idk/aio/4810918

- A councillor's Guide to Performance Management - IDEA and Audit Commission, www.idea-knowledge.gov.uk/idk/aio/4810912

Risk Management

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- HM Treasury: Risk Assessment Framework 2007 http://www.hm-treasury.gov.uk/about/about_riskmanage.cfm
- The Accounts Commission for Scotland (1999) Shorten the Odds: A Guide to Understanding and Managing Risk http://www.audit-scotland.gov.uk/utilities/search_report.php?id=745
- The National Audit Office (2000): Supporting Innovation: Managing Risk in Government Departments http://www.nao.org.uk/publications/nao_reports/9900864.pdf

Use of Resources - Financial Management

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- The Local Government in Scotland Act 2003 - Asset Management under Best Value Advisory Note – Scottish Government - <http://www.scotland.gov.uk/Resource/Doc/35596/0028836.pdf>
- SEPA - National Waste Strategy - <http://www.sepa.org.uk/pdf/publications/nws/nationalwastestrategy.pdf>
- Single Status Agreement between Scottish Local Government Employers and the Trade Unions – Unison - <http://www.unison-scotland.org.uk/localgovt/sstatus.doc>

- COSLA response to budget settlement 2007 - COSLA - http://www.cosla.gov.uk/news_story.asp?leftId=10001D0A4-10766761&rightId=10001D0A4-10772015&hybrid=false&storycode=10001D0A4-16026715
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- Fairer Scotland Fund information - <http://www.scotland.gov.uk/Topics/Built-Environment/regeneration/fairer-scotland-fund>
- Overview of the local authority audits 2007 - Audit Scotland - http://www.audit-scotland.gov.uk/docs/local/2007/nr_080219_local_authority_overview.pdf
- Building a Better Scotland – Spending Proposals 2005 - 08: Enterprise, Opportunity, Fairness - Scottish Government – <http://www.scotland.gov.uk/Publications/2004/09/19984/43702>
- Scottish Government budget 2008-09 - <http://www.scotland.gov.uk/Publications/2008/02/21153821/0>
- Building a Better Scotland – Efficient Government: Securing Efficiency, Effectiveness and Productivity - Scottish Government – <http://www.scotland.gov.uk/Resource/Doc/26800/0025698.pdf>
- Capital Planning and Option Appraisal – A Best Practice Guide for Councils - CIPFA Directors of Finance Group
- Treasury and Investment Management in UK Local Authorities: Guidance Notes for Practitioners on Financial Instruments <http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/CF012>
- Taking Forward the Scottish Futures Trust - <http://www.scotland.gov.uk/Resource/Doc/223438/0060176.pdf>
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- RICS & ODPM Guidance on Asset Management 2005 - <http://www.local.odpm.gov.uk/finance/capital/data/ricguid.pdf>
- A Guide to Asset Management and Capital Planning – CIPFA, Local Government Directors of Finance Section, Scotland. <http://www.cipfa.org.uk/regions/scotland/directors/index.cfm>
- CIPFA guidance on accounting for the Common Good – available from CIPFA Scotland

- Scottish Commons website - www.scottishcommons.org/
- Common Good Law (book) – Andrew C. Ferguson, published by Avizandum, ISBN 1-904968-09-0

Use of Resources – Procurement

- Review of Public Procurement in Scotland Report & Recommendations - John McClelland - <http://www.scotland.gov.uk/Resource/Doc/96269/0023302.pdf>
- Scottish Government - Scottish Procurement Directorate - <http://www.scotland.gov.uk/Topics/Government/Procurement>
- Scottish Government - electronic Procurement Scotland - www.eprocurementscotland.com

Use of Resources - Information Management

- Information Commissioner's Office - Data Protection Act 1998
http://www.ico.gov.uk/Home/what_we_cover/data_protection.aspx
- Scottish Information Commissioner for Freedom of Information (Scotland) Act 2002
www.itspublicknowledge.info
- Customer First Programme: <http://www.improvementservice.org.uk/core-programmes/customer-first>
- OneScotland Portal <http://www.scotland.gov.uk/Topics/Government/Open-scotland/publicsectorictpolicy/OneScotlandPortal>
- Scottish Government – Data Handling June 2008
<http://openscotland.gov.uk/Publications/2008/06/25120007/0>
- Scottish Government - (National Performance Framework)
<http://www.scotland.gov.uk/Publications/2007/11/13092240/9>
- Scottish Government – Shared Services Guidance Framework December 2007
<http://www.scotland.gov.uk/Publications/2007/12/SharedServicesGuidance>
- Scottish Government – Efficiency Delivery Plans 2008-11 May 2008
<http://www.scotland.gov.uk/Publications/2008/05/EDPMay2008>
- Improvement Service – Single Outcome Agreements <http://www.improvementservice.org.uk/core-programmes/single-outcome-agreements/>

- Scotland Performs <http://www.scotland.gov.uk/About/scotPerforms>
- European Union Directive – Waste Electrical and Electronic Equipment (WEEE)
<http://www.netregs.gov.uk/netregs/legislation/380525/473094/>
- European Union – Lisbon Treaty - http://europa.eu/lisbon_treaty/index_en.htm
- Cabinet Office – Greening Government ICT
http://www.cabinetoffice.gov.uk/~/_media/assets/www.cabinetoffice.gov.uk/publications/reports/greening_government/greening_government_ict%20pdf.ashx
- Scottish Resilience Development Service - Civil Contingencies Unit
<http://www.scotland.gov.uk/Topics/Justice/emergencies/preparing>

Service Priorities and Risks

- HMIE <http://www.hmie.gov.uk/>
- SWIA <http://www.swia.gov.uk/>
- Scottish Housing Regulator
http://www.scottishhousingregulator.gov.uk/stellent/groups/public/documents/webpages/shr_homepage.hcsp

Glossary of Terms

Accounts Commission	The Commission secures the audits of local authorities and joint boards in Scotland. It reports and makes recommendations to Scottish Ministers and to audited bodies. It may also hold hearings and apply sanctions to councillors and officers, where appropriate.
Aggregate external finance (AEF)	AEF is the amount of local authority income provided by central government. It consists of revenue support grant, specific grant and non-domestic rates.
Arms length organisations	An organisation set up to manage or improve the delivery of public services.
Asset register	A data base of assets with information about the assets such as condition, age, depreciation charge.
Best value	To provide services in the most economic and efficient way and to promote continuous improvement in performance.
Cash releasing savings	Where a saving is realised because the organisation or function delivers the same service using less money.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is the leading accountancy body for the public services.
Community health and care partnerships (CHCPs)	CHCPs aim to work with local authorities, the voluntary sector and other stakeholders such as the public, patients and carers to ensure that local population health improvement is placed at the heart of service planning and delivery.
Community justice authorities (CJA)	Eight CJAs have been established in Scotland in 2006. The role of the CJAs is to plan, co-ordinate, monitor and report on the delivery of offending services by local partners and what impact these services have on reducing re-offending and making communities safer. The authorities try to improve working between key partners such as council criminal justice social work services, the police and the Scottish Prison Service.

Community Planning partnerships (CPP)	CPPs are partnerships led by local authorities. They bring key public, private, community and voluntary organisations together with the aim of delivering a better, more joined up public service for the local area.
Controller of Audit	The officer appointed by the Accounts Commission under section 97 (4) of the Local Government (Scotland) Act 1973. The Controller of Audit has statutory reporting functions.
COSLA	COSLA, the Convention of Scottish Local Authorities, is the representative voice of Scottish local government and also acts as the employers' association on behalf of all Scottish councils.
CSR07	The UK government's comprehensive spending review in 2007.
EC landfill directive	European requirements on landfill to ensure high standards for disposal of waste and to encourage waste minimisation.
Efficient government plan	The government's efficient government plan was published in November 2004 and outlined the government's strategy for improving the efficiency of the Scottish public sector. It contained measures to deliver at least £745 million of annually recurring cash releasing efficiency gains and at least £300 million of recurring time releasing savings by 2007-08. It also contained an ambition to raise these figures to achieve £1.5 million of efficiency gains by 2007-8.
Equal pay act 1970	The Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work.
EFQM	An Excellence Model developed by the European Foundation for Quality Management - the EFQM, is widely used by over 20,000 UK and European organisations (in both public and private sectors) as a means of reviewing performance against internationally recognised best practice.
Governance	The framework of accountability to users, stakeholders, and the wider community in which organisations take decisions, and lead and control their functions, to achieve their objectives.

McClelland report	A review of public sector procurement in Scotland was carried out by John McClelland at the request of the then Minister for Public Service and Reform. The review was carried out within a distinctive agenda of efficient government. It reports on the status of procurement practices and makes recommendations for improvement.
Multi-member wards	Electoral wards containing typically three or four elected councillors.
National waste strategy (NWS)	The NWS Scotland was formulated to improve the way waste is dealt with in Scotland and to protect the environment.
Opportunity cost	The opportunity cost of a decision is based on what must be given up (the next best alternative) as a result of the decision. Any decision involving a choice between two or more options has an opportunity cost.
Options appraisal	Identifying objectives and then obtaining and analysing information to establish the optimum method of achieving these objectives.
Outcome agreements	These documents set out what service improvements are going to be made and the anticipated measurable impacts of these improvements.
Private finance initiative (PFI)	The UK Government's initiative to encourage the development of private finance in the public sector.
Proportional representation	An electoral system which attempts to ensure that the outcome of the election reflects the proportion of support gained by each competing party.
Public private partnership (PPP)	A generic term for projects involving both the public and private sectors. The involvement can be to varying degrees and the partnership can take different forms. PFI is one example of PPP.
Ring fenced funding	Funding provided for a specific purpose or project.
Shared services	The convergence and streamlining of functions to ensure that they are delivered as effectively and efficiently as possible.
SOLACE	The Society of Local Authority Chief Executives and Senior Managers.

SSR 07	The 2007 strategic spending review for Scotland.
Statutory performance indicators (SPIs)	The Accounts Commission has a statutory responsibility to specify information councils must publish about their performance, in the form of statutory performance indicators. The information is collected and published locally by each council. The Commission publishes information about the comparative performance of councils across Scotland.
Time releasing savings	Efficiencies which do not release cash but allow frontline savings to deliver more or better services with the same money.
Value Chain Analysis (VCA)	VCA is a detailed authority wide analysis of resources and activities –gathered and collated in a structured and uniform manner. The approach analyses common activities and processes undertaken across departments and the level of staffing resources involved. Has been used by authorities as a means of identifying efficiency opportunities.

Priorities and Risks Framework

2008/09 – 2010/11 National Audit Planning Tool for Local Government

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