

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 June 2012

BY: Chief Executive

SUBJECT: An Overview of Local Government in Scotland 2012

1 PURPOSE

- 1.1 To review East Lothian Council's position in relation to the findings of the Audit Commission report, 'An Overview of Local Government in Scotland 2012'

2 RECOMMENDATIONS

- 2.1 It is recommended that the Committee note that the improvement points detailed in para 4.2 have been included in the Council Improvement Plan 2012/13 which is being presented to the 26th June 2012 Council meeting.
- 2.2 Further, the Committee should review the contents of this report and identify areas for further scrutiny at future meetings of the Audit and Governance Committee

3 BACKGROUND

- 3.1 Each year the Accounts Commission produces an overview of issues that have arisen from their local authority audits. The overview assists councils in identifying and planning for pressures that they may face in the coming year.
- 3.2 The overview report outlines the main challenges faced by Scottish Local Government and suggests that the over-arching priorities for local authorities in 2012 to respond to the challenges should be:
- *Maintaining a focus on best value, governance and equality to improve services and outcomes for people and communities.*
 - *Identifying priorities taking account of existing commitments, the shift in focus to preventative spending and organisational capacity.*

- *Monitoring the 2012/13 budget and setting budgets for 2013/14 which achieve a balance between short-term aspirations and long-term sustainability.*
 - *Ensuring workforce reductions do not erode capacity, getting asset management right and securing further progress on procurement.*
- 3.3 These priorities are reflected in the draft Council Plan, the Improvement Framework: Improvement to Excellence, the financial strategy and the People Strategy which attempt to provide a clear focus and set of priorities for the Council in the context of the external and internal challenges. The Council's Corporate Risk Register and Service Risk Registers are based on risk assessments that take account of external and internal challenges which contribute to the setting of the Council Plan and Service Plans.
- 3.4 The overview report highlights key findings that are common to Local Authorities in regard to, for example, finance, workforce planning and asset management. The key findings in each area have been outlined below along with a brief description of the position at East Lothian Council. This draws on various sources including the findings from the 2012 How Good is Our Council (HGIOC) self-evaluation. The scoring and ranking figures provide an indication of areas of relative strength and potential weakness that might need to be considered further.

Resources & Demand Pressures / Finances

Accounts Commission findings for Local Authorities

- 3.5 Local government funding will fall by three per cent between 2011/12 and 2012/13 and, cumulatively, by 6.3 per cent by 2014/15. Capital funding is due to fall in the period up to 2013/14; although it will increase in 2014/15. Reduced revenue and capital funding, along with commitments resulting from past financing decisions under PPP / PFI, are likely to lead to councils borrowing more money to finance capital expenditure. Lower proceeds from the sale of assets are likely to compound the problem.
- 3.6 Slippage in capital programmes is a recurring issue, with one-half of councils reporting some slippage in 2011. Many councils are holding greater levels of reserves than the level required by their policies. This is regarded as prudent, although it should be kept under review in light of reducing budgets and competing pressures on resources.
- 3.7 The risk of non-compliance with financial regulations is increasing as councils reduce the number of staff in finance departments. It is important that staff have a good knowledge and understanding of financial systems and regulations and a good working knowledge of financial controls.
- 3.8 Significant Trading Organisations (STOs) have to break even. During 2010/11, there were 73 STOs in Scotland with 60 (82 per cent) meeting the requirement to break even. The main reasons for failure to achieve

targets included the cost of settling equal pay claims, voluntary severance agreements and service restructuring.

- 3.9 Welfare reform and the current economic conditions risk increasing the pressures on demand led services, for example housing and social services. Demographic trends also suggest that Adult social care services are likely to face increasing demand for older people's services. Addressing demand by moving towards increased spending on prevention brings its own problems in attempting to balance long and short term priorities.
- 3.10 Equality is particularly important in times of financial constraint. It should not be seen as a barrier to taking difficult decisions but instead as a basis for open and transparent decisions based on an understanding of the impact of decisions on groups of people in communities.

East Lothian Council position

- 3.11 The Council has increased its level of borrowing, especially to fund the development of new Council houses. The Accounts Commission note in the Report on the 2010/11 Audit that 'General Services' capital expenditure of £41.4m in 2011/12 is financed by only £10.3m of income, of which £1.4m comes from capital receipts. Repayments can only be sustainable if the Council does not rely on temporary sources of funding, such as the reserves.
- 3.12 This is likely to continue for the next three years and over this period both the General Services and Housing Revenue accounts will see an increasing proportion of their income be used to fund debt repayments. However, in the case of the General Services account, it is likely that this increase in debt will need to come to an end in the periods after 2014/15.
- 3.13 East Lothian Council earmarked £6.91m of its reserves to balance the budget in 2012/13 and 2013/14 as part of its Financial Strategy. The budget is due to be balanced by 2014/15. The Council maintains a reserve of £2m to cover civil emergencies and a cost reduction fund reserve (£5m) to fund 'spend to save' initiatives such as staff reviews and service re-design that are projected to achieve long term savings following initial investment or creased costs.
- 3.14 Reports have been provided regarding the impact of Welfare Reform to Cabinet on the 8th November 2010 and to Council on the 22nd February 2011. The reports identified that welfare reform is likely to have an impact upon services including adult social care services, housing and homelessness services, free school meals and others. However, the specific consequences are difficult to quantify. The Council has continued funding for its Welfare Rights Service and the Haddington and Musselburgh CABx in order to ensure that vulnerable people have access to welfare and money advice.
- 3.15 Adult Social Care, via the Change Fund, are attempting to rebalance care provision towards anticipatory preventative care. The priorities of

the Change Fund include the development of Intermediate Care services, developing the range of housing options available for older people and the development of an integrated approach to supporting people with dementia to enable them to live in their own homes for longer.

- 3.16 Services found, as part of their How Good is Our Council (HGIOC) self-evaluation, that financial management was relatively sound. Procedures for reporting and managing the financial performance received relatively high scores. However, the extent to which financial planning demonstrates Best Value (e.g. options appraisal, assessment of efficiency and effectiveness) received a lower score. It should be noted that the 2011 Corporate Improvement Plan included an action related to developing a standard approach to options appraisal.

Question	How rigorous are the management procedures to identify and deal with budgetary variances?	How well does the Service monitor, review and report upon financial performance?	To what extent does financial planning demonstrate Best Value?
Score 1-6	4.6	4.53	3.85
Rank 1-102	15	23	83

Service redesign and structural changes

Accounts Commission findings for Local Authorities

- 3.17 Councils face challenges in regard to the changes in the introduction of a national Fire and Rescue Service and national Police force. The Accounts Commission note that the restructuring might create the following problems:

- conflicts might arise between local and national priorities
- it is unclear how the scrutiny function currently vested in councils will work
- it is unclear how local commanders will maintain operational independence
- governance arrangements in the transition period are unclear.

- 3.18 The integration of health and social care will also provide a challenge for councils. Under the proposed reforms, NHS boards and councils will be required to produce integrated budgets for older people's services. However, planning for these changes is at an early stage.

- 3.19 Welfare changes (particularly the introduction of Universal Credit) will have significant implications. Councils face reduced funding as the

housing benefit caseload moves from council administration to Universal Credit and the likelihood of staff reductions. Around 60% of the rental income for council properties is paid directly from housing benefits. However, Universal Credit will be paid directly to claimants and it will be the claimant's responsibility to pay rent to the council.

East Lothian Council position

- 3.20 Council approved a draft response to the Scottish Government's proposed Police and Fire and Rescue reforms at its meeting on the 25th October 2011. Council subsequently agreed to submit an expression of interest to take part in a planned Local Scrutiny and Engagement Pathfinder at its meeting of the 24th January 2012. Council received an update on the proposals at its meeting on the 27th March 2012. A further report, which will address the issues raised in 3.17 above which is due to be considered by the 26th June 2012 Council meeting.
- 3.21 The Audit and Governance Committee received a report regarding the 'Review of Community Health Partnerships' at its meeting on the 27th September 2011. The Committee recommended that Adult Social Care should use the self-assessment checklist for NHS Boards, councils and other partners to improve joint working between health and social care. The establishment of a joint Community Health and Care Partnership is discussed in paragraph 3.37 below.
- 3.22 The potential effects of changes to the welfare system are recognised by the Council (see paragraph 3.14). The effect of the introduction of Universal Credit was also discussed at the Policy and Performance Review Committee on the 20th March 2012 in regard to an item on rent arrears. The Committee heard from the Revenues Manager that the introduction of Universal Credit might make rent more difficult to collect.

Leadership & Governance

Accounts Commission findings for Local Authorities

- 3.23 The overview report highlights leadership and governance as being a key issue and suggests that the following should be among the top priorities for Councils in 2012:
- *Providing strong leadership and challenge in a period of increasing resource and demand pressures and substantial service and structural change*
 - *Ensuring appropriate access and influence for the statutory officer for finance and effective financial controls.*
- 3.24 The report refers to the importance of the six principles of good governance as set out in the SOLACE/ CIPFA Delivering Good Governance in Local Government Framework (2007).
- 3.25 There is also reference to the importance of good working relationships and clear roles and responsibilities between elected members and senior

officers. The report makes the point that newly elected members will require training to be provided promptly following the May 2012 elections.

- 3.26 The report highlights that local authorities have a leadership role on equalities but that effectiveness in this respect is weakened by a lack of reliable equality data. Better use of existing data sources and more sophisticated data collection techniques should be used.
- 3.27 The Accounts Commission note that many councils have made significant changes at senior officer level leading to concerns that the role of statutory officer for finance is not properly understood. Where the statutory officer for finance is not a full member of the senior management team or equivalent, elected members are asked to satisfy themselves that the officer has appropriate access and influence at the most senior level in the council.

East Lothian Council position

- 3.28 The Council adopted the SOLACE/ CIPFA good governance framework based on the six principles in 2010 and has just concluded the third self-evaluation exercise based on the framework. The improvement points identified by the self-evaluation are recorded in the Annual Governance Statement that is included in the Council’s Annual Accounts and are reflected in the Council’s Corporate Improvement Plan.
- 3.29 The Council put in place an extensive and comprehensive induction programme for new members supported by a large Induction pack of useful background information and the Improvement Service’s Notebooks. A programme of skills and issue based training and briefings to be held over the summer and autumn will be devised following consultation with all elected members.
- 3.30 Since the Council senior officer restructuring (effective from 1st April 2012) the role of the statutory officer for finance (Section 95 Officer) has passed to the newly formed position of Head of Council Resources, who is a member of the Council Management Team.
- 3.31 Self-evaluation using HGIOC identified that the lack of equality data is a weakness that hinders services being able to demonstrate improved outcomes for diverse communities.

Question	Are adequate monitoring systems in place to ensure that vulnerable people are not being excluded?	How effectively can the Service demonstrate improved outcomes for diverse communities?
Score 1-6	4.08	3.14
Rank 1-102	65	101

- 3.32 The Council is developing a Single Equality Scheme 2012 to 2015. The Scheme will include a number of performance indicators that will help to

address weaknesses in the availability of data relating to equalities. Indicators developed as part of the Scheme will be arranged in accordance with the outcomes of the Council Plan / SOA and will be reported via the Council's performance reporting website.

Working in Partnership

Accounts Commission findings for Local Authorities

- 3.33 Differences in governance and accountability between individual partners are still considered by CPPs to be a barrier to effective partnership working. The overview report emphasises the need for councils to make working with partners more effective through rationalising partnership structures.
- 3.34 The Accounts Commission report into Community Health Partnerships concluded that a more systematic, joined-up approach to planning and resourcing is needed to ensure that health and social care resources are used efficiently and that this should be underpinned by a good understanding of the shared resources available.
- 3.35 Appendix 4 of the report highlights a series of good governance principles for partnership working. The top priorities for Council's to improve partnership working are identified in the report as:
- *Getting the best from partnership working by delivering more integrated services, better value for money and improved outcomes*
 - *Ensuring partnership performance information systems are sound and that accountabilities are clear.*

East Lothian Council position

- 3.36 East Lothian Community Planning Partnership reviewed its structure in 2009. Seven Theme Groups and three Local Area Forums (covering covering the Musselburgh area, Dunbar and East Linton and North Berwick Coastal wards) report progress towards the outcomes of the SOA to the Community Planning Board. Subsequent reviews of partnership working have been undertaken by the Improvement Service and SOLACE and a How Good is Our Partnership self-evaluation exercise in 2011 and resulting improvement points and actions have been included in the Community Planning Partnership Improvement Plan. A major review of the CPP's governance and structure is to be carried out in autumn 2012.
- 3.37 The Adult Social Care Change fund identifies one of its priorities as being 'A focus on better integration between health and social care in the assessment and delivery of care through joint service redesigns'. East Lothian has been one of the pilot areas for the Integrated Resource Framework which is meant to provide the basis for clearer decisions about resource allocation between social and health care funds. Also the Council has begun discussions with Midlothian Council on the possibility

of developing a shared Adult and Community Care service with the establishment of a joint Community Health and Care Partnership as a key part of the long term vision.

- 3.38 HGIOC self-evaluation results suggest that partnership working is regarded as being effective in helping to deliver outcomes, although it has not led to the identification of efficiency savings in the majority of cases.

Question	How effective is interagency planning in delivering outcomes?	To what extent have partnerships identified joint efficiency savings?
Score 1-6	4.58	2.73
Rank 1-102	21	102

Options for Service Delivery

Accounts Commission findings for Local Authorities

- 3.39 The overview report highlights that most councils are considering alternative, more efficient, means for delivering services. Councils need to ensure that any decisions to employ alternative means of service delivery are made on the basis of good quality information.
- 3.40 In relation to options for service delivery the Accounts Commission suggest that councils' top priorities for 2012 should be:
- *Engaging with communities to understand service users' and communities' needs*
 - *Investigating new ways of delivering service, including opportunities for simplifying and standardising common processes.*
- 3.41 The report suggests that the employment of shared service models has been slow, although it notes that East Lothian and Midlothian Councils have made progress in relation to developing shared services around education.
- 3.42 New Arms Length External Organisations (ALEOs) may be set up to reduce costs or improve services. However, councils are expected to review existing ALEOs and structures to ensure they remain the best option, recognising that ALEOs themselves face a challenging financial and operating environment. Where ALEOs do proceed it is important that councils are able to 'follow the public pound' across organisational boundaries.

East Lothian Council position

- 3.43 The Council Management Team has recently approved a Council Consultation and Engagement Strategy that establishes a framework for all consultation and engagement activity to help ensure that it is well planned and coordinated and carried out in a meaningful and effective manner, following good practice and benefitting all those involved. The Strategy and current good practice such as the 2011 Residents' Survey and the East Lothian Tenants and Residents Panel ensure that the Council uses community consultation and engagement to better understand service users' and communities' needs.
- 3.44 The Audit and Governance Committee (27th September 2011) considered the Audit Scotland report on ALEOs and:
- noted the guidance or recommendations made in the report;
 - agreed that the governance and operational issues identified in the report would be considered as part of any options appraisal in preparation of any detailed business case involving the possible use of ALEOs;
 - agreed to use the questions in the 'checking progress' tool when reviewing arrangements for delivering services through ALEOs.
- 3.45 As pointed out above (para 3.16) it should be noted that the 2011 Corporate Improvement Plan included an action related to developing a standard approach to options appraisal. Work is ongoing in developing a standard common process for options appraisal.

Performance Information

Accounts Commission findings for Local Authorities

- 3.46 The Accounts Commission reports that it has found that councils are weaker in reporting performance information relating to service costs and progress towards long-term outcomes. Councils need to develop 'contributory outcome indicators' to help measure progress towards long-term outcomes. The Accounts Commission encourages councils to use the UK audit agencies' indicators to help measure the quality and cost of back office functions.
- 3.47 Councils were found to be committed to self-evaluation, although there were inconsistencies in coverage and in the quality of information across services, outcome areas and corporate systems. The use of benchmarking data in self-evaluation to assess costs, quality and performance remains underdeveloped and there is limited consideration of service users' views and customer satisfaction information.
- 3.48 The overview report concludes that the top priorities for improving performance information should be:

- *Ensuring good-quality performance information is available to support improvement and inform decision-making*
- *Increasing the focus on costs and on measures which monitor partnership outcomes and performance.*

East Lothian Council position

3.49 The Accounts Commission highlight five ‘areas for improvement’; the position of the Council in regard to these areas is outlined below:

Areas for improvement	East Lothian position
Some councils continue to rely too heavily on SPIs	The SPIs are integrated into the Council’s Key Performance Indicators (KPIs). The KPIs are reported in relation to their contribution to the Council’s outcomes. 99 KPIs are reported, 25 of which are also SPIs. See www.eastlothian.gov.uk/performance
Only a small number of councils compare their performance with others	Comparisons are reported for the SPIs. However, few other KPIs are benchmarked. Some services take part in benchmarking ‘clubs’ such as APSE or the Scottish housing Best Value network. The potential for expanding the use of benchmarking and collating comparisons with other councils is being investigated.
Around half of councils do not assess performance against targets	Almost all of the indicators reported via the Council’s performance website have a target. However, further works needs to be done to ensure that these are SMART targets.
Around half of councils do not provide information to show how stakeholders are listened to and responded to	Some relevant indicators, especially those drawn from the Resident’s Survey, are included among the KPIs. However, conducting the Resident’s Survey once every two years may not be sustainable and other ways to integrate stakeholder views into performance reporting need to be considered. Quarterly reports are provided to the PPRC regarding complaints and feedback.
Reporting on cost information is underdeveloped	SOLACE are developing a set of indicators that will improve performance reporting regarding service costs. The indicators are due to be published later in the year. The Council reports several indicators that relate to cost as KPIs, including indicators developed by the UK audit agencies measuring the cost of HR.

- 3.50 The most recent HGIOC self-evaluation suggests that services consider more work needs to be done regarding the relevance of the performance data that they collect.

Question	Does the Service collect and use appropriate performance data?	How well does the Service measure its contribution to outcomes?
Score 1-6	4.07	4
Rank 1-102	66	72

Workforce

Accounts Commission findings for Local Authorities

- 3.51 The overview report highlights that reducing staff numbers can pose risks which need to be managed properly. The loss of experience and skills, for example, may present a risk to effective service delivery and there may be a wider impact on the local economy. Large reductions in senior managers may affect 'corporate capacity' and there is a risk that officers will not have sufficient time to manage the range of initiatives that their council wishes to pursue.

East Lothian Council position

- 3.52 The Policy & Performance Review Committee received a report on the 31st January investigating the impact of workforce changes upon performance. The report concluded that although there had been slight reductions in staff numbers, this had not impacted upon performance.
- 3.53 The 2012 Employee Engagement Survey results compare well with the results from the previous year. Overall 73.3% of responses to the questions were positive (i.e. agreed with the statements). However, a lower proportion of employees (58.5%) agreed with the statement 'I have a manageable workload'. The HGIOC self-evaluation showed a mixed response to questions relating to the workforce. The extent to which services have sufficient staff to deliver its activities received a relatively low score. It should be noted that this issue is considered in workforce planning and service reviews.

Question	How good is staff retention?	How motivated and satisfied are employees?	Does the Service have a sufficient number of employees to deliver its activities?
Score 1-6	4.87	4.13	3.8
Rank 1-102	4	54	85

Assets

Accounts Commission findings for Local Authorities

3.54 The condition of council assets remains a concern. The cost of addressing the maintenance backlog in council-owned property assets is estimated at around £1.4bn, with £376m of this described as urgently required. Greater collaboration between public bodies may lead to improvements; this is especially true in regard to IT.

East Lothian Council position

3.55 The Accounts Commission highlight five opportunities for improvement; the position of the Council in regard to these areas is highlighted below:

Opportunities for improvement	East Lothian position
Joint planning and shared accommodation	Significant progress being made with shared services accommodation across and within East Lothian Council. We are engaging with the NHS on a number of projects to assist with accommodation for joint working. We are also part of the Hub SE Territory Asset Management Group which is mapping opportunities for joint working across authority and sector boundaries.
Sharing people, management and contracts by pooling expertise, sharing contract management, joint procurement etc.	Council restructure is delivering benefits in joint working across the Council. We are working with ScotExcel to put Consultants' frameworks in place.
Sharing data, to allow each organisations assets to be viewed and benchmarked by others	We are part of the Scottish Asset Management Benchmarking group and share data for benchmarking purposes. We have provided asset data to Hub SE Territory Asset Management Group for mapping .
Surplus property co-ordination to help manage the release of surplus property to the market	The Asset Management Group review surplus properties and options for their future use or disposal on a regular basis.
Pooling assets	We have prepared a number of options for collaborative working with the Fire and Rescue Service and the Police but to date no assets have been pooled.

3.56 The Council's 2011 Draft Corporate Asset Management Plan is being updated to reflect the challenges and opportunities presented by the new Council Plan and to recognise the reform agenda as advanced by the Christie Commission. In particular, the new Plan will recognise the essential role which Options Appraisal plays in decision making and commit to assessments of costs and benefits to target investment where it will make the biggest contribution towards addressing challenges set out in the Council Plan.

Procurement

Accounts Commission findings for Local Authorities

3.57 The overview report outlines the importance of taking a strategic approach to procurement. It highlights that some councils do not routinely report the results of the Procurement Capability Assessment (PCA) and improvement plans to full council or appropriate committee, particularly audit or scrutiny committees. It stresses that this is essential in managing procurement performance.

East Lothian Council position

3.58 The most recent PCA for East Lothian took place in 2010. The Council scored 26%, which means the Council is regarded as being 'conformant'. The Accounts Commission note in their Report on the 2010/11 Audit that 'the council is now conformant in four out of the eight areas, with the greatest improvement being shown in the People area covering procurement staffing, skill mix, development and management. The main area of non-conformance, with minimal improvement since last year, is performance measurement where it is not evident that a sound approach to assessing and demonstrating the Council's procurement performance is in place.' A procurement Improvement Plan is in place and actions to improve the Council's PCA are being carried out.

3.59 Two questions were added to HGIOC in 2012 that relate to procurement and the commissioning of services. Services judged that they performed well in linking commissioning decisions with strategic planning, and processes for purchasing, monitoring and reviewing services were deemed to be average.

Question	To what extent are there clear links between strategic and financial planning and commissioning decisions?	To what extent do we have sound and compliant business processes for purchasing, monitoring, and reviewing services?
Score 1-6	4.8	4.18
Rank 1-102	6	52

4 POLICY IMPLICATIONS

- 4.1 Councils are required under the Local Government in Scotland Act 2003 to achieve Best Value in regard to economy, efficiency, effectiveness, equal opportunities and sustainable development. The 'Overview of Local Government in Scotland: Challenges and change in 2012' will assist the Council in recognising the challenges that it faces in achieving Best Value in the future.
- 4.2 The analysis of the results from the HGIOC self-evaluation and comparison with the key issues highlighted in the 'Overview of Local Government in Scotland' report has identified several improvement points which have been included in the Council Improvement Plan 2012/13, specifically:
- Further develop the Council's approach to Options Appraisal to ensure Best Value and the highest standards of financial planning (para 3.16 and 3.45)
 - Improve monitoring of equalities measures and indicators (para 3.31)
 - Identify opportunities for getting best value from partnerships and making efficiency savings through partnership working (para 3.38)
 - Expand and make more effective use of performance information including the use of benchmarking (para 3.50).

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel - none.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 'An Overview of Local Government in Scotland: Challenges and change in 2012', Accounts Commission

AUTHOR'S NAME	Andrew Strickland Paolo Vestri
DESIGNATION	Policy Officer (Performance) Corporate Policy Manager
CONTACT INFO	astrickland@eastlothian.gov.uk (01620 827884) pvestri@eastlothian.gov.uk (01629 827320)
DATE	7 th June 2012