



Agenda Item 7

An Overview of Local Government in Scotland 2016

Falkirk Council

Title: An Overview of Local Government in Scotland 2016
Meeting: Scrutiny Committee
Date: 15 September 2016
Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 The purpose of this report is to summarise the findings from the Accounts Commission publication “An Overview of Local Government in Scotland 2016”. (<http://www.audit-scotland.gov.uk/report/an-overview-of-local-government-in-scotland-2016>). The report presents a series of questions that Members should be asking as part of their scrutiny function and there is a separate self-assessment tool to help Members assess the Council's position.

2. Recommendation(s)

- 2.1 The Scrutiny Committee is asked to note and comment on the report.**

3. Background

- 3.1 The report is a high level, independent view of councils' management and performance and recognises the challenges and pressures facing Local Government.
- 3.2 The report is split into two main parts:-
- A review of the financial context, including a national overview of councils' financial performance; and
 - Consideration of how councils are performing in delivering services and how they are changing to meet the increasing pressures.

An exhibit summarising the situation is appended.

4. Considerations

4.1. PART 1 – LOCAL GOVERNMENT PRESSURES

The report identified two main areas of pressure – financial and service. The financial pressures are reviewed below:

Revenue Budgets

- 4.1.1 To balance revenue budgets, councils have reduced spend across their main services and activities, except in social work, where a third of councils reported an overspend. This section of the report specifically highlights Falkirk Council as a notable exception to the patterns being seen across Scotland. The report states that whilst most councils underspent against their overall budgets in 2014/15, Falkirk Council overspent by £2.9m, due to a £3.3m overspend in social work services which was offset by other underspends. The pressures causing the overspend have previously been reported to members and were covered by reserves. Further remedial action is being progressed. It is also worth noting that in 2016/17, the latest reported projection is an underspend of c£0.8m.
- 4.1.2 The Accounts Commission will publish a report, Social Work in Scotland, in 2016 to look at the scale and impact of the pressures facing social work and how councils are addressing these challenges.

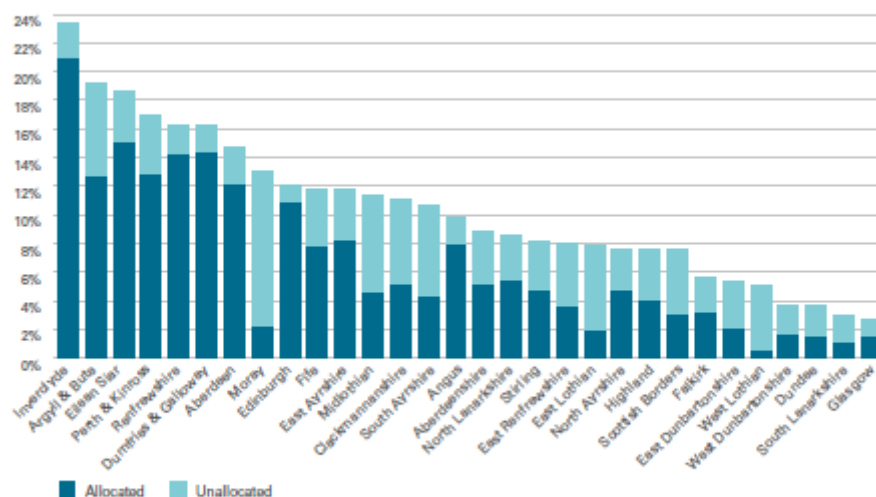
Reserves

- 4.1.3 Unallocated general fund reserves increased by 18.5% during 2014/15 and are now 39% higher than they were in 2010/11. Thirteen councils planned to use reserves for day to day spending in 2015/16. Exhibit 6, replicated below, shows that Falkirk Council has the 7th lowest level of reserves in Scotland (excluding Orkney and Shetland). The importance of having a reserves policy which is appropriately reported to Members is highlighted in the report.

Exhibit 6

General Fund reserves held as a percentage of service costs, 2014/15

There is wide variation in the amount of General Fund reserves that councils hold compared to the cost of providing services.



Notes:

- Figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities, which affect what is included in their General Funds.
- Service costs in this context are taken as the General Fund net cost of services, as reported in councils' annual accounts.

Source: Councils' annual accounts and data returns from auditors, 2014/15

Other Funding

4.1.4 The report also provides the national picture for a number of other funding streams as outlined below:

1. The report notes that Non Domestic Rate Income has made up an increasing share of the revenue funding allocated by the Scottish Government, due to annual increases in the rate of tax and in the number of properties on which the tax is paid.
2. The report explains that whilst capital funding increased from £720m to £925m between 2011/12 and 2014/15, councils' total capital spending decreased over the same period. This reflects councils' reigning back on borrowing and reductions in the overall size of capital programmes.
3. The report outlines some of the implications of underspends in the capital budget, noting 28 councils underspent their capital budgets in 2014/15.
4. Finally this section outlines the importance of considering the long term implications and affordability of funding decisions and the need to consider innovative funding options, such as City Deal. Such a route is not, of course, open to all Councils.

Borrowing

4.1.5 Councils' net debt (including borrowing and commitments through PFI, NPD, leases etc) has increased since 2010/11 although it dipped slightly in 2014/15. The report goes on to stress the importance of assessing the long-term affordability of borrowing and other forms of debt, although it does not highlight how difficult this is in the context of short term financial settlements.

Pensions

4.1.6 At the end of 2014/15 there was an estimated £10bn deficit on the Local Government Pension Scheme (LGPS), an increase of £2.5bn since 2011. The report highlights significant deficit increases in five of the eleven separate pension funds in 2014/15. Falkirk is one of the five schemes, with an increase in its deficit by £128m. However, it should be noted that these deficits are a snapshot at a point in time and are not necessarily problematic as plans are in place to address these estimated deficits over the longer term. The next triennial Valuation in Scotland is scheduled in 2017.

4.1.7 A new Scottish Local Government Pension Scheme Advisory Board has been set up which is likely to consider whether the structure of the LGPS in Scotland is appropriate. It may result in the combination of LGPS fund assets, allowing collective investments to be made, following the agenda in England.

Equal Pay

4.1.8 Equal pay remains a significant cost pressure and councils have paid out £605m to employees in equal pay compensation (by March 2015). It is estimated that c4,000 cases remain outstanding. Council has received reports in February and June this year updating Members on the position with respect to Falkirk. The Accounts Commission plans to carry out a review of equal pay issues across local government in 2016/17. Councils have, however, expressed concern that this could compromise local negotiations on equal pay settlements.

Minimum & Living Wage

- 4.1.9 The report notes that whilst there are clear benefits of these policy changes for low pay workers, the increases in employee costs and contract costs will put additional pressure on councils and will require councils to review their grading structures where the living wage moves jobs out of existing pay scales.

Financial Planning

- 4.1.10 The report presents 2016/17 onwards as a turning point in the financial pressures for Local Government. It recognises that until now, councils have continued to balance their budgets and reduce their spending. However, the real terms reduction in revenue funding between 2010/11 and 2016/17 is 11%.
- 4.1.11 Part one of the report lists some tools for managing the pressures and a key strand of this is effective medium-term (three to five years) and longer-term (five or more years) financial planning. The report does recognise that this is challenging when councils do not know future funding but argues that councils must therefore plan for a range of possibilities.
- 4.1.12 The report highlights that “Councils will find it increasingly challenging to underspend or balance their budgets from 2016/17 onwards because many incremental savings have already been made”. It also notes that auditors have highlighted concerns about the financial planning, management and sustainability in a small number of councils.
- 4.1.13 The above emphasises the need for councils to “fundamentally rethink their models of service delivery”.
- 4.1.14 As noted above, the report emphasises the need for financial planning and a good financial strategy. It suggests that a strategy should cover at least five years and outline key risks, liabilities, and assumptions on income and affordability. In addition, medium terms plans should be in place for three to five years which include detailed fully-costed annual spending plans, with a range of scenarios to prepare for differing levels of income. It is worth noting that the merits and capacity of councils to produce all that is suggested here is questionable.

4.2 PART 2 – DELIVERING SERVICES

Part two of the report focusses on the delivery of services, and the changes that councils must make in order to meet the financial challenges outlined above. The key points are detailed below:

Performance Information

- 4.2.1 The report recognises that councils have continued to improve in several key service performance measures, including secondary school educational attainment, quality of council housing and waste recycling. However, public satisfaction with services has continued to decline and the report suggests that this means councils need to work more closely with service users and communities to establish priorities.

Health & Social Care Integration

- 4.2.2 Health and Social Care Integration is flagged up as the most significant aspect of public sector reform for councils but there is an emphasis on the significant risks to be addressed if integration is to fundamentally improve how health and care services are to be delivered. This work draws on the Accounts Commission's previous report "Health and Social Care Integration". The risks identified included:
- Difficulties in agreeing budgets and finalising strategic plans for a number of reasons, including uncertainties over funding;
 - Uncertainty over complex governance arrangements; and
 - Significant long-term workforce issues.

Once again, the emphasis is on adopting more innovative models of care and ways of working.

Councils' Savings & Service Change Programmes

- 4.2.3 The report notes that most of the changes that councils have made have been small, incremental reductions or increases in income and many savings have come from voluntary redundancies. Councils need to consider more fundamental changes. East Ayrshire Council is held up as an example of this. Their transformation strategy was designed to achieve savings of £34.7m in the five year period up to 2016/17. The Council is on target to achieve it's savings and as a result, no funding gap was reported for 2016/17. The strategy is also subject to regular review and consultation.

- 4.2.4 The concerns raised by auditors focus on whether councils are identifying enough savings, the pace of change and how the changes link to priorities. East Dunbartonshire, Falkirk and Argyll and Bute are highlighted as having Best Value reports which show relatively small-scale changes have been delivered.

Shared Services

- 4.2.5 This section of the report emphasises the need for councils to rigorously appraise the different service delivery options available. In doing this, councils will need to consider the Community Empowerment (Scotland) Act 2015 which aims to empower community bodies through ownership or control of land and buildings and by giving them more say in decisions about public services.

- 4.2.6 The report outlines the main options for delivery of services as in-house, outsourcing, partnership and stopping services and lists the conditions that would be in place to make each option viable. For example:
- Stopping services
 - Little or no demand for the service
 - Costs of provision outweigh benefits
 - Alternative providers are in the market
 - There is no statutory or strategic requirement

This information should be helpful when trying to identify new savings options going forward.

Workforce

- 4.2.7 The majority of councils have reduced their workforces in order to save money. The Accounts Commission continues to raise its concerns that reducing staff without changing how services are delivered is not sustainable. Seven councils made compulsory redundancies in 2014/15.

- 4.2.8 Councils have reduced and restructured senior management and the report raises the risk of relying on smaller numbers of officers with an increasingly wide range of responsibilities.
- 4.2.9 The need for a comprehensive workforce strategy which is tied to each council's priorities and plans for changing methods of service delivery is emphasised. The strategy should include clear targets or timescales for meeting objectives. The Council's Executive agreed a revised workforce strategy in March.
- 4.2.10 The report highlights the risk that staff in some support services may be under severe pressure after significant staff reductions, with auditors highlighting a reduction in finance staffing. The risks of reducing finance staff at a time when councils face so many financial pressures are significant although the report acknowledges that improved use of technology could assist with this.
- 4.2.11 In 2014/15, sickness absence increased by almost half a day per employee, excluding teachers. The report notes that a reducing workforce can have a negative impact on sickness absence rates and morale and that managers may have difficulties in dealing with this. In 2014/15, for council employees, Falkirk is above the national average and for teachers Falkirk is well below the national average.

Scrutiny and Decision Making by Members

- 4.2.12 Members must be given clear, understandable and manageable information to help them make decisions and scrutinise effectively. Some of the key points raised include:
- Committee reports can be too long, complex and use bureaucratic language and make it difficult to focus on the most important issues. (This Council's recently introduced revised report style is designed to address this);
 - The Accounts Commission has prepared guidance about financial reporting and scrutiny which includes suggested questions for Members;
 - The report on Borrowing and Treasury Management in Councils noted the need to review treasury information for Members (this review has been carried out in Falkirk);
 - Councils should minimise the amount of business it carries out in private and seek to adopt best practice to strengthen local democracy;
 - The changing environment means that councils should be reviewing and updating their governance arrangements to ensure they are fit for purpose; and
 - Councils should have appropriate arrangements in place to approve, monitor and hold ALEOs to account.
- 4.2.13 Finally, in order to fulfil their duties, Members must develop their skills and knowledge as their role becomes more complex and demanding. They need to be able to appraise options and scrutinise operational and financial performance. The Accounts Commission Report recommends that Members should:

- satisfy themselves that their council has a longer-term financial strategy (five or more years) supported by an effective medium-term financial plan (three to five years). These should show how the council will prioritise spending to achieve its objectives, make any necessary savings and remain financially sustainable. Whilst Falkirk Council does have a medium term financial plan, it is recognised that this needs to be developed along with longer term financial scanning.
- appraise all practical options for how to deliver the services their communities need within the resources available. This includes examining opportunities to work with and empower communities to deliver services in different ways, and learning lessons from others and from wider public service reform. They should ensure they get all necessary information and support from officers to help them fully assess the benefits and risks of each option
- ensure their council continues to develop workforce strategies and plans that clarify the numbers and skills of staff needed in future. In assessing their council's workforce, councillors should consider whether they have people with the knowledge, skills and time to support them effectively in making the difficult decisions that lie ahead, and to design and implement new ways of delivering services
- make sure that decision-making processes and scrutiny arrangements remain appropriate for different ways of delivering services. This includes:
 - having clearly written and manageable information to help them make decisions and scrutinise performance
 - carrying out business openly and improving public reporting
- regularly review their personal training and development needs. They should work with council staff and others to create opportunities to update their knowledge and skills in increasingly important areas, such as financial planning and management, options appraisal, commissioning services, partnership working and scrutiny. These opportunities should also be available to any new members after the local elections in 2017
- use the questions in this report and the separate self-assessment tool to help them assess their council's position.

4.2.14 The Accounts Commission is doing more work on roles and responsibilities in 2016/17.

5. Consultation

5.1 There is no requirement to carry out a consultation on this report.

6. Implications

Financial

- 6.1 There are no financial implications arising from the report recommendations.

Resources

- 6.2 There are no resources implications arising from the report recommendations.

Legal

- 6.3 There are no legal implications arising from the report recommendations.

Risk

- 6.4 There are financial implications arising from the report recommendations.

Equalities

- 6.5 There are no equality implications arising from the report recommendations

Sustainability/Environmental Impact

- 6.6 There are no sustainability or environmental implications arising from the report recommendations

7. Conclusion

The Audit Scotland Overview provides a useful assessment of the local government position in Scotland. It recognises the range of pressures, notably funding and demographics, which councils are facing. Whilst the Accounts Commission acknowledges that councils have managed to date, they flag that 2016/17 is a tipping point and that traditional incremental strategies will not be sufficient to meet the challenges going forward. More fundamental and strategic approaches to service delivery options are necessary. There is also a need for enhanced medium and long term financial planning. The Overview also highlights the particular risks and challenges arising from Health & Social Care Integration.

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Date: 1 September 2016

Appendices

Appendix 1 –Local Government Pressures – extract from Audit Scotland report.

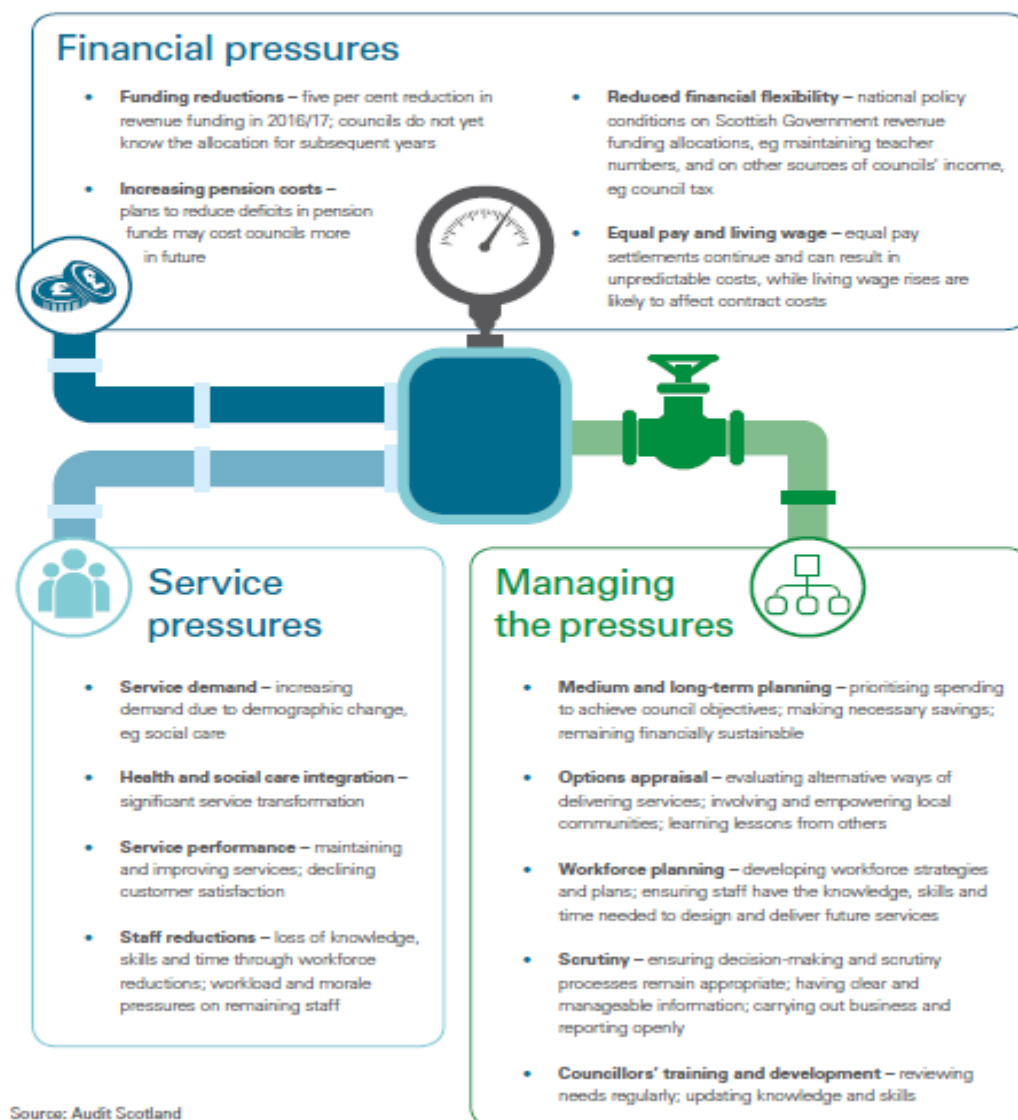
List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None

Exhibit 1**Local government pressures**

In the face of financial and service pressures, councils should be planning for the longer term and evaluating options for more significant service redesign.



Source: Audit Scotland