AGENDA ITEM 3(a)

DRAFT

FALKIRK COUNCIL

MINUTE of MEETING of the SCRUTINY COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on THURSDAY 14 MAY 2015 at 9.30 AM.

COUNCILLORS:	Stephen Bird Allyson Black Steven Carleschi Colin Chalmers Cecil Meiklejohn (Convener) Baillie Joan Paterson Provost Pat Reid
OFFICERS:	Caroline Binnie, Communications & Participation Manager Sally Buchanan, Welfare Reform Project Manager Caird Forsyth, Corporate Policy Officer Jack Frawley, Committee Officer Lesley Macarthur, Corporate Policy Officer Colin Moodie, Depute Chief Governance Officer Jonny Pickering, Stakeholder Engagement Officer Linda Scott, Corporate Policy Officer Andrew Wilson, Policy & Community Planning Manager

S5. APPOINTMENT OF CONVENER

Colin Moodie welcomed members to the meeting. Council agreed on 13 May 2015 (ref FC10) that the Scrutiny Committee would consist of eight members with four drawn from the Administration and four not drawn from the Administration (subject to the proviso that no member of the Executive may be a member of the Scrutiny Committee). The Convener of the committee would be such member of the committee from the largest Opposition group as shall be appointed by the committee.

Colin Moodie sought nominations for the position of convener. Councillor Bird, seconded by Councillor Chalmers nominated Councillor Meiklejohn as convener. There being no other nominations Councillor Meiklejohn assumed the chair for the remainder of the business.

S6. APOLOGY

An apology was intimated on behalf of Baillie Buchanan.

S7. DECLARATIONS OF INTEREST

There were no declarations of interest.

Baillie Paterson entered the meeting during consideration of the following item of business.

S8. MINUTES

Decision

(a) The minute of the meeting of the Performance Panel held on 26 March 2015 was noted and the committee requested:

(i) a report to the next meeting providing an update on attainment across Falkirk's schools, and

(ii) a further report providing an update on attainment after the release of the 2015 exam results, and

(b) The minute of the meeting of the Scrutiny Committee held on 2 April 2015 was approved.

S9. FOLLOWING THE PUBLIC POUND: ADVICE SERVICES

The committee considered a report by the Director of Corporate and Neighbourhood Services which provided an update on the work of external organisations in receipt of funding which provided debt and money advice services, and who fall within the Following the Public Pound (FPP) reporting and monitoring arrangements. The report provided information on the period 1 April 2014 to 31 March 2015.

The report provided information on the context of the operation of advice services in Falkirk through the single outcome agreement and the poverty strategy. The report also provided an overview of the funding provided to the organisations and an assessment of each organisation's performance. An individual report was appended for each of the organisations which received funding, setting out the service provided, the agreed outcomes/objectives and performance information.

The committee heard from officers in relation to individual reports.

(a) Forth Valley Macmillan Money Matters Project

Linda Scott provided an overview of the report, advising that the organisation received £50,000 of Council funding. The service offered easily accessible information and advice on money matters and financial wellbeing to cancer patients, their carers and families living in the Forth Valley area and sought to increase income available to these client groups.

Members asked what the impact would be upon the service if Clackmannanshire Council withdrew its support. Linda Scott advised that the steering group would be discussing the issue and that in the short term NHS Forth Valley had covered the funding gap while a formal response to Clackmannanshire was prepared. The funding contribution of Clackmannanshire Council was £16,000.

The committee asked if the project could apply to Macmillan cancer support for additional funding. Linda Scott stated that the Money Matters Project was a separate organisation and that there had been no financial contributions from Macmillan cancer support to the project. It had previously been stated that Macmillan cancer support would only contribute to projects like this if they were doing new and innovative work. However, she advised that an approach could be made to cover this year's shortfall.

Members asked if there would be an impact to funding received from NHS Forth Valley due to the integration of health and social care. Linda Scott stated that the issue was set to be discussed at the next meeting of the steering group and that it was expected that support would continue as the project was highly valued by NHS Forth Valley.

In response to a question on the impact of welfare reform on the service, Linda Scott stated that it was difficult to assess the impact at this time as the Department for Work and Pensions (DWP) had provided limited information. She advised that the project had supported a client through an appeals tribunal for the first time last year. Andrew Wilson stated that plans to bring a DWP representative onto the Community Planning Partnership Leadership Board would improve information sharing and allow for more effective planning.

Decision

The committee approved the report and acknowledged the progress made by Forth Valley Macmillan Money Matters Project in meeting Council priorities.

(b) Falkirk and District Credit Union

Linda Scott provided an overview of the report, advising that the organisation received £46,000 of Council funding. The service worked to promote savings and offer reasonable credit to its members and to help members manage their money.

The committee stated that in future all following the public pound reports should provide a breakdown of the Council's contribution by financial and in-kind.

Following a question regarding turnover of volunteers, Linda Scott advised that the turnover level of volunteers was in line with that expected and that the turnover of staff was very low. She stated that the volunteers were committed but subject to the normal pressures which volunteers are under such as availability. Training was being looked at in relation to the changes to service including the possibility of new loans and the move of services online.

Members asked for further information on the governance support given to the organisation and its long term projection. Linda Scott stated that business was growing, highlighting that new products were being launched and the adoption of the online system. In relation to governance she advised that the business plan was nearly complete and that this would free up the time of the development officer to support the organisation more broadly.

The committee asked for information on the work of the credit union with Falkirk's schools. Linda Scott stated that work with schools to build partnerships was planned and that there were collection points in: St Andrews RC primary school; Victoria primary school; Westquarter primary school, and Denny high school. The social work services debt advice team had been involved in educating senior primary school and junior high school pupils about personal financial management. Further, the credit union had worked with Education services and Community Learning & Development to ensure promotion within curriculum for excellence.

Members requested that a report was submitted to Scrutiny Committee (External) containing the organisation's accounts identifying the percentage contribution of Council funding to ensure that the organisation was not stretching itself too far.

The committee expressed concern that members who could not repay would be driven to use payday lender companies and asked what work was being done to prevent this. Linda Scott advised that the credit union worked closely with the social work services debt advice team and had a referral process to immediately direct clients to the team to find a solution if problems were arising. In cases where the individual did not want to deal with the Council the credit union would refer the case directly to the Citizens Advice Bureaux. The credit union was also looking at alternative avenues to high cost lending for people with poor credit ratings to ensure that they did not feel that they had to go to payday lenders as their only option.

Decision

The committee requested that a report providing the organisation's accounts is provided to Scrutiny Committee (External), highlighting what percentage of the organisation's income is from the Council's contribution.

(c) Falkirk Citizens Advice Bureaux

Lesley Macarthur provided an overview of the report. In the Falkirk area the Citizens Advice Bureaux runs three independent bodies, each with their own board of management – Denny & Dunipace, Falkirk and Grangemouth & Bo'ness. She advised that the organisation received £458,396 of Council funding along with £11,000 of in-kind support. Denny & Dunipace received £132,463; Falkirk £196,321, and Grangemouth & Bo'ness £129,612. The service provided independent information and advice in the Falkirk area, free of charge.

The committee sought further information on the joint action group. Lesley Macarthur advised that the joint action group met quarterly and worked together to access joint training and Scotland Excel funds using a greater economy of scale.

However, it was stated that audit costs could not be joined although the organisations could have the same auditor.

With reference to the case study in the report, the committee asked what steps had been taken to prevent such issues arising again. Lesley Macarthur stated that the workload issues present at the time had been addressed. Citizens Advice Bureaux, the Council and the DWP recognised gaps in service provision and that some people needed extra support. Work was ongoing to raise awareness of the services through improvements to the website and using leaflets. The Council had run a money advice campaign which signposted people to Citizens Advice Bureaux.

Members asked how people were reached when their life was in crisis. Lesley Macarthur advised that information was provided in hospitals, GP surgeries, dentists' surgeries, community centres and many other places as well as through work with women's aid.

The committee asked how many referrals to the Citizens Advice Bureaux were directly from the Council. Lesley Macarthur advised that the figures were not currently available but that the organisation held the requested information which would be included in future reports.

Members discussed the level of communication between the DWP and the Council and expressed concern that the Council were not informed when sanctions were being imposed on people. They requested that representation was made to the DWP to keep the Council better informed especially throughout the roll out of universal credit. Andrew Wilson stated that the dialogue with the DWP would improve through the intended inclusion of a DWP representative on the Community Planning Partnership Leadership Board. Lesley Macarthur advised that Citizen Advice Bureaux had worked with the DWP and this had been effective in helping people who were being or had been sanctioned.

Decision

The committee approved the report and acknowledged the progress made by Falkirk Citizens Advice Bureaux in meeting Council priorities.

(d) Falkirk Armed Services Advice Project

Caird Forsyth provided an overview of the report, advising that the organisation received £20,000 of Council funding. The service provided a bespoke advice service for veterans resident in the Falkirk Council area assisting them to access services provided by the Council or charitable services provided by veterans' charities.

The committee stated that the marketing of the service was important in ensuring that people knew what assistance they were entitled to access and asked if the service worked with the British Legion. Caird Forsyth stated that British Legion was a key partner and that locally the British Legion operated from Grangemouth.

Decision

The committee approved the report and acknowledged the progress made by Falkirk Armed Services Advice Project in meeting Council priorities.

Baillie Paterson left the meeting during consideration of the previous item of business and re-entered the meeting during consideration of the following item of business.

S10. SCRUTINY PANEL CONCLUSIONS AND RECOMMENDATIONS: FALKIRK COUNCIL COMMUNITY INVOLVEMENT STRATEGY

The committee considered a report by the Director of Corporate and Neighbourhood Services providing the findings and recommendations of the Scrutiny Panel established to review the Council's participation strategy. The report provided information on the process undertaken and appended to the report information on evidence gathered at each of the panel's meetings.

Members highlighted the importance of having meaningful communication and reaching people in the community who did not traditionally engage with the Council. Caroline Binnie advised that the points had been considered at the panel, including discussions on the need to reach out to communities and engage in places where they were rather than expecting them to come to the Council.

The committee discussed that plain English should be used in all communications, although recognised that in some instances statutory prescriptions meant certain phrases or technical wording needed to be used. In these cases the committee suggested that explanatory text of "…which means that…" could be included to explain complicated legal phrases. Caroline Binnie stated that the point would be taken back to the corporate participation group and other appropriate forums. She advised that services were active in making their communications easier to understand and that recent plain English training had been helpful. The Council's website content had been rewritten in plain English and officers thought about how their communications came across from the public perspective.

Members asked what action was being taken to refresh the citizens' panel. Caroline Binnie advised that the corporate participation group would lead on this area. She stated that there were currently 1,600 members but that response levels varied depending on interest in the topic. The consultation on bereavement services had been particularly successful with extremely high levels of participation. In terms of representativeness, she stated that the panel was fairly reflective of the various demographics with the exception of young people. Jonny Pickering advised that a variety of sampling techniques could be used to target specific groups of people on the citizens' panel. Caroline Binnie stated that on issues important to young people different methods of engagement would need to be utilised to reach them and that this was a national issue.

The committee discussed consultation on the budget setting process. Members stated that it was a long complex process and that timing and methods could be improved. Caroline Binnie stated that the issue of consultation timing had been raised at meetings of the panel and that it would be preferable to avoid consulting during holiday periods where possible. She advised that previously public meetings had been held but that attendees were usually people who the Council already had good levels of engagement with. She stated that for large scale engagement such as the budget multiple methods would be used.

The committee requested that progress reports on the implementation of the panel's recommendations were provided to the committee.

Decision

The committee agreed to recommend to the Executive that the Council:

(i) review the role, remit and membership of the Corporate Participation Group. This group has a central role in ensuring that there is a consistent approach to participation and engagement across the Council and promoting a best practice approach within Services;

(ii) develop a robust process for local community planning which sets out a defined process for the production of plans. This would include consideration of using 'place shaping' tools such as "Planning for Real" in a consistent manner;

(iii) develop a defined reporting framework for local community plans to ensure that reports on them are submitted to the Scrutiny Committee and then the Executive, prior to submission to the Community Planning Leadership Board;

(iv) promote Have Your Say, the Plan for Local Involvement, and the principles set out within it more effectively, internally to Members and officers, and externally to communities and partner organisations. This would include producing a concise summary of the plan;

(v) ensure appropriate training is put in place for officers to enable them to implement the principles set out in the plan, for example Plain English training, training in survey design etc;

(vi) record all consultation activity in a corporate database of consultation activities, drawing on Service Plans, Community Planning, to avoid duplication of consultation/engagement. The effectiveness and accessibility of the current database will also be reviewed;

(vii) provide information to the public/specific stakeholders prior to and after they have informed, consulted or engaged with communities, including feedback. There should also be a clear process for advising Members about consultations that are taking place and feeding the results back to them;

(viii) provide more information on consultations, community engagement and Local Community Planning in the consultation section of the Council's website;

(ix) explore different digital means of engaging with local and thematic communities. This could include the potential for using a bespoke online consultation platform such as Citizen Space. It would also include a review of how the Council's use of social media platforms could be expanded to support its engagement activities;

(x) provide guidance and training to Members and officers on the use of social media to ensure this is being used more actively but appropriately;

(xi) ensure that appropriate methods are used to effectively consult and/or engage with hard-to-reach groups and consideration will be given to specific training on consulting and/or engaging hard-to-reach groups;

(xii) consider the impact of the Community Empowerment Bill and the Council's response to this in August 2015;

(xiii) consider different ways of consulting on the budget employed by other Council by August 2015 to inform the process going forward and include Councillors in this process, and

(xiv) ask officers to report back to the Scrutiny Committee periodically on progress on the above.

S11. SCRUTINY PLAN

The committee considered a report by the Chief Governance Officer inviting the committee to agree the topic of the next Scrutiny Panel and to appoint members to the panel. The report provided information on the development of the annual scrutiny plan for 2015, Council had agreed on 11 March 2015 (ref FC78) to approve the following areas for scrutiny:-

- the operation of the complaint system within the Council, in particular, the extent to which complaint outcomes are considered and lessons learned for the future. The scope of the scrutiny panel would included customer feedback as well as formal complaints;
- outcomes for looked after children, and
- a third slot held vacant and that this area would be agreed by the committee with preference given to a subject suggested by members of the Opposition.

Following discussion the committee agreed to establish a scrutiny panel to scrutinise outcomes for looked after children comprising five members, with three drawn from the Opposition and two from the Administration. Nominations were to be provided to the Chief Governance Officer following the meeting.

The committee was invited to request reports on topics which they felt merited further consideration as potential topics for inclusion in the scrutiny plan, including issues which had been raised at the Performance Panel.

There was a suggestion that the committee receive a report on the impact of the decision to close the Rowans considering the impact of the replacement of the service and the consultation process undertaken. The committee's deliberations centred on the following points:

- whether or not the subject matter was too narrow in order to form a scrutiny panel;
- whether or not false hopes would be raised around revoking the Council's budget decision. It was stated that the report would examine how the decision had been communicated to service users and families, not attempt to reverse the Council decision;
- whether or not it was appropriate to establish a panel on the issue while consultation with affected groups was ongoing, and
- that there may not be the need to request a report as officers were in discussion with the service and the matter would be raised at the June meeting of Council.

Following a request for advice, Colin Moodie stated that the committee could not call-in decisions of Council or the Executive but did have scope to consider the impact of policies and decisions of those bodies. The scope of the requested report fell within the remit of the committee. He also reminded the committee that calling for a report with further information did not mean that a panel would necessarily be established and that the committee would have to take a separate decision to do so.

The committee considered a suggestion that a report be presented to the next meeting providing information on procurement and contract management processes.

Decision

The committee agreed:-

(i) that a Scrutiny Panel be established on outcomes for looked after children;

(ii) that the panel would comprise five members with three places for members of the Opposition and two places for members of the Administration with names being provided to the Chief Governance Officer;

(iii) to request a report on the: impact of the closure of the Rowan's Centre; the impact of the replacement of the service with external providers, and the consultation process undertaken to the next meeting, and

(iv) to request a report on the Council's procurement and contract management to the next meeting.

FALKIRK COUNCIL

MINUTE of MEETING of the PERFORMANCE PANEL held in the MUNICIPAL BUILDINGS, FALKIRK on THURSDAY 21 MAY 2015 at 9.30 AM.

CORE MEMBERS:	Stephen Bird Cecil Meiklejohn (Convener) Rosie Murray Depute Provost John Patrick
MEMBERS ATTENDING:	David Alexander Jim Blackwood Steven Carleschi Colin Chalmers Tom Coleman Gerry Goldie Provost Pat Reid
OFFICERS:	Fiona Campbell, Head of Policy, Technology and Improvement Alex Finlay, Business Development Manager Jack Frawley, Committee Officer Rhona Geisler, Director of Development Services Jennifer Litts, Head of Housing Colin Moodie, Depute Chief Governance Officer Stuart Ritchie, Director of Corporate and Neighbourhood Services

PP1. APPOINTMENT OF CONVENER

Colin Moodie welcomed members to the meeting. He sought nominations from the core membership for the position of convener. Following the decision of Council on 13 May 2015 (ref FC10) Councillors Meiklejohn and Bird confirmed that, having previously declined their positions as on the core membership, they now wished to take up their places.

Decision

The panel appointed Councillor Meiklejohn as convener.

PP2. APOLOGIES

An apology was intimated on behalf of Baillie Paterson.

PP3. MINUTE

Members requested that the name of the Education services teams involved in early identification of additional support needs with under 3 year olds and 3 to 8 year olds and their lead officers were provided after the meeting.

Decision

The minute of the meeting of the Performance Panel held on 26 March 2015 was approved.

Councillor Goldie and Provost Reid entered the meeting during consideration of the following item.

PP4. CORPORATE AND NEIGHBOURHOOD SERVICES SCRUTINY REPORT

The panel considered a report by the Director of Corporate and Neighbourhood Services setting out the performance for the service from 1 April 2014 to 31 March 2015. Stuart Ritchie gave an overview of the report.

The panel stated that the appendices to performance panel reports should be enlarged in order to be read more easily. Fiona Campbell stated that this would be revised.

Members asked for further information on the challenges of letting larger flatted properties, focussing on if the location of properties was an issue. Stuart Ritchie stated that there were a number of factors involved including welfare reform. He stated that the introduction of size criteria posed specific challenges. The service had carried out a review of its allocation policy and had taken a new approach to advertising and tenant incentives from 1 April 2015.

The panel asked how many council house buy back purchases were anticipated over the next three years. Stuart Ritchie advised that in the previous year approximately 70 properties had re-entered the Council's housing stock through the buy back initiative and it was expected that between 70 and 80 would be bought back per year.

Members asked what process was in place for reviewing the performance of the refuse collection service. Stuart Ritchie stated that he chaired an improvement group which met six weekly and involved full time trade union, workforce and management representatives. Through management and staff engagement better relationships had been built and this had led to service delivery issues being tackled proactively.

The panel asked if other Councils had adopted a similar three weekly cycle following the success of the service locally. Stuart Ritchie stated that Falkirk Council were the first Scottish Council to move to a three weekly residual collection and that following the decision of Council in February the service would move to being four weekly. He advised that a number of Councils were moving to similar collection cycles in order to increase recycling and reduce landfill costs.

Members asked if the percentage of rent loss due to voids of 1.72% equated to £1million and if this was an issue prior to welfare reform. Stuart Ritchie confirmed that the rent loss due to voids did equate to £1million. He stated that the situation had worsened as a result of welfare reform and that the service aimed to reduce void period lengths while using the opportunity to complete improvement works.

In response to a question on situations where tenants were waiting for entry to a property while work was ongoing, Jennifer Litts advised that a statement was included in adverts advising that the property may not be ready. She advised that tenants were told what work was going to be carried out and how long it was expected to take. However, additional issues needing addressed could be identified during the works which would extend the time the property was unavailable.

The panel asked what actions were being taken to mitigate the impact of welfare reform and the introduction of universal credit. Stuart Ritchie stated that a welfare reform update report had been presented to the Executive on 19 May 2015. The Council had signed a partnership delivery agreement with the Department for Work and Pensions (DWP). Staff were being trained to support people through the changes and benefit applicants were able to complete forms online at libraries.

Members asked if there was funding from the Government or other sources to help mitigate the impact of welfare reform. Stuart Ritchie advised that funding had been received from the Government to support discretionary housing payment. He stated that 95% of the mitigation was related to size criteria. The Executive had agreed on 19 May 2015 (ref EX13) to make direct contact with the relevant Ministers outlining the damage done to the lives and well-being of some of the most vulnerable people in Falkirk district and pointing out that locally people voted decisively for an end to austerity on 7 May 2015.

The panel asked for information about the application of priorities in relation to the Housing (Homeless Persons) Act 1977 and if there had been changes to practice. Colin Moodie stated that priorities applied to a homeless person or a person threatened with homelessness. Jennifer Litts stated that there had been no change to practice and that cases were looked at on an individual basis.

Members asked if unfurnished properties could be made available to people who were made homeless but had their own furniture so that they did not need to pay to store their furniture while in temporary accommodation. Jennifer Litts advised that people who were priority homeless were able to have their furniture stored at low cost. The service had gathered information and found that there would not be sufficient demand to retain a number of unfurnished properties for this purpose. She stated that 63% of applicants were single people leaving a marital or family home.

The panel asked if the introduction of charges for special uplifts had resulted in a change to the level of usage of the service. Stuart Ritchie advised that there had been a reduction in the number of requests. When people requested special uplifts they were advised that the national re-use phone line collected certain items for free.

Members asked if, as a result of the charges for special uplifts, there had been an increase in fly tipping and bins being contaminated with the wrong waste put in them. Stuart Ritchie advised that there had been no increase in reports of such incidents. In response to a question on geographic differences in usage since charging was introduced, he advised that there had been no changes to uptake of special uplifts on a geographic basis.

The panel asked if any issues had been identified following the introduction of the three weekly refuse collection cycle. Stuart Ritchie stated that the service had been aware that encouraging recycling would be more challenging in some areas than others and that there had been varying performance across the Falkirk area.

Members asked if there were trends identified in relation to the percentage of missed bins or the percentage of contaminated bins. Stuart Ritchie advised that the number of missed bins for the current year had decreased from the previous year and that no increase had been found in the percentage of contaminated bins.

The panel sought further information on the outcome of the consultation exercise carried out following the policy development panel looking at bereavement services. Stuart Ritchie stated that the consultation response would be fully considered during the summer recess period. He advised that the service had written to families who had suffered a bereavement to see if they wished to give their views on the service and potential improvements. Three meetings had been held with representatives of families as well as a meeting with undertakers and one with religious groups. He further stated that information on upgrades to the crematorium would be provided in the panel's report to the Executive.

Members requested further information on sickness absence within the service and highlighted that previously they were provided with more detailed team specific information. Stuart Ritchie stated that Corporate and Neighbourhood Services covered a diverse range of staff including office based staff and staff who worked outdoors. Absence rates between these groups varied significantly.

The panel asked if all work had been completed in line with the Scottish Housing Quality Standard programme deadline of the end of March 2015. Stuart Ritchie advised that all work which fell within the March 2015 deadline had been completed.

Members asked for information on the allocation policy and the number of homeless presentations received. Jennifer Litts stated that the number of presentations had decreased by half. Further, more than 50% of band one priority homeless people were allocated a property within 0 – 6 months. Changes to the quota of properties for homeless applicants would be monitored month to month.

The panel asked for information on further initiatives related to refuse and recycling such as nappy collections. Rhona Geisler stated that the nappy collection system would be implemented shortly and that collections would be made along with collection of the black boxes. The contract was separate to the main refuse collection contract.

Members asked if people who sought to link their properties to the gas supply would have to pay for the works. Jennifer Litts advised that a grant was available for installation costs which was targeted for energy efficiency measures where mains gas could not be connected to.

The panel asked about the opportunity to keep non-standard fittings in properties during void periods rather than taking them out and replacing them. Jennifer Litts advised that the voids policy allowed for retention of non-standard fittings as long as they passed the relevant safety test.

Members asked about collaborative work with social work regarding adaptations to properties such as installation of stair lifts and if there was a strain of demand currently or projected for the future. Jennifer Litts advised that there was good collaborative practice between the services and that plans had been put in place with social work in advance of the introduction of health and social care integration. Further, the service had been working with NHS Forth Valley to support hospital discharges.

The panel asked about heating replacement in high rise flats and for information on combined heat and power (CHP). Jennifer Litts stated that the replacement was being looked at and the capital fund was being used to research whether the CHP system or an alternative was the best way forward.

Members expressed concern around the management of tenancies for people with known anti-social behaviour issues. Jennifer Litts stated that there were some cases of people who caused disruption even when moved to new areas. Temporary accommodation was reviewed monthly and people in temporary accommodation were allocated a case worker. The service took the issue seriously and where appropriate used anti-social behaviour orders (ASBOs) to take action, this approach was supported by Police Scotland.

In response to a question on the number of ASBOs filed and the cost of these, Jennifer Litts advised that she would provide the number after the meeting but that it was not a large amount. Colin Moodie stated that there was no substantial upfront cost involved. However, he advised that due to the intensive work required around ASBOs a lot of staff time was used to get sufficient evidence to satisfy the court that an ASBO was the appropriate sanction.

The panel asked how many ASBO requests were refused by the Sherriff and if the total number was similar to other Councils. Colin Moodie stated that the requests were broadly complied with due the amount of work put in to ensure that an ASBO was justified. Further, Colin Moodie could not confirm the position compared against other Councils but was not aware of Falkirk Council being outlier.

Members asked if savings were anticipated as a result of the launch of the reporting tool to allow services users to report faults directly through the website. Stuart Ritchie stated that savings would be made through time release rather than financial and that the new tool allowed people to report issues at their convenience including outwith office hours.

The panel sought further information on the main findings of the self assessments carried out by the service. Stuart Ritchie stated that building maintenance were going to review the schedule of rates, that a review of depot provision was being carried out and that street cleansing would review their fleet, routes and measure best practice against others.

Members asked for details of the number of no access calls to be broken down by those with a previous appointment and those which were cold calling. Further they requested how many appointments are offered and if the service telephoned/texted first to remind tenants they were attending. Stuart Ritchie advised that the information would be provided after the meeting.

The panel asked what actions were being taken to increase the rates of silver bin collection. Rhona Geisler stated that the presentation of the silver bins had increased since the three weekly cycle was introduced. The bins were regularly inspected to monitor how much recyclate was being included. Where high levels were found the service took action to encourage greater recycling through its waste advisors.

Members asked about the management of time slots at the crematorium, highlighting that if one or two services overran the programme for the rest of the day was thrown out of synch. Stuart Ritchie advised that a review had been carried out and that time slots had been increased from 30 to 45 minutes. In response the panel asked if lengthening the time slots had caused a decrease to the number of services per week. Stuart Ritchie stated that the same number of services were being carried out per week as before the time slot change.

Decision

The panel noted the performance statement.

Provost Reid left the meeting during consideration of the following item.

PP5. DEVELOPMENT SERVICES SCRUTINY REPORT

The panel considered a report by the Director of Development Services setting out the performance for the service from 1 April 2014 to 31 March 2015. Rhona Geisler gave an overview of the report.

Members asked what had caused the delay to the application for European Structural and Investment Funds (ESIF). Rhona Geisler advised that the delay was caused by the structural fund process and so the date for lodging applications had been extended. The service was on track to submit its application on time.

The panel asked if opportunities to use European funding to advance the Grangemouth energy project were being investigated. Rhona Geisler stated that the service was keen to access all available funding and fully investigated what European funding was available. She advised that a report on the Grangemouth energy project and funding would be submitted to the Executive. She stated that the Council had contributed £25,000 toward the £200,000 business case cost and that Scottish Enterprise had funded the remaining amount. Once the business case was in place the proposals would be used to approach investors, which would include the European Union through its green initiatives.

Members asked for the breakdown of positive school leaver destinations. Rhona Geisler stated that the information would be provided after the meeting. She advised that a good number entered employment or apprenticeships and college. Further, the employment training unit's apprenticeship scheme had been identified as a national exemplar.

In response to a question on when the self assessment of the growth and investment unit would report and who was responsible for monitoring, Rhona Geisler advised that a report would be presented to the corporate management team in September or October 2015. She stated that the Business Gateway and Business Gateway Plus contracts were for the Scottish Government and were not specifically externally monitored.

The panel sought further information on the roads services collaboration programme. Rhona Geisler stated that it was a national programme which sought to improve services through learning from best practice. A work plan and progress reports had been created and the service was monitored against other Councils. She advised that Falkirk Council performed well in its peer group.

Members asked about work being carried out to address the identified shortfall in hotel accommodation in the area. Rhona Geisler advised that the service worked closely with existing hoteliers through the tourism strategy to allow existing businesses to expand. The local development plan included sites for hotel developments and interest had been received for a development near the Helix site.

The panel asked for an update regarding the Westfield roundabout upgrade through tax incremental financing (TIF). Rhona Geisler stated that the work was part of the next phase of TIF and would include more filter lanes to increase capacity.

In response to a further question on the Westfield roundabout upgrade relating to the Bog Road access points, Rhona Geisler advised that this would be picked up in the gateway development work.

Members asked about the approach to empty Council properties such as the former Victoria primary school site. Rhona Geisler advised that the service was looking to consolidate its position and highlighted that the new Council headquarters project would reduce three buildings to one. She stated that there was a particular challenge at Victoria primary school as the nursery on the old site was still in use. Therefore the future of the site was dependent on decisions taken by Children's Services.

The panel asked for further information on the services position relating to common good funds. Colin Moodie stated that the Community Empowerment (Scotland) Bill would require a clearer register of property on common good accounts. There were 7,000 separate titles held by the Council and it was a fine question of which were common good. He highlighted that there were particular issues around disposal of common good assets and that other Councils had been involved in complicated situations through trying to do so. Members discussed that a list of assets which had been gifted to the people of Falkirk could be compiled.

Members asked if the tourism action plan could be linked with the work of the Falkirk Community Trust (the Trust) in marketing and events functions. Rhona Geisler stated that the Helix Park was operated by the Trust for the Council. The Trust's business plan was approved by its board and by the Council, this set out what the Trust would deliver in exchange for its funding. The trust was recruiting an events officer and a further staff member specifically for the Helix. The visitor centre at the Helix Park was scheduled to open in August 2015 and would increase opportunities for events to be held at the site.

Decision

The panel noted the performance statement.

AGENDA ITEM 4

FALKIRK COUNCIL

Subject: **AN OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND 2015 – REPORT FROM ACCOUNTS COMMISSION**
Meeting: **SCRUTINY COMMITTEE**
Date: **20 AUGUST 2015**
Author: **DIRECTOR OF CORPORATE & HOUSING SERVICES**

1. BACKGROUND

1.1 The Overview of Local Government in Scotland report is based on the audit and inspection work undertaken by Audit Scotland and other inspectorates across the whole of Local Government in 2014. A copy of the report is attached to this report in appendix one. The report aims to provide a high-level view on the progress that Councils are making in managing finances and achieving Best Value as well as to assist Members to identify potential areas for consideration and review in 2015. It also provides an overview of Councils with regards to spend etc.

1.2 In addition to the report, Audit Scotland have prepared a Self-Assessment Tool for Councillors which is designed to help implement the recommendations made in the report. This toolkit is attached as part of appendix one.

2. KEY MESSAGES

2.1 There are a number of national messages set out by Audit Scotland in their report. These are set out below in summary, along with some local context:

2.2 The Audit Scotland report states that Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for Councils decreased by 8.5 per cent in real terms (allowing for inflation) to £10.3 billion. At the same time, demand for Council services has increased, largely due to population changes.

2.3 Locally Members will be aware that the population in the Falkirk Council area has increased significantly over the last 15 years and is projected to increase further in the future due to increasing life expectancy, increasing numbers of children but also inward migration.

2.4 Audit Scotland state that many Councils are now reporting gaps between their income and the cost of providing services. With further reductions in public spending expected, Councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances. However, Audit Scotland note there is limited evidence of longer-term financial planning, which is critical in providing that understanding. Locally Members will be aware of the considerations around the budget and the projected budget gap of £46m for 2015/16 – 2017/18 as reported in the budget report in February 2015.

2.5 The audit report states that Councils have managed the financial pressures well so far. Available performance information indicates that services continue to improve or are maintained. Public performance reporting is getting better but Councillors need better financial and service information to help them set budgets and scrutinise performance. All Councils prepared their annual accounts on time and met the required accounting standards.

2.6 The audit report continues by saying that given the financial pressures facing Councils, it is hard to see how Councils can continue to deliver improved services or even maintain levels of services over the coming years. It also notes the importance of engaging with the public to ensure that they understand the pressures the public sector is facing and that expectations on services are managed. This sits alongside the need for clarity from Members about their priorities.

2.7 Locally Officers have engaged with Audit Scotland to understand what their expectations are regarding public performance reporting. This will help ensure that not only are we meeting the expectations of our citizens but also our auditors.

2.8 Audit Scotland have said that almost all Councils have reduced staff numbers to help make savings but that this is not sustainable. Councils need to consider ways of delivering services more efficiently and need to get better at using local data and involving service users and local communities in developing options to improve services and help save money. It also suggests that Councils need to implement planned changes quickly to achieve their required savings.

2.9 It is unclear how Councils can reduce budgets without reducing staff numbers with such a significant proportion of the Councils budget spent on employees. There appears to be an unrealistic expectation from the Accounts Commission about how savings can be achieved.

2.10 The national report says that Councils need to ensure that the way they manage and control their work keeps pace with the quickly changing circumstances in which they operate. There can be no compromise on the importance of good governance, particularly where there are significant changes in personnel and systems. The report notes that not all Councils systematically review governance when, for example, they change staff, management or political structures, or develop new ways of financing and delivering services. Community planning and health and social care integration require an ongoing focus on governance in partnership working, where the responsibility for good governance is shared and depends on a culture of trust.

2.11 The national report comments in paragraph 83 on Falkirk Council's decision making structure. This reflects the comments made in the previous year's report and along with other issues i.e. performance management and scrutiny, prompted the focussed Best Value Audit of the Council which took place in 2014. At the time of writing, this report is still to be published.

2.12 The report also notes a number of arrangements Councils have put in place to deliver services differently e.g. through ALEOs. It notes that it is important the Councils should review such arrangements to ensure effective governance arrangements are in place. Members will be aware that a Policy Development Panel has been established to review arrangements between the Trust and the Council and ensure they are effective going forward.

3. MAIN RECOMMENDATIONS

3.1 In addition to the main messages the Accounts Commission report sets out a number of recommendations it suggests Councils might want to consider. These recommendations are meant to assist in assessing the position of each Council and help decide if any action is required to address particular issues. The recommendations are summarised with some local context noted:

3.2 The report recommends that Members should assess whether they have appropriate knowledge and expertise, in areas such as assessing financial and service performance, to carry out their role effectively. They should review their training needs and request the training and support they require to help them consider options, make decisions and scrutinise performance;

3.3 Locally Members will be aware from the Chief Governance Officer of the work that has been undertaken to review Members' Personal Development Plans and it was reported to the last Performance Panel that the majority of Members now have these. In addition and outwith the Personal Development Plans, other training and development opportunities are offered to Members e.g. the Mental Health training recently offered as part of the Council's response to welfare reform.

3.4 Audit Scotland recommends that Council officers should provide high-quality financial and performance information to support effective scrutiny and decision-making. This includes having relevant and up-to-date performance data and making good use of benchmarking. Performance information should also be clearly reported to the public to help them understand their Council's performance;

3.5 Within our own Council, since the establishment of the Performance Panel, a range of information is presented to Members including more information on progress against agreed service plan actions, further performance information and improvement actions. These reports are being reviewed to ensure consistency across services and work is continuing with services to ensure that the PIs, targets and tolerances are reported to Members are appropriate. It should be noted that Service Plans for the new Services will be presented to September Performance Panel.

3.6 Audit Scotland have recommended that Councils, when developing their priorities, use local socio-economic data and work with service users and local communities to understand their needs and explore ways of meeting them. Council budgets should then be targeted towards agreed priorities, including those designed to prevent or reduce service demand in future;

3.7 Members will be aware that for many years the Council has used a range of socio economic information to plan our services and evidence our strategic policies and strategies. This has facility has been extended to our Community Planning Partners and was commended in the external review of our most recent Single Outcome Agreement. This year we must review our Strategic Community Plan and SOA and have already presented a context statement to the Community Planning Leadership Board to start that process of understanding and renewal. In addition the Chief Finance Officer of the Council has led work on behalf of the Community Planning Partnership to assess spend against priorities and outcomes.

This work is ongoing but will critical in developing a robust approach to community planning and achievement of outcomes.

3.8 The report also notes as good practice the work the Councils are doing to engage with older people to support them to remain independent.

3.9 The national report recommends that all practical options for delivering services to meet the needs of service users and local communities, within the resources available, should be considered when progressing priorities. It is suggested that Members and Officers should consider carefully the benefits and risks related to each option and make sure they receive information about the impact of the option they choose, including monitoring the risks associated with change;

3.10 Locally Members considered the national report on options appraisal at its November 2014 Scrutiny Committee and agreed that this be circulated to all Members which it was. In addition, it was agreed that guidance for scrutiny and policy development panels be reviewed to include the helpful checklist noted in this guidance. This review is currently being completed and will be brought forward for consideration at a future meeting of this Committee.

3.11 The report recommends that each Council should have financial plans covering the short term (1-2 years), medium term (3-5 years) and longer term (5-10 years). These plans should set out the Council's financial commitments, identify any challenges with the affordability of services and set out clearly how the Council ensures its financial position is sustainable over an extended period;

3.12 Locally Members have considered the short and medium term context for the Council's finances in the latest budget report. However the longer term financial picture is not so well developed. For a number of reasons this is a harder and more fluid exercise. Given the Council's main funding comes from the Government and this is subject to annual review, it is unrealistic to expect such long term planning as is suggested in this report.

3.13 It is recommended that governance arrangements should be reviewed following significant changes in staff, management and political structures. This includes ensuring their management teams have the skills and capacity to provide effective leadership and management of finances, services and improvement programmes, and having succession plans for when senior managers retire or leave the council.

3.14 Members will be aware that recently the Council considered both governance and management structures. In addition Members have reviewed the assessment arrangements for Chief Officers to ensure their leadership is as effective as it should be in these challenging times. This assessment process will pick up any training and development needs.

3.15 Finally the report recommends that each Council should have a comprehensive workforce strategy to help manage the impact of staff reductions. The strategy should ensure that the Council retains the ability to make changes and improvements, and is equipped to meet increased demand for services in the context of financial constraints.

3.16 As Members will be aware the Council has over a number of years established a range of workforce management strategies including reviewing our arrangements for severance to ensure that we keep those employees we require to continue to deliver services. Through our risk assessment process and Equalities Statement, we will review some of our workforce risks and what we are doing to mitigate these.

4. RECOMMENDATIONS

It is recommended that Members:

4.1 Note the recommendations of the Overview of Local Government in Scotland report; and

4.2 Consider the Councils response to these recommendations.

……………………………………………………………………………………
DIRECTOR OF CORPORATE & HOUSING SERVICES

Date: 10 August 2015
Ref: ABC0515FC – Audit Scotland Overview Report
Contact Name: Fiona Campbell

LIST OF BACKGROUND PAPERS

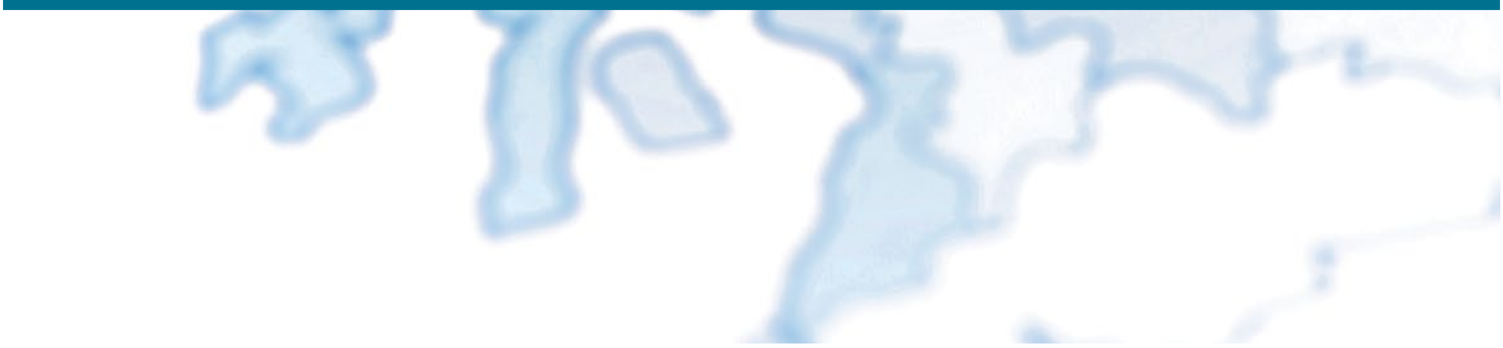
1. Overview report 2014 – Scrutiny Committee

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506230 and ask for Fiona Campbell.

An overview of local government in Scotland 2015

ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2015



The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac

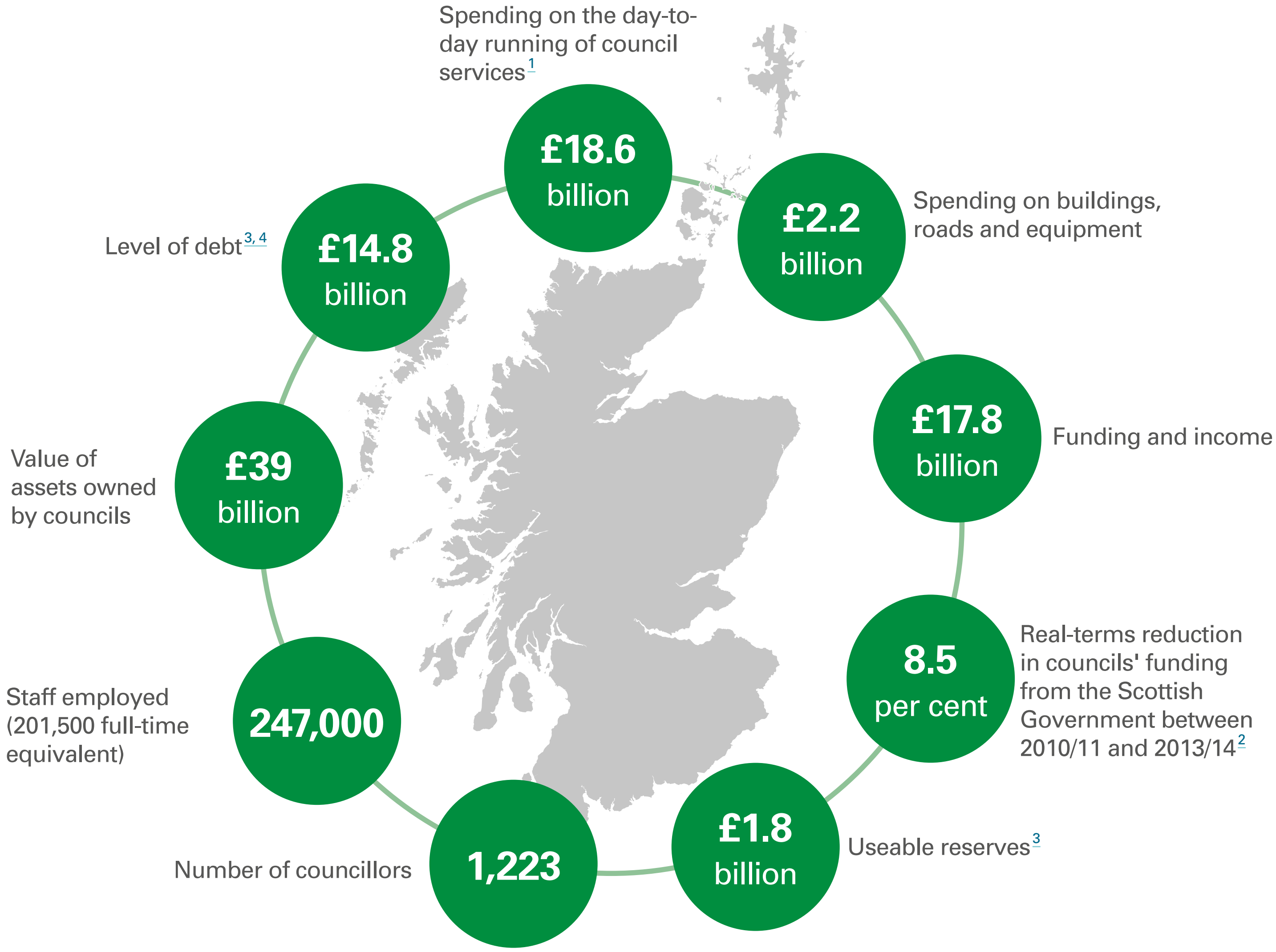
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Key facts



Councils' accounts showed an aggregate deficit on the provision of services of £0.8 billion in 2013/14. After making adjustments, mainly to reflect the accounting rules for pensions and capital, the aggregate amount held by councils in usable reserves was almost the same as it was at the end of 2012/13. Unuseable reserves fell by £0.8 billion.

Notes:
1: The Police and Fire Reform (Scotland) Act transferred responsibility for police and fire and rescue services from councils to the Scottish Government, creating new national services from April 2013. We have excluded police and fire data from figures prior to 2013/14 but some expenditure cannot be separately identified so trend information should be treated with caution.
2: This figure is in real terms, that is, taking inflation into account. We note in the report wherever we have adjusted figures to reflect inflation, particularly when stating the percentage increase or decrease compared with previous years.
3: Reserves and debt figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities.
4: Total level of debt includes £12.1 billion of borrowing for investment in councils' assets, eg buildings, roads and equipment, and £2.7 billion of other debt (ie, Private Finance Initiative (PFI) and Non-profit Distributing (NPD) contracts) for investment in capital projects, mainly schools.

Chair's introduction

For the last five years councils have had to cope with managing austerity, reducing resources, increasing demand for services, and ever increasing public expectations. The Accounts Commission recognises the achievements of councils – both councillors and officers – in meeting these challenges to date.

Councils tell us that they should manage budgetary pressures in 2015/16 but the years beyond that pose a level of challenge not previously experienced. That is why the Commission expects councils to plan now for the period to 2017/18 and beyond, not least because of the lag time between planning and delivering. Longer-term planning is crucial in building a shared understanding among councillors of the financial position. Comprehensive and accessible financial information helps identify what needs to be done now to avoid storing up problems for the future. It also helps inform local and national discussions about the options for council services. Councils are consulting with communities and service users but the challenges ahead make it all the more important to involve communities more in planning and delivering services.

Added to financial pressures is the challenge for councils in establishing effective health and social care partnerships with their health colleagues. This is the most significant change in the public service landscape in Scotland in recent years. There are clear lessons to be learned from our audit of community planning partnerships about the importance of councils and health boards investing time in building mutual trust and leadership capacity if these partnerships are to be successful from the outset.

In last year's overview report, the Commission said that in this complexity of change the foundation stones of good governance and accountability remain constant. Good governance concerns taking informed and transparent decisions which are subject to effective scrutiny. It also involves managing risk – the scale of the challenge means that councils cannot afford to be risk averse, so the focus is on being risk aware.

The public rightly expects scrutiny to be both effective and transparent. The Commission remains of the view that this will be best achieved where: the chair of the scrutiny or audit committee is not a member of the political administration; the committee has clear terms of reference, adequate support and access to independent advice; and members of the committee have the necessary skills and training to do their job. This may seem no more than an obvious statement of good practice. But where these characteristics are not in place scrutiny fails and the public interest is not met. Effective scrutiny is not just in the public interest, it is as much in the interest of the administration of a council.

In this quickly changing and challenging environment, systems and processes must be kept up to date and fit for purpose. Councillors also need to assure themselves that there is sufficient capacity within their councils to deal with day-to-day business as well as manage improvement and change. The role of chief executives, for example, is increasingly demanding. The political environment is complex, often involving coalitions, and they need to balance the task of supporting the administration and their responsibilities to the council as a whole. And because not all services are within the council's direct control, for example, where services are provided by arm's-length external organisations (ALEOs) and with the integration of health and social care services, chief executives need to build strong working relationships with partner organisations.

As with councils, the work of the Commission has evolved; for example our community planning partnership audits with the Auditor General and our new responsibility to audit health and social care partnerships. But our core role, on behalf of the public, of holding councils to account and, by doing so, helping them to improve will continue to be at the heart of our work. The Commission strongly believes that Best Value is as relevant and vital today as it was when it was introduced. The values and principles are essential to delivering the effective, high-quality public services that people expect. Councils that place Best Value at the centre of all they do are best placed to deal with pressures in 2015 and beyond.

The Commission expects councillors to use this report to assess the progress their councils are making with partners to improve outcomes and value for money for local people. We look forward to continuing to work with and support local government in meeting the challenges it faces.

Douglas Sinclair

Chair of the Accounts Commission

Summary

Key messages

1. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms (allowing for inflation) to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes.

2. Many councils are now reporting gaps between their income and the cost of providing services. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances. However, there is limited evidence of longer-term financial planning, which is critical in providing that understanding.

3. Councils have managed the financial pressures well so far. Available performance information indicates that services have been improved or maintained. Public performance reporting is getting better but councillors need better financial and service information to help them set budgets and scrutinise performance. All councils prepared their annual accounts on time and met the required accounting standards.

4. Almost all councils have reduced staff numbers to help make savings but this is not sustainable. Councils are considering ways of delivering services more efficiently and need to get better at using local data and involving service users and local communities in developing options to improve services and help save money. They must implement planned changes quickly to achieve their required savings.

5. Councils need to ensure that the way they manage and control their work keeps pace with the quickly changing circumstances in which they operate. There can be no compromise on the importance of good governance, particularly where there are significant changes in personnel and systems. Not all councils systematically review governance when, for example, they change staff, management or political structures, or develop new ways of financing and delivering services. Community planning and health and social care integration require an ongoing focus on governance in partnership working, where the responsibility for good governance is shared and depends on a culture of trust.

Recommendations

We make a number of recommendations intended to help councillors. With the support of council officers, councillors should assess the position in their council and, where they decide action is required, ensure the recommendations are implemented successfully.

Councillors should:

- assess whether they have appropriate knowledge and expertise, in areas such as assessing financial and service performance, to carry out their role effectively. They should review their training needs and request the training and support they require to help them consider options, make decisions and scrutinise performance

- ensure that council officers provide high-quality financial and performance information to support effective scrutiny and decision-making. This includes having relevant and up-to-date performance data and making good use of benchmarking. Performance information should also be clearly reported to the public to help them understand their council's performance

- ensure that councils, when developing their priorities, use local socio-economic data and work with service users and local communities to understand their needs and explore ways of meeting them. Council budgets should then be targeted towards agreed priorities, including those designed to prevent or reduce service demand in future

- ensure that they consider all practical options for delivering services to meet the needs of service users and local communities, within the resources available. They should consider carefully the benefits and risks related to each option and make sure they receive information about the impact of the option they choose, including monitoring the risks associated with change

- ensure that their council has financial plans covering the short term (1-2 years), medium term (3-5 years) and longer term (5-10 years). These plans should set out the council’s financial commitments, identify any challenges with the affordability of services and set out clearly how the council ensures its financial position is sustainable over an extended period

- review their council’s governance arrangements following significant changes in staff, management and political structures. This includes ensuring their current management teams have the skills and capacity to provide effective leadership and management of finances, services and improvement programmes, and having succession plans for when senior managers retire or leave the council

- ensure their council has a comprehensive workforce strategy to help manage the impact of staff reductions. The strategy should ensure that the council retains the ability to make changes and improvements, and is equipped to meet increased demand for services in the context of financial constraints.

About this report

1. This report draws on the findings from local government audit work in 2014 and provides a high-level, independent view on how councils are managed and perform. This includes audits of financial statements, Best Value, community planning partnerships (CPPs) and performance. Reports on individual councils' 2013/14 audits are available on *Audit Scotland's website*.

2. The report is primarily for councillors, as a source of information and to support them in their complex and demanding role:

- Part 1 reviews the financial context in which councils are operating. It highlights the overall financial position and pressures on budgets.
- Part 2 looks at how councils are managing the financial challenges. It highlights what councils and their partners need to do to help deal with the ongoing and increasing pressures they will face in 2015/16 and following years.

3. Exhibit 1 (page 10) provides a summary of the main issues covered in this report.

4. Our website contains a *Supplement: Self-assessment tool for councillors* [PDF] to help them implement the recommendations we make in this report. We have also provided *a map* [PDF] showing the 32 councils and key facts about each.

Exhibit 1

Local government overview 2015

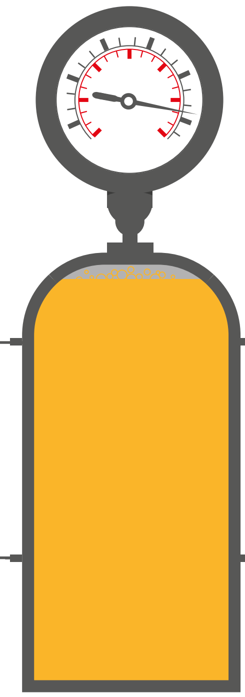
Councils face increasing demand and resource pressures. They need to have the right information, skills and processes to help deal with the pressures in the future.

Increasing demand for services

- Changes to Scotland's demographic profile (eg, the increasing numbers of older people and school children) are increasing demand for services, such as social care and education
- The impact of welfare reforms is increasing demand for services such as housing and money/benefits advice

Future spending commitments

- Financing costs of PFI/NPD
- Other borrowing costs
- Increased pension costs and equal pay costs
- Liabilities such as restoration costs of landfill sites



Implementing Scottish Government priorities

- Council tax freeze
- Free personal care for people over 65
- Housing quality standards
- Primary school class sizes
- Other legislation and national policies

Reducing income and resources

- Real-terms reduction in Scottish Government funding now and in the future
- Many councils reporting funding gaps
- Loss of skilled and experienced staff

Points for action for councillors in 2015/16

Having the right information Councillors should ensure that:	Having the right skills and processes Councillors should:
High-quality financial and performance information is made available to support effective scrutiny and decision-making and to report to the public	**Review personal training needs** and, where necessary, request training and support to develop knowledge and expertise in, for example, assessing financial and service performance
Their council uses local socio-economic data and involves service users and local communities to understand their needs and explore ways of meeting them. Council budgets should be targeted towards agreed priorities	**Consider all practical options for delivering services** to meet the needs of service users and local communities, within the resources available. Consider carefully the benefits and risks and the full impact of each option
Their council has a long-term (5-10 years) financial plan and plans covering the short (1-2 years) and medium (3-5 years) term, setting out financial commitments and how the council ensures its financial sustainability	**Review governance arrangements** following significant changes in staff, management and political structures and when working with partners
Their council has a comprehensive workforce strategy to help manage the impact of staff reductions	**Satisfy themselves that their council's management team has the skills and capacity** to provide effective leadership and management of finances, services and improvement programmes

Source: Audit Scotland

Part 1

The financial context

Key messages

1 In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms (allowing for inflation), to £10.3 billion. Further reductions in the Scottish budget are likely, particularly in 2016/17 and 2017/18.

2 Councils deliver a wide range of local services. Demand is rising because of population changes, in particular demand for services for older people. Alongside this, councils deliver national policies such as those relating to school class size targets and housing quality standards and by deciding to freeze council tax levels.

3 There are other matters which potentially place pressures on councils' finances for example, increasing borrowing costs, equal pay claims and welfare reforms. Almost all councils are now predicting a gap between their income and the cost of providing services.

councils continue to face increasing challenges to their financial sustainability

Councils' funding is decreasing in real terms, so it is important that they consider options to increase their income

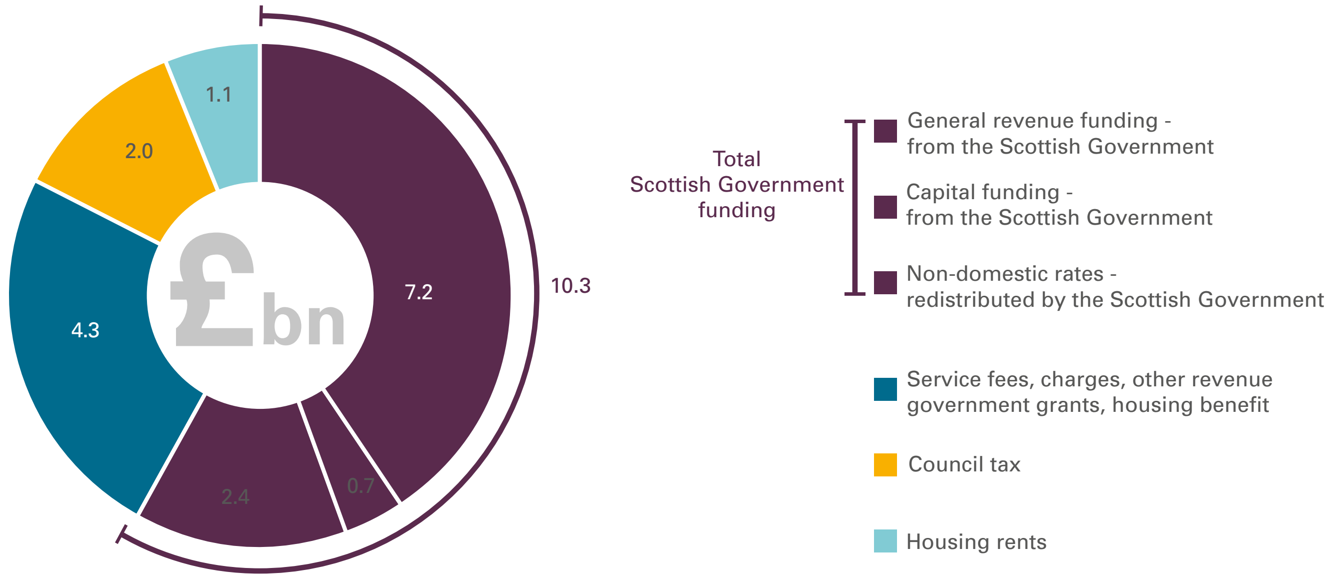
4. Scottish councils' total income in 2013/14 was £17.8 billion. The majority of this comes from Scottish Government funding and the rest comes from council tax, fees for services they provide and housing rents (Exhibit 2, page 12). Councils' share of the Scottish budget has remained relatively constant over the last few years. However, in the context of overall reductions in public sector budgets the amount of funding that councils receive from the Scottish Government has gone down. In 2013/14, the Scottish Government allocated £10.3 billion to councils. This is 8.5 per cent lower, in real terms, than in 2010/11.

5. Due to differences in services and funding, direct comparison with the position in England is not possible. However, it is clear that councils in England have faced more severe cuts; between 2010/11 and 2015/16 the UK Government will have reduced its funding to English councils by 37 per cent, in real terms.

Exhibit 2

Council income in 2013/14 (£ billion)

Funding from the Scottish Government totalled £10.3 billion.



Notes:
1: Figures add to £17.7 billion, rather than £17.8 billion, due to rounding.
2: For the first time in 2013/14, councils received the council tax benefit element of their council tax income directly from the Scottish Government as part of the general revenue funding. This amounted to £351 million, effectively bringing the total income from council tax to £2.4 billion.

Source: Councils' audited annual accounts, 2013/14

6. Most of the 2013/14 Scottish Government funding (£9.6 billion) was for the day-to-day running of council services, including staff salaries. This is known as revenue funding. This is distributed to councils based on a range of indicators, including population, deprivation and pupil numbers. The remainder (£0.7 billion) was to buy, build or refurbish assets, such as buildings, roads and equipment. This is known as capital funding. Between 2010/11 and 2013/14, budgeted revenue funding from the Scottish Government decreased by seven per cent and capital funding by 33 per cent, both in real terms (Exhibit 3, page 13).[1] Capital funding is set to rise again in 2014/15 and 2015/16.

Councils have relatively limited scope to increase their income

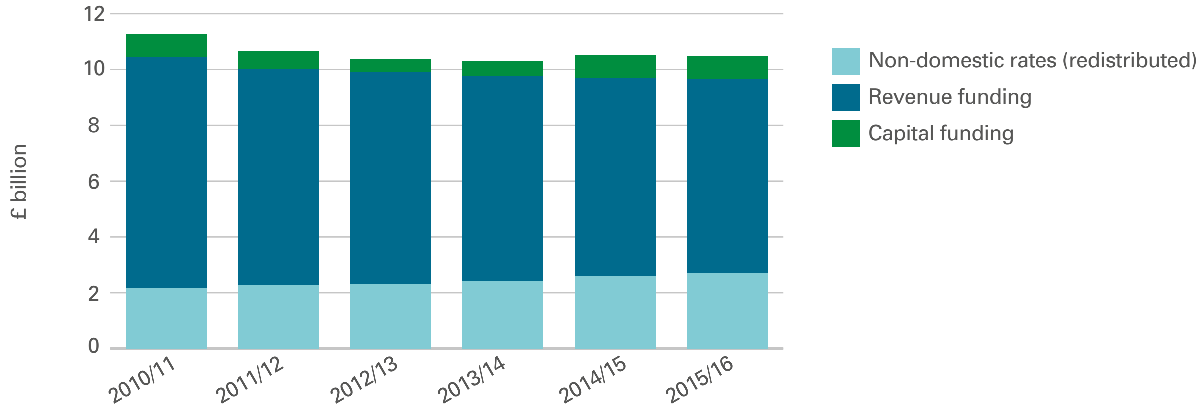
7. Less than a third of councils' total income is within their direct control. They must set the rate of council tax, determine rent levels for council tenants and decide whether, and how much, to charge for specific services, such as some social care services and parking. However, there are limitations. For example, councils have agreed to freeze council tax in exchange for additional funding from the Scottish Government. Councils improved their council tax collection rates to over 95 per cent in 2013/14, increasing council tax income by nearly one per cent since 2012/13 (in real terms).

8. Councils also have relatively little control over local business tax income, known as non-domestic rates (NDR). The Scottish Government sets the annual business tax rate, councils collect the money from local businesses and the Scottish Government redistributes the money as part of its funding allocation to councils.

Exhibit 3

Trend in budgeted revenue and capital funding from the Scottish Government (real terms)

Total funding from the Scottish Government has fallen by 8.5 per cent in real terms between 2010/11 and 2013/14, seven per cent in revenue funding and 33 per cent in capital funding.



Notes:
1: Budgeted figures differ slightly from the actual amount of funding received, due to adjustments made during the year.
2: All figures exclude funding for police and fire and rescue services. The budgeted revenue funding was decreased slightly in 2013/14 because councils were allowed to keep 49 per cent of reserves for police services and 100 per cent of reserves for fire and rescue services.
3: For the first time in 2013/14, revenue funding included the council tax benefit element of council tax income, amounting to £351 million.

Source: Local Government Financial Circulars, Scottish Government, 2009-15

9. Councils have more control over the income they receive from service fees and charges. Charges serve different purposes:

- They are a vital source of income for councils.
- They are used to influence behaviours – for example, low gym charges can be used to encourage exercise or car parking charges can be used to discourage people from taking their cars into city centres.

10. In the last few years, some councils have increased or introduced new service charges. However, councils have to consider the benefits that the extra income brings alongside the impact that higher charges have on the people using the services and the administrative cost of collecting these charges. Councils' income from fees and charges was an estimated £1.3 billion in 2012/13.[2]

Councils have many commitments to manage within reduced budgets

Over half of councils' spending is on education and social work

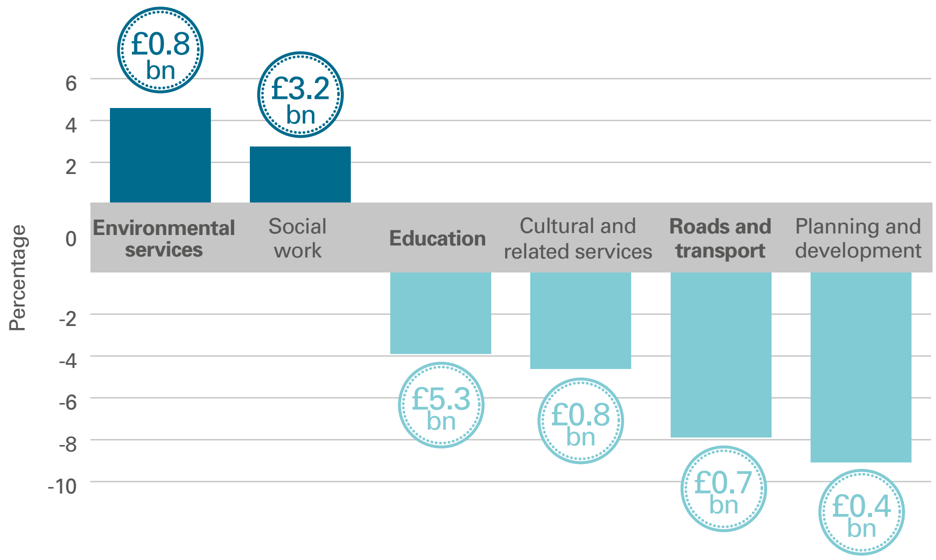
11. Councils spent a total of £18.6 billion on delivering services in 2013/14. This was a slight increase, in cash terms, compared to 2012/13 (£18.5 billion), but a real terms decrease of one per cent. The largest proportion of this spending was on education (30 per cent), followed by social work services (22 per cent).

Spending on most of the main services has fallen since 2010/11, except on social work and environmental services (Exhibit 4). Some of the smaller services, in terms of net spending, have generally experienced a higher percentage of budget reductions. The increase in social work spending is due in part to increased spending on care for older people, reflecting the population trend. The net increase in environmental services is due mainly to changes in the way that some trading activities are reported in councils' accounts, and a new accounting requirement to plan for the costs of restoring landfill sites.

Exhibit 4

Percentage change in net spending per service, between 2010/11 and 2013/14 (in real terms)

Percentage changes in spending vary between services.



Note: Figures in circles show net spending per service in 2013/14 before accounting adjustments are made.

Source: Councils' audited annual accounts, 2013/14

12. Councils deliver a wide range of public services. Some of these services and functions are more prescribed in legislation than others, but councils generally have discretion on the level of services they provide and how they provide them. For example, legislation states that councils must provide education for all children aged between five and 16 years old, and sets rules and targets about teacher numbers, their professional qualifications, class sizes and the curriculum. However it does not prescribe, for example, how many hours of education children must receive or how many days they should be in school; councils have the discretion to decide this.

Councils' decisions about how they deliver national and local policies affect their financial commitments

13. The Scottish Government depends on councils to implement a number of its national policies, including:

- reducing the number of pupils in each primary school class
- delivering free personal care for older people
- maintaining the freeze on council tax
- meeting the Scottish Housing Quality Standard (Exhibit 5).

Exhibit 5

The Scottish Housing Quality Standard (SHQS)

Councils expect to spend over £850 million to bring their houses up to standard.

The Scottish Government introduced the SHQS in February 2004 and it is the principal measure of housing quality in Scotland. It has set a target for landlords, including councils, to bring the quality of their housing stock up to the standards described in the SHQS, where it applies, by April 2015. In 2012/13, councils brought 13 per cent of their houses up to the standard but 22 per cent of houses still did not comply, mainly because the houses did not meet energy efficiency standards. Councils predict that it will cost a total of £853 million to bring all their housing stock up to standard.[3] This includes £302 million already spent in 2012/13 and predicted spending of £551 million between April 2013 and March 2015.

Source: Audit Scotland

14. National policies commit councils to spending in these areas although, in some cases, the Scottish Government provides extra funding for councils to help them implement the policies. For example, since 2011/12 the Scottish Government has made available an additional £70 million a year to councils if they decide to maintain council tax at the same level it was in 2007/08.

15. As well as national policies, councils make local commitments that they must also manage within their budget. For example, some councils have policies against compulsory redundancy. This restricts their ability to manage changes or reductions to their workforce and make associated savings. Councils also have to deal with commitments from past decisions, such as equal pay claims. In 2013/14, 20 councils settled claims worth £73.2 million. This is more than in 2012/13 (£32 million). The cumulative amount paid in equal pay settlements to March 2014 is £580 million. Councils have set aside a further £108 million to meet expected future claims.

16. In addition to upgrading their housing stock to meet the SHQS, councils need to ensure that other assets used to deliver services are fit for purpose. They do this through a programme of capital investment. This includes spending money on new buildings, such as schools, and on maintaining and repairing existing assets, including local roads. Improving facilities, buildings and other assets can help councils deliver services more efficiently and effectively and enhance people's experiences of council services. Councils' capital spending in 2013/14 was £2.2 billion, with £0.7 billion coming from Scottish Government funding and the remaining £1.5 billion funded mainly by borrowing.

17. Twenty-six councils reported that they had underspent against their 2013/14 capital budgets. The level of underspend varied widely, from around one per cent of budget in the City of Edinburgh Council to 45 per cent in Aberdeen City Council and 46 per cent in East Dunbartonshire Council. Reasons for the underspend in Aberdeen City Council include unexpected withdrawal of, or delays caused by, external partners in projects to develop new waste management facilities, build a new bypass (the Western Peripheral Route) and introduce hydrogen-powered buses. In East Dunbartonshire Council the main reason for the underspend was a decision not to proceed with building new office and depot accommodation when further investigation at the chosen site found it to be unsuitable. There are many other reasons why councils spend less than planned on their capital programmes, including delays in starting or progressing projects. Ongoing underspending may mean that councils do not have the most appropriate assets in place to deliver services effectively.

Most councils are reporting funding gaps

18. Financial sustainability is about balancing spending and income over time. Growing demand for services and expected reductions in funding have led many councils to report a funding gap in 2015/16 and beyond. The funding gap means that, to pay for services, councils will have to increase their income, improve efficiency, divert money from lower priority services, or a combination of these. If they are unable to do this they will have to use some of their reserves, although this is a short-term option. Many councils have reported funding gaps, but over different time periods. For example, North Lanarkshire Council predicted a gap of £62.4 million over three years to 2015/16 and Fife Council predicts a gap of £77.2 million in 2017/18.

19. It is not clear if councils' planned savings will be enough to cover the reported gaps in funding or if they will need to make more savings. This is the case, for example, for the City of Edinburgh Council. Our *Best Value report* [PDF] found that the council needs to make recurring annual savings of £138 million by 2017/18. It also highlighted that there is a gap of £67 million between the savings the council needs to make in 2017/18 and those it has already identified in its financial plans.[4] At the start of 2015 the council was considering options to bridge the £67 million gap, including working with voluntary groups to save £10.8 million a year and reducing its workforce by 1,200 staff (full-time equivalent (FTE)).[5]

20. The challenge for councils is to implement strategies that bridge the funding gaps. Almost all councils' auditors have indicated risks to councils' financial positions in the medium to long term. Specific risks identified by auditors include councils:

- spending more money than they planned
- not making the savings they planned
- having to compromise unexpectedly on the quality of services they deliver, without having worked with service users to review and evaluate other options
- being unable to meet the increasing demand for services
- not having enough money in their reserves that they can use, if required.

Service users and local communities will suffer if important services are affected because councils fail to secure financial sustainability over an extended period of time.

Reserves are available but councils can only use this money once

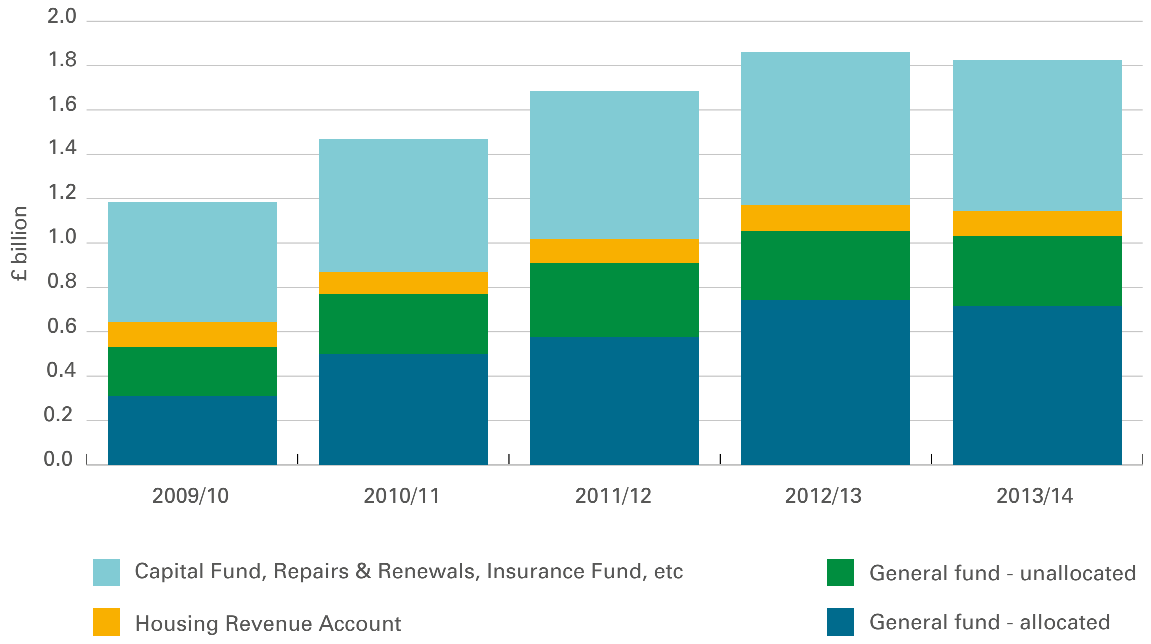
21. Councils hold useable reserves to help them manage unpredictable financial pressures and plan for their future spending commitments. Councils had a total of £1.8 billion of useable reserves at 31 March 2014. This was a small decrease of two per cent in 2013/14, a change in the trend of increasing reserves in recent years (Exhibit 6, page 18).

22. Useable reserves are made up of different funds, including general, capital, housing etc. In 2013/14, general funds accounted for over half (£1.03 billion) of councils' total useable reserves. Councils allocated most of their general funds (£0.71 billion or 69 per cent) for specific purposes, such as modernisation initiatives and local development projects. The remainder (£0.32 billion or 31 per cent) of councils' general fund reserves was unallocated. Councils usually hold unallocated reserves as a contingency to help deal with unforeseen events such as rising interest rates, delays in receiving payments, relieving the pressure on demand-led services, or other unplanned spending.

23. Councils need to consider both their level of reserves, and how they plan to use them, when developing financial plans and setting annual budgets. The chief financial officer (see paragraph 77 for more information about this role) is responsible for advising the council on the level of reserves it should hold and ensuring that there are clear procedures for keeping and using reserves.

24. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) states that the chief financial officer should take account of the strategic, operational and financial risks facing the council, when deciding the appropriate level of unallocated reserves.[6] Auditors reported that not all councils carried out a formal risk analysis to determine the appropriate level of reserves. Most councils had a policy to maintain unallocated general fund reserves at around two to four per cent of their net spending on services.

Exhibit 6
Councils' useable reserves from 2009/10 to 2013/14
Usable reserves stopped increasing in 2013/14 after three years of growth.



Note: Figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities.

Source: Councils' audited annual accounts, 2009/10 to 2013/14

25. Councils can use their reserves to help deliver services. But they can only use them once. Reserves cannot help councils deal with budget gaps in the longer term. Twenty councils reduced their level of useable reserves in 2013/14, 11 councils increased their level and one council's level remained the same.

26. Councils also have other reserves that are not available to spend on providing services (known as unuseable reserves). These are the result of accounting practice to comply with financial reporting standards. Unuseable reserves increase and decrease to reflect updated estimates of the current value of certain council's assets and liabilities, including the value of pensions that the council will have to fund in future.

Further budget reductions are expected and demands for services are increasing

27. The Scottish Government's funding for councils in 2014/15 is £10.8 billion. This is an increase of 2.1 per cent in real terms, compared to 2013/14. In 2015/16, funding is expected to increase by a further 1 per cent in cash terms to £10.9 billion. This is a decrease of 0.5 per cent in real terms. Councils expect further reductions in funding from the Scottish Government, particularly in 2016/17 and 2017/18. The UK Office for Budget Responsibility indicated that UK expenditure could be cut by 6.4 per cent in 2016/17, 4.9 per cent in 2017/18 and 1.9 per cent in 2018/19 and 2019/20 (in real terms).[7] If this is reflected in the UK Government's budget allocation to Scotland, the Scottish Government faces further difficult decisions about how much funding to allocate to councils alongside its other responsibilities and priorities.

28. In addition to reduced funding, councils face other pressures as demand for services continues to increase. The increasing demand for services is largely due to changes in the population, which is increasing by about 0.2 per cent a year. People are also living longer; the percentage of people aged 65 or over is projected to increase from 17 per cent in 2012 to 25 per cent by 2037 (Exhibit 7, page 20). An older population has implications particularly for social care and housing services. For example, analysis by Midlothian Council suggests that without a significant shift in the way services are provided there will be a need for an estimated 300 additional care home places, at a cost of £6 million a year, due to its increasing older population.

29. The growing population can also affect councils' education services. The number of children aged 0-15 years across Scotland is predicted to rise by 5.5 per cent by 2037. Between 2014 and 2018, the number of primary school pupils is expected to go up by 3.9 per cent. The position across Scotland varies widely. For example, Aberdeen, Glasgow and Dundee City councils have predicted increases of 20, 13 and 11 per cent respectively. Clackmannanshire, East Renfrewshire and Stirling councils have predicted decreases of between three and four per cent.[8] For those councils most affected by the increasing number of pupils there are pressures on:

- revenue budgets, for example paying for teachers' salaries
- capital budgets, for example building and refurbishing schools.

In council areas where numbers are falling, councils must monitor the impact of this on their required resources, such as staff, buildings, facilities and transport.

An increasing proportion of councils' budgets will be required to repay debts and other financial commitments

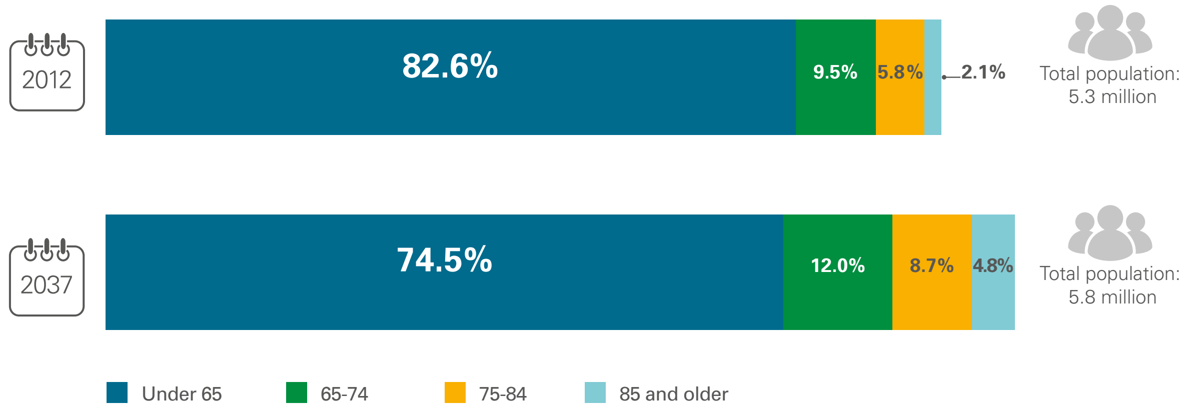
30. As councils make decisions on how to allocate their reduced budgets, they need to be clear about both their short and long-term liabilities. For example, since 2000/01 councils have financed around £4 billion of capital projects using Private Finance Initiative (PFI) and Non-Profit Distributing (NPD) contracts, mostly for new and refurbished schools. Capital projects funded through PFI and NPD generally do not involve using a council's capital budget. Instead, the project costs are met upfront by private sector contractors and the council meets the cost of this, typically over 20 to 30 years, through ongoing revenue payments. Payments to the contractor include repaying the cost, plus interest, of building the asset along with any related services, such as ongoing maintenance and service management costs. Under these contracts councils are committed to paying nearly £17 billion in total. Councils have paid £3.4 billion already and must pay a further £13.4 billion between 2014/15 and 2041/42 (Exhibit 8, page 20).

31. In addition to PFI and NPD, councils have borrowed £12.1 billion to finance investment in assets. The current value of councils' assets is £39 billion. Borrowing helps councils spread the cost of building and refurbishing their assets over a number of years. However, it means that councils commit a proportion of their future budgets to financing charges, that is repaying debt and interest. Annual interest and debt repayments on borrowing have increased from £946 million in 2009/10 to £1.5 billion in 2013/14. Repayments for current PFI and NPD contracts totalled £488 million in 2013/14 and are predicted to peak at around £600 million a year between 2024/25 and 2027/28. Higher financing commitments leave councils with less money available to spend on the other day-to-day costs of running services.

Exhibit 7

Scotland's population is changing

The percentage of the population aged 65 and over is expected to increase considerably.

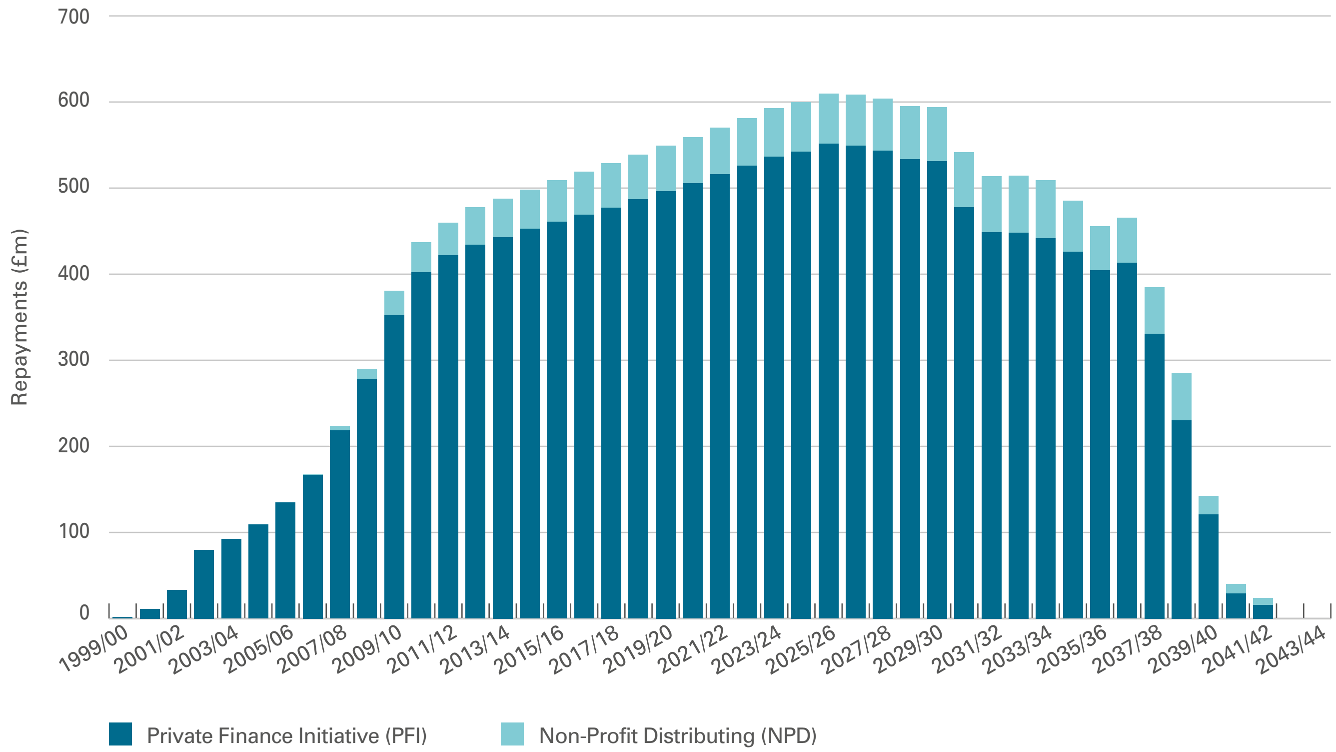


Source: *Projected Population of Scotland (2012-based), National Records of Scotland, 2013*

Exhibit 8

Private Finance Initiative (PFI) and Non-Profit Distributing (NPD) payments, 1999/00 to 2043/44

Councils' committed payments on current PFI and NPD contracts continue to rise until 2026/27.



Note: These figures do not take inflation into account.

Source: Audit Scotland, from HM Treasury (2014) Private Finance Initiative Projects: current projects as at 31 March 2014

32. Population projections indicate that there will be increasing demand for council services at the same time as financing charges are anticipated to peak. These longer-term challenges further support the case for longer-term financial planning (paragraph 69). Our report on borrowing and treasury management, which we will publish in March 2015, will consider whether councils can demonstrate that their borrowing is affordable and sustainable in the long term.

There are a range of other matters affecting councils' finances

33. The Welfare Reform Act 2012 is the biggest reform of the UK welfare system for 60 years and is expected to have significant implications for households and councils. The reforms include introducing a cap on the amount of benefits that people can claim. The impact on people's ability to pay what they owe in housing rent, council tax and other fees and charges is not yet clear. Councils paid £29.4 million in government-funded Discretionary Housing Payments to people who needed help to pay their rent in 2013/14. However, housing rent arrears also increased by 24 per cent between 2012/13 and 2013/14 and this may, in part, be a result of welfare reforms. The full impact of welfare reforms will not be known for some time. The reforms may create greater demands on services if more people are in debt or in need of suitable council homes.

34. Auditors report that, so far, councils are managing the impact of welfare reform and many are spending money on support for people affected, including:

- establishing working groups to coordinate help and support
- creating specific funding pots to help people in need
- setting up telephone hotlines to deal with queries and offer advice
- providing information on their websites.

35. Councils face increased costs when they implement some national policies and legislation, such as self-directed support and the Children and Young People (Scotland) Act 2014.[9] The Scottish Government includes additional costs in the general funding it gives councils. For example, the costs associated with implementing the Children and Young People (Scotland) Act 2014 are estimated at £79.1 million in 2014/15. These are expected to rise to £138.9 million in 2016/17, and then decrease to £108.9 million by 2019/20.[10] The estimated costs largely relate to two of the proposals, both of which are mainly councils' responsibility to implement:

- providing a single point of contact (a named person) for every child in Scotland
- increasing the amount of free early learning and childcare.

36. Councils are also facing other potential financial liabilities. For example, councils must pay the costs of restoring landfill sites used for waste disposal; some may have to pay for restoring open cast mines previously owned by companies that no longer exist; or spend money they did not plan to on paying staff for underpaid holiday pay.

Further changes are expected that may affect councils' finances

37. Councils are likely to face increased costs due to changes in pension schemes. These changes mean that members of workplace pension schemes and their employers no longer pay reduced National Insurance contributions from April 2016. Councils need to be sure that their pension funds are sufficient and well managed so that there is enough money to pay current employees' pensions when they retire.

38. There are potential changes to both the council tax and NDR systems which may affect councils' income. The Scottish Government and the Convention of Scottish Local Authorities (COSLA) have set up an independent commission to examine alternatives to the existing council tax system. The commission is expected to consult with communities before recommending how to develop a 'fairer system of local taxation' to help pay for council services. The commission will report in the autumn of 2015.[11] In addition, the Community Empowerment Bill proposes to give councils some flexibility to control their NDR income along with the ability to set local rates to attract businesses to their area or encourage existing businesses to grow.

39. More generally, the overall environment for public finances in Scotland is changing substantially. From April 2015, new taxes on land and buildings transactions and disposing of waste to landfill come into force. The Scottish Government will also have new borrowing powers. From April 2016, the Scottish Parliament must set a new Scottish rate of income tax. In addition, the recent Smith Commission report sets out proposals by Scotland's main political parties to provide more powers to the Scottish Parliament. The proposals are extensive and include further changes to the welfare system and more financial responsibilities.[12]

Part 2

Dealing with pressures in 2015/16

Key messages

1 Councils have reduced staff numbers to help make savings. They have paid out £352 million in voluntary severance since 2010/11. There is an increasing risk that reductions in staff numbers, and the associated loss of skills and experience, will affect essential support services, such as HR and finance.

2 Despite reductions in funding, available data indicates that councils have continued to improve or maintain services. However, sustaining improvement is becoming more challenging and councils face increasingly difficult decisions about providing services.

3 Effective financial and performance management help councils relieve pressures through, for example, targeting resources (such as money and staff) at their priority areas, and identifying better ways to provide services. Councils need to take more account of service users' priorities and get better at using local data and involving communities in planning and delivering services.

4 Effective planning and budgeting help councils target resources, but there is limited evidence of longer-term financial planning. Eighteen councils do not have long-term financial plans covering a period of five or more years. This can limit how well they understand the full implications of their spending and borrowing.

5 Governance needs to keep pace with changes in staff, management and political structures. This applies within councils and in joint working between councils and their partners, particularly in community planning. Health and social care integration, which councils and health boards are working to implement fully by April 2016, requires effective governance arrangements for the new joint bodies.

6 Councillors need clear information to help them scrutinise services and make effective decisions. Good information helps councils demonstrate that they use public money properly and effectively. There has been an improvement in councils' public performance reporting. Councillors should also make sure they get the training and support they need to help them fulfil their demanding roles.

strong financial management and good governance are critical to making changes successfully

Savings plans are in place but councils will need to consider more fundamental changes

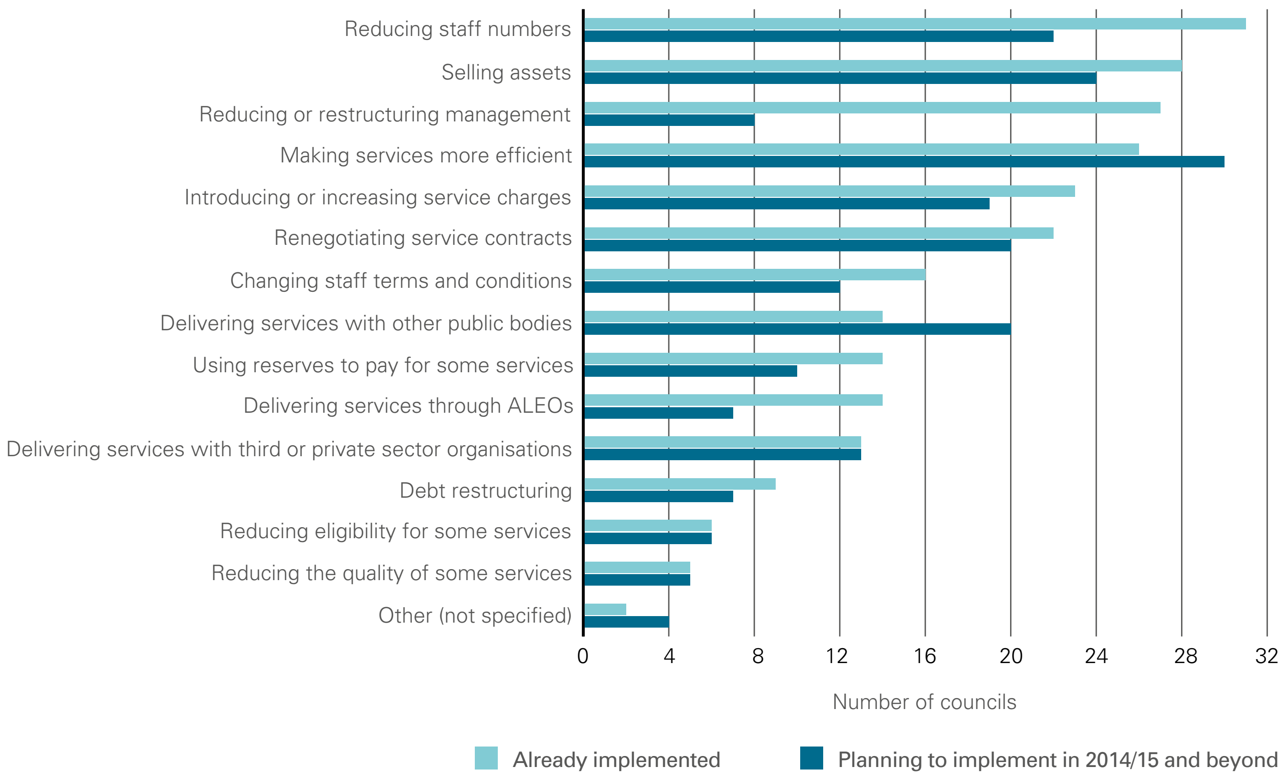
40. Councils have made savings in the last few years through various initiatives, mainly by reducing staff numbers, restructuring and reducing management, and disposing of assets such as buildings and equipment (Exhibit 9). Other sources of savings include improvements in the way councils purchase the supplies and support they need to deliver services. *Procurement in councils* [PDF] for example, found that councils had identified procurement as a source of significant savings.[13] During 2013/14, 23 councils reported that they were planning to make £27 million of savings from procurement. This was 13 per cent of their overall savings targets at the time.

41. To make further savings in 2014/15, most councils were planning to make their services more efficient. They were also considering new service delivery models, including working with other public bodies and setting up arm's-length external organisations (ALEOs). ALEOs are separate companies or trusts set up and fully owned by councils, but with separate financial and governance arrangements. Whatever the delivery model, councils retain responsibility for public money and the quality of services delivered.

Exhibit 9

Actions taken and planned to make savings

The three most common actions councils have taken to make savings are reducing staff numbers, restructuring and reducing management, and disposing of assets.



Source: Audit Scotland survey of council auditors, 2014

Almost all councils have reduced staff numbers to help deliver savings

42. Councils have reduced their workforce by 12 per cent since 2008, from around 228,700 to 201,500 (FTE).[14] This reduction includes staff now working in ALEOs and so the actual reduction in staff providing council services will be smaller than 12 per cent. For example, 7,759 facilities management and social care staff in Glasgow City Council transferred to one of its ALEOs, Cordia. Only Aberdeenshire Council has increased its workforce since 2008, from 9,200 to 10,000 (FTE). The council attributes this to growth in demand for services as a result of a five per cent increase in the population between 2010 and 2013, and to the fact that it has not outsourced any services. At least half of councils intend to make further staff reductions in 2014/15 and beyond. For example, East Renfrewshire Council's three-year savings plan proposes a reduction of 200 posts to help close a £22 million funding gap.

43. Staff reductions have cost councils £352 million in voluntary severance payments and associated costs over the last three years (2011/12 to 2013/14). Each council produces estimates of the savings it expects to achieve from reducing its workforce. For example, North Lanarkshire Council estimated that deleting 237 staff posts in 2013/14 would cost £4.1 million for voluntary severance and early retirement, but would save £7.4 million from its staff costs each year.

44. In 2014, nearly half of councils restructured their management to save money. For example:

- Scottish Borders Council restructured its management to help bridge a £28.7 million funding gap over five years. This included appointing two new deputy chief executives and reducing the number of heads of service from 19 to 12.

- Midlothian Council reviewed its leadership and middle management structures to deliver savings of £1.3 million. This included reducing the number of heads of service from ten to eight and considering reductions in the number of middle managers, from 162 to 143.

- Highland Council has reduced the number of service directors from seven to five to help save £0.35 million a year on senior management costs from 2014/15 onwards. Since 2007, the council has reduced the number of managers by 44 posts to make annual savings of £3.25 million.

45. Although councils have reduced their staff numbers to make savings, it is crucial that they understand and manage the effect of these reductions and continue to improve or maintain the impact their services have on people's lives. Councils tell us they have tried to protect front-line staffing and concentrate the reductions among support staff and management. Our ***School education*** [PDF] report found that councils' spending on education fell by five per cent in real terms between 2010/11 and 2012/13, largely as a result of employing fewer staff.[15] Teacher numbers (FTE) were reduced by two per cent between 2010 and 2013. They fell further in 2014, to 50,824, which is the lowest number in the last ten years. This coincides with pupil numbers increasing since 2012 and, in the last year, the total pupil-teacher ratio increased from 13.5 to 13.6. The primary school pupil-teacher ratio increased from 16.5 to 16.7. We recommended that councils need to fully assess the potential longer-term impact of staff reductions on pupil attainment and wider achievement, and they need to be alert to the potential impact of increased workloads on remaining staff. Teacher numbers and related funding have been the subject of recent discussion between the Scottish Government and councils.

46. Where further staff reductions are planned, it is important that councils have comprehensive workforce plans and strategies to help manage the impact of significant staff reductions. Our *Best Value report on the City of Edinburgh Council* [PDF] highlighted the crucial role of a workforce strategy in enabling councils to plan and manage required savings and to ensure that councils:

- have sufficient capacity for change and improvement
- can meet increased demand for services in the context of financial constraints.

Available data indicate that councils maintained or improved service performance in 2013/14 but pressures on services are increasing

47. Councils have generally managed workforce reductions well while maintaining or improving their performance indicators in most service areas between 2010/11 and 2013/14 (Exhibit 10, page 27).

Decisions on how to reduce spending are becoming even tougher

48. Faced with increasing demand and reduced budgets, councils are finding it harder to continue to improve or maintain the level and standard of services. Councils and their partners need to make sure they are targeting their resources (that is, money and staff) in the right way. To date, councils have relied mainly on staff reductions to achieve the savings they require, but this approach alone is not sustainable.

49. To help manage further budget reductions, Scottish councils need to continue:

- reviewing how they deliver services
- assessing whether what they are doing is the most efficient and effective option, both in the current circumstances and in the future. If this is not the case, councils need to consider fundamental changes.

50. There are a number of actions that councils should take to help them identify how best to target their resources. These include making better use of local socio-economic data and involving service users in deciding their priorities (Exhibit 11, page 28).

51. There is also an increasing need, and expectation, that councils and their partners deliver more integrated services. This will help councils to make best use of their resources, achieve value for money and improve outcomes for people and communities. Community planning involves councils, NHS boards, other public sector bodies, businesses and voluntary groups, working together with local communities to deliver better services. All councils have established a community planning partnership (CPP) in their area. CPPs are required to identify local priorities and set these out in a Single Outcome Agreement (SOA). The Community Empowerment (Scotland) Bill proposes to give the public bodies involved in CPPs a legal duty to work in partnership to plan and improve outcomes for their area.

Exhibit 10

Improving service performance in 2013/14

Performance indicators in most service areas show improvements since 2010/11.

Education

- The proportion of secondary school pupils achieving five or more SQA Level 6 awards has increased from 23 per cent to 28 per cent.
- The proportion going on to positive destinations has risen from 89 per cent to 92 per cent.
- The cost per secondary school pupil has fallen by 3.6 per cent, while the number of pupils decreased by 3.9 per cent.
- The cost per primary school pupil has fallen by 7.4 per cent, while the number of pupils has increased by 3.3 per cent.
- The cost per pre-school place has fallen by 15.3 per cent, while the number of places has gone up by 11.8 per cent.

Culture and leisure

- Visitor numbers for sports have increased by 17.3 per cent, reported to be the result of significant capital investment across Scotland ten years ago.
- The number of library visits has increased by 26.6 per cent, boosted by numbers of virtual visits, use of public access computers and adjusting opening hours to better suit user demand.
- Museum visits have gone up by 25.8 per cent. The increase in numbers has helped to reduce the costs per visit.

Environmental services

- Recycling rates increased to 42.2 per cent of household waste being recycled, as councils work towards Scotland's Zero Waste 60 per cent target in 2020, while costs per premise have reduced by 3.2 per cent.
- Street cleaning costs per thousand population have fallen by 25.4 per cent and roads maintenance costs per kilometre have fallen by 21.2 per cent.
- Waste collection costs crept up slightly between 2012/13 and 2013/14, suggesting that there may be few savings left to find now that councils have already introduced 'route optimising' systems, changes in working practices and collecting bins less frequently.

Adult social care

- The hourly cost of homecare for older people has fallen by 4.6 per cent.
- The percentage of people with intensive needs cared for at home has increased from 32.2 per cent in 2010/11 to 34.7 per cent in 2013/14.

Housing

- Levels of rent lost due to houses sitting empty after a tenant has left have remained unchanged at 1.3 per cent.

Economic development

- The percentage of unemployed people helped into work by their council has risen from 9.6 per cent to 12.6 per cent.

Public satisfaction

- Public satisfaction with councils' services has increased for waste collection, decreased for schools, social work and libraries and remained static for leisure, museums, parks and street cleaning.

Source: *National Benchmarking Overview Report 2013/14*, Improvement Service, January 2015

Exhibit 11

Actions councils should take to effectively target their resources

Source: Audit Scotland

52. More recently, health and social care integration under the Public Bodies (Joint Working) (Scotland) Act 2014 will bring about the most significant change in public services in Scotland in recent years. Councils and NHS boards have a major opportunity to add value to people's lives through improved, coordinated services.

Councils need to have good information for decision-making

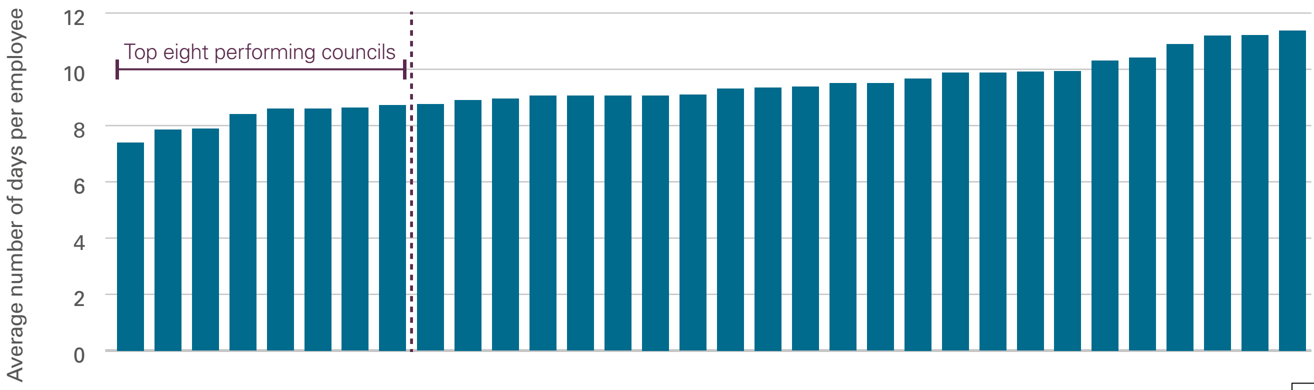
53. The Local Government Benchmarking Framework (LGBF) allows councils to assess and compare their performance and costs across all major service areas. The Improvement Service publishes the LGBF data by theme and by council. Councils can compare how much they spend, and how they perform, with other similar councils. This allows them to identify their strengths and areas where they could improve and to learn from good practice in other councils. For example, sickness absence varies across councils from an average of 7.4 days to 11.4 days per employee per year (Exhibit 12, page 29). If councils with high absence levels could lower this to match the top eight performing councils (lower than 8.8 days), that would gain the equivalent staff time of 450 full-time employees across Scotland. Councils have already saved the equivalent staff time of around 500 employees by improving sickness absence from an average of 9.8 days in 2010/11 to 9.2 days in 2013/14.

54. Our overview report on community planning found that councils and their partners need to get better at using data to understand local areas if they are to maximise their impact. It found that the more developed SOAs used data at a neighbourhood level to help target CPPs' activity and spending.[16]

Exhibit 12

Sickness absence in councils, 2013/14

Sickness absence in the top eight performing councils was less than 8.8 days per employee.



Source: *National Benchmarking Overview Report 2013/14*, Improvement Service, January 2015

55. West Lothian CPP, for example, has recognised that using data effectively is important to develop a successful CPP. The council recruited a data analyst to develop local profiles for areas in West Lothian. The CPP aims to use this data to better understand its communities so that it can target resources, such as funding and staff, to where they are most needed. Ultimately, the CPP aims to predict local needs, and then prevent specific issues, such as high rates of teenage pregnancies. Similarly, Glasgow's CPP used available data to select three key priorities in its SOA, providing it with a clear strategic direction for the next ten years.

Councils are consulting with service users and communities but need to involve them more in planning and delivering services

56. To target their limited resources effectively, councils need to work with local people to understand what their needs are and what services will have the best and most sustainable impact on their lives. Local people can bring insights and experiences to planning, developing and delivering services, complementing those of council staff.

57. Many councils and CPPs do not draw on the results of consultation activity when making decisions and setting priorities. There is significant potential for councils to improve how they involve the public. For example:

- Comhairle nan Eilean Siar brought together views of communities and used them to influence decisions and develop services.
- Falkirk CPP is involving older people in developing new ways of providing services to help them remain independent for as long as possible.
- Perth and Kinross Council is facilitating work in communities where people who need social care services and their families are developing local services to meet their shared needs.

58. While CPPs continue to improve how they consult with local people, they are not yet working with them to improve local services.[17] Our report on *Self-directed support* [PDF] found that genuinely involving users in decisions about how services are delivered, sometimes called co-production, is typically not happening.[18]

59. In June 2014, the Scottish Government introduced the Community Empowerment (Scotland) Bill to the Scottish Parliament. It includes proposals for:

- providing greater rights for communities to plan and manage public services
- placing CPPs on a statutory basis, by putting a legal duty on a range of public sector bodies to work together in partnership with communities to plan and improve outcomes for their areas.

60. While this should help improve communities' involvement in decisions about local services, councils will have to adopt fundamentally different ways of working with communities to enable them to participate effectively.

61. The Bill also contains provisions to improve access to information about the common good assets in each council area. These are properties and other assets that are held by a council on behalf of its residents. The total value of these in Scotland was £0.3 billion as at 31 March 2014.

Councils are reviewing and changing the way they deliver services

62. As budgets are cut, councils need to review thoroughly how they deliver services and identify new, more efficient or better ways of delivering them. They need to act on the results of the reviews, which should be informed by better use of data and user views, to improve services.

63. Councils are considering, and consulting on, areas of potential service reductions, such as closing, or reducing opening hours for, libraries or other leisure facilities. As they consider proposals to reduce or stop services, councils need to identify the benefits and risks associated with each option. These include the implications for how services perform, the impact on service users and the effect on longer-term outcomes for people and communities. For example, reducing services to older people that help them live independently at home may produce savings in the short term but may result in people needing more intensive, expensive support sooner than would otherwise have been the case.

64. A number of councils have reviewed and changed the way they deliver services (Case study 1, page 31). It is important that councils monitor how their services are performing so they can understand whether they are making the anticipated improvements and savings. They should also review the process of making the changes and apply lessons learned to future changes.

65. There is limited evidence of councils moving towards preventative services. These services help prevent or delay people's need for a service, for example an older person requiring a place in a care home. In a climate of reduced resources it is difficult for councils and their partners to divert money from delivering existing services to more preventative services. However, prevention is an important element in managing future demand for services, and is therefore an important

Case study 1

Examples of councils reviewing and changing services

- East Ayrshire and South Ayrshire councils jointly launched the Ayrshire Roads Alliance to deliver a range of roads services. These include roads maintenance, winter maintenance, design and infrastructure, traffic and transportation, and road safety. The councils expect the shared services arrangement to deliver more than £8 million in savings over the next ten years. The savings will be mainly from reduced management and administrative costs and from better deals on larger orders.
- Glasgow City Council partially funds the Social Care Ideas Factory, a voluntary organisation, to develop ideas for changing and improving social care services. The Ideas Factory gets social care providers, service users, carers and the council together to test ideas that help people with social care needs to regain or retain full lives at home and in their communities.

Source: Audit Scotland

element in securing financial sustainability. Our report on *Reshaping care for older people* [PDF] found that more needs to be done to target resources on preventing or delaying ill health and on helping people to stay at home.[19]

66. Our *Community planning report* [PDF] found that while CPPs are starting to focus more on prevention, much of this activity is on a small scale. It also acknowledged that moving resources towards preventative activity will be more challenging as financial and demand pressures increase. There are, however, some examples of councils and CPPs investing in prevention activity:

- Stirling Council's social work services propose to save £442,000 over five years by extending the current re-ablement services for older people. These will now include people under 65 with physical disabilities, learning disabilities and mental health problems. Re-ablement focuses on building people’s skills, capabilities and confidence to enable them to retain, or regain, their independence living at home with little, or no, support.
- Perth and Kinross Council offers a support service to people who claim Discretionary Housing Payments and Scottish Welfare Funds. The council does this to try to understand the reasons for their difficulties and stop them from happening. Officers review claimants’ finances with them and try to maximise their income wherever possible, for example, by identifying additional benefits they may be entitled to or how claimants can spend less money. The council anticipates that taking this approach will greatly reduce the number of people needing its help.
- West Lothian CPP has agreed a comprehensive ten-year prevention plan. It sets out 68 prevention projects and identifies a number of broad areas to focus on in the future, such as reducing reoffending and alcohol misuse by young people.[20]

67. As the pressures on councils and their partners mount in the coming years, they may have to consider more fundamental changes. In England, councils have faced more severe budget cuts in the last few years. Between 2010/11 and 2015/16, the UK Government will reduce its funding to English councils by 37 per cent, in real terms.[21] As with Scottish councils, cuts so far have been managed mainly through workforce reductions. English councils are now increasingly relying on new, untested ways of making savings. There is also evidence that core services, such as homecare and day care for adults, are being reduced. Birmingham City Council, for example, is now actively looking to stop some services to help achieve its required £72 million of savings in 2015/16, and is planning to:

- cut services for those with physical disabilities by 50 per cent
- contract out a range of care services, such as sheltered housing
- cut over half of its library staff
- increase parking charges and other fees, such as waste disposal for businesses
- remove subsidies for public events.

68. In these circumstances, where there are greater risks in using untested approaches, it is even more important that councils identify the risks and manage them carefully. Responding effectively to the current and continuing financial pressures means that councils will have to be bold and take risks. They cannot afford to be risk averse, so the focus is on being risk aware.

Effective planning and budgeting help councils target resources, but there is limited evidence of longer-term financial planning

69. It is important that councils develop and maintain long-term financial plans, looking five to ten years ahead, to direct and control their finances and set the context for annual budgets. Plans should also show whether the council's finances are sustainable over this period of time. They can help the council identify potential problems at an earlier stage, for example identifying significant demographic change or increasing costs for repaying debts. Long-term plans need to make assumptions about future funding, spending and activities, so they should set out different scenarios and their implications for the council's future budgets.

70. Plans should include both annual revenue spending on services and capital spending to invest in buildings and equipment, showing clearly how the two types of spending relate to each other. In the current financial environment, councils need to plan and budget in a way that focuses more on their priorities and links their planned spending more closely with the outcomes they want to achieve.

71. Eighteen councils do not have long-term financial plans covering a period of five or more years. This can limit how well they understand the full implications of their spending and borrowing. A long-term financial plan should include estimated income and costs, and the savings that may be required to bridge any gaps. It should provide councillors and senior managers with a good understanding of the financial health of the council, including anticipated pressures and options for addressing them (Exhibit 13, page 33).

Exhibit 13

Important features of long-term financial planning

Councils should have financial plans which cover a period of five to ten years.

Element	This should include:
Income	An assessment of expected income, including projected changes to council tax income. It should set out options to increase income, for example policies on fees and charges
Costs	A clear understanding of the council's costs, including those of individual services, borrowing costs etc. It should highlight future cost pressures and identify options for relieving these
Savings	An analysis of required savings along with evidence-based options for achieving these. This should set out details of one-off and recurring savings and the risk of these not being achieved
Funding gaps	Details of any funding gaps between projected income and the cost of providing services, including the reasons for these and how these will be managed
Assets, liabilities and reserves	An assessment of assets and liabilities showing how these will change over time. There should also be a reserves policy, setting out details of adequacy, why reserves are held and what they will be used for
Scenario planning	Different scenarios that show the best, worst and most likely financial positions. This should set out the assumptions used, and take into account long-term economic forecasts and interest rate projections
Capital investment activity	Details of investment needs and plans and how these will be paid for. This should include details of estimated financing charges
Demand	Analysis of demand for services, taking into account various population projections. It should also include the impact of demand on capital investment needs
Risks	An analysis of significant financial risks, their implications and how these might be mitigated
Links	Clear links to the council's corporate strategy and CPP objectives and to other relevant information, for example workforce and asset management plans

Source: Audit Scotland

Some councils are taking a priority-based approach to budgeting

72. Effective budgeting is an important part of good financial management because it:

- can help councils understand where best to direct their resources, such as money and staff, to achieve the greatest benefits
- sets out where and how much money will be allocated
- allows councils to monitor throughout the year the financial position against the budget.

73. It is important that councils are clear about local priorities and national policies and develop their budgets to target resources at these. One way of doing this is to use a priority-based approach to budgeting. There are some examples of councils using this approach to budgeting, for example Aberdeen City Council and Stirling Council, but many councils are not yet aligning their budgets with their priorities. Aberdeen City Council is now developing its approach to target resources at specific outcomes. There should be clear connections between the local priorities that the council and its partners have set out in their SOA and the way they target the combined money resources they have available for public services in the area.

Governance arrangements must be kept up to date and fit for purpose

74. There have been major changes to staffing and management structures as a result of workforce reductions and organisational changes. This affects existing governance arrangements, for example from losing people and posts that authorised or reported important financial and performance information. Governance arrangements include rules for authorising decisions and spending, systems for managing risks, processes for reporting and scrutinising financial and service performance, and standards for the way councillors and staff behave. It is important that councils review the core elements of governance by:

- creating and implementing a vision for the local area and focusing on outcomes for the local community
- councillors and council officers working together to achieve a common purpose, with clearly defined functions and roles
- promoting the council's values and upholding high standards of conduct and behaviour
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- developing the capacity and capabilities of councillors and officers
- engaging with local people and other stakeholders to ensure robust public accountability.[22]

75. There is a risk that some councils' management teams may now be too small, or lack the skills and experience, to oversee and control their wide-ranging responsibilities. This can make effective leadership and management more challenging. Smaller management teams need to have clear arrangements for all the important functions they need to fulfil, including effective systems of control over finances and performance. Councils also need to ensure they have enough people with the right skills to deliver their ambitious change and improvement programmes, both now and in the future.

76. The chief executive role is crucial to the success of the council. The role is complex and demanding. It requires a good balance between responsibilities to the political administration and to the council as a whole, and the need to build effective relationships with people in organisations that work with or for the council to deliver public services, such as health and social care partnerships and ALEOs.

77. The chief financial officer, also known as the section 95 officer or proper officer for finance, has a crucial role in providing advice on all aspects of finance and is central to effective governance. Councillors should satisfy themselves that the chief financial officer has appropriate access to, and influence over, decision-makers to perform this role effectively. From 2014/15, councils' annual accounts must include a statement of responsibilities and this must accurately reflect the responsibilities of the chief financial officer.[23]

78. Councillors also need to be aware of the important contributions provided by statutory officers who, similar to the chief financial officer, act independently to promote and enforce good governance (Exhibit 14, page 36). The chief financial officer and the monitoring officer in particular provide independent advice to the council on the affordability and legality of options for services and savings. Fuller information on the statutory officers and their roles, which are undertaken alongside their wider responsibilities for the management of the council, is available on the *Improvement Service website*

There is an increasing risk that reductions in staff numbers will affect essential support services, such as HR and finance.

79. There is an increasing risk that reductions in staff numbers will affect essential support services, such as HR and finance. There are signs of pressure in councils' finance departments, such as delays in preparing annual accounts and supporting papers. We have asked Audit Scotland to examine the impact on finance departments of reduced staff numbers. We will report our findings in next year's overview report. Our *Scotland's public finances–follow-up audit* [PDF] stressed the need for council leaders and senior managers to consider the ability of finance departments to supply councillors with clear information to allow them to scrutinise budgets.[24]

80. There are similar concerns about reductions in skills and experience in internal audit and fraud prevention teams. The recently revised accounting regulations introduce the new requirement for an effective internal auditing service in accordance with recognised standards and practices set out in the public sector internal audit standards.[25; 26] The regulations also require councils to assess the efficiency and effectiveness of internal audit.

Exhibit 14

Roles of statutory officers in councils

Statutory officers have an important role in promoting and enforcing good governance, alongside their wider responsibilities in the council.

Role	Established by	Statutory responsibilities
Head of paid service (chief executive)	Local Government and Housing Act 1989	Council staff structures and numbers; ensuring the work in different departments is coordinated
Chief financial officer (or section 95 officer or proper officer for finance)	Local Government (Scotland) Act 1973	Proper administration of the financial affairs of the council
Monitoring officer	Local Government and Housing Act 1989	Advising councillors about the legal position of proposed actions
Chief social work officer	Social Work (Scotland) Act 1968	Advising councillors and senior officers on the delivery of social work services

Source: Audit Scotland

81. Effective and transparent scrutiny is an essential component of good governance and, where issues have been identified, councils are taking actions to improve. For example, our *Best Value report on South Ayrshire* [PDF] in February 2014 found that there were significant weaknesses in the way councillors scrutinised how the council and services performed.[27] We reported in December 2014 that the council had reviewed its scrutiny arrangements and implemented a new governance structure which appears to have a tighter focus on governance and service performance.

82. Our reports highlight the crucial role of effective leadership from councillors and senior managers:

- School education – found that effective leadership was crucial for improving educational attainment.
- Self-directed support – found that councillors and senior managers were not providing effective leadership in every council for implementing this important social care policy.

83. We reported last year that political tensions were getting in the way of effective leadership in some councils. There are signs that this continues. For example, our 2013 report on *Argyll and Bute Council* [PDF] highlighted our serious concerns about substantial risks to the council caused by the instability of leadership by councillors since the last council election.[28] Our *follow-up report* [PDF] in 2014 found that the political dynamics of the council were more stable than before, and new political management arrangements were in place, although some underlying tensions were still evident.[29] Similarly, Falkirk Council's auditor noted that following the introduction of a new decision-making structure in May 2013, not all councillors were attending executive and scrutiny committee meetings and scrutiny and policy development panels.

84. Our 2014 report on *Community planning* [PDF] found that CPP boards are not yet fulfilling their role effectively.[30] Strategic leadership, oversight and challenge (for example, of individual partners' contribution to the CPP's priorities) still tends to happen at a level, or at levels, below the CPP board.

85. Many councils have set up ALEOs as an alternative way of delivering council services. ALEOs most commonly provide culture and leisure services and property management, but also deliver social care, transport and other targeted community services. As more councils use ALEOs to save money or run more efficient services, they must satisfy themselves that arrangements are in place to ensure the new structures deliver good services within budget. In particular they must manage the financial risks to the council and service users if the ALEO fails. Councils should also regularly review existing, long-standing ALEOs to ensure their governance arrangements remain effective. Aberdeen City Council has plans to strengthen its governance arrangements for ALEOs (Case study 2).

Case study 2

Aberdeen City Council's new governance hubs

Following advice from its auditors to review its governance arrangements for ALEOs, Aberdeen City Council is creating three new governance hubs:

- Social Care, Wellbeing and Safety
- Enterprise, Strategic Planning and Infrastructure
- Education, Culture and Sport.

Each governance hub will consist of service representatives and officers from the council's finance, legal, human resources, risk management and procurement departments. Their role will be to scrutinise in detail each of the council's significant ALEOs. This will involve regularly meeting with the ALEOs and reviewing a range of risk and performance information.

The hubs will report to service committees twice a year on ALEOs' operational performance (including financial performance), people performance, risk management and service quality.

The hubs will also report quarterly to the Audit, Risk and Scrutiny Committee, which retains overall responsibility for scrutinising performance.

Source: Audit Scotland

Governance arrangements need to reflect changes in structures and services

86. Councils should review their governance arrangements whenever they make changes to the way they manage or deliver services to ensure they remain effective. They should also regularly review long-standing arrangements in case they have become less effective over time.

87. A crucial element of governance is audit committee arrangements, and these were the subject of consultations leading to the 2014 accounting regulations. The regulations do not make audit committees mandatory. However, it is clear that Scottish Ministers consider that councils should devote sufficient resources to enable the audit committee, along with other scrutiny functions, to carry out its role effectively. All councils have at least one audit committee. We believe that effective and transparent scrutiny is best achieved where:

- the chair of the scrutiny or audit committee is not a member of the political administration
- the committee has clear terms of reference that set out their role in independent scrutiny of council decisions and performance
- the committee has adequate support and access to independent advice
- members of the committee have the necessary skills and training to do their job.

88. Across Scotland, new service arrangements are being put in place. These include health and social care integration and the new single police service. There are also new local service arrangements, such as joint working between councils and making use of ALEOs. Councils should review governance arrangements when changes like these are introduced to make sure roles, responsibilities and accountabilities are appropriate to the new models.

89. Health and social care integration, which councils and health board partners are working to implement fully by April 2016, requires effective governance arrangements for the new joint bodies. Responsibility for setting up the new joint bodies and establishing good governance arrangements is shared between the two partners. In our report on community planning we said that effective leadership, challenge and scrutiny depends on a culture of trust between partners, in which there are not only good ongoing relationships but the ability to challenge and hold each other to account. The same applies to health and social care bodies. There are also changes to the governance arrangements for pension funds. From April 2015, the law requires that schemes have pension boards comprising employer and employee representatives; currently pension fund committees comprise councillors only.

Councillors need clearer information to help them scrutinise services more effectively

90. Councillors need good information to scrutinise services and make effective decisions. It also helps councils demonstrate that they use public money properly and effectively. Councils have a duty to report their performance publicly. There has been an improvement in councils' overall approach to public performance reporting. It is easier to find information and more councils now have performance information clearly signposted on their websites. Our *Best Value report on Comhairle nan Eilean Siar* [PDF] found that the council improved its public performance reporting arrangements during 2013 when it introduced its public performance calendar.[31] The calendar presents a range of information, structured around its SOA, as well as service-specific information. However, there is scope to improve performance reporting in some councils. The Improvement Service is developing guidance to assist councils in how they report their performance.

91. Our *SPF follow-up report* [PDF] found that all public bodies, including councils, need to improve the level and consistency of information provided for scrutiny and decision-making. It reported cases where:

- reporting of financial information was limited in frequency and content
- actions, responsibilities, measurable outcomes or timescales were unclear
- scrutiny of plans and savings took place in private and the decisions were not reported.[32]

92. Audited annual accounts are an important element of the public reporting of financial performance. Councils' accounts, for financial year 2013/14, were all completed on time and were signed off by auditors without qualified opinions (this means that the 2013/14 accounts present a 'true and fair' view of the financial position). Unqualified audit opinions were also issued for each of the 11 pension funds run by councils. We welcome this achievement by councils and the assurance it provides to the public and other stakeholders, including the Scottish Government. For the first time in 2013/14, a full audit of registered charities' accounts where a council or some council members are the sole trustees was required by regulation.

93. Financial reporting takes a number of forms, including the audited annual accounts, budget documents, published plans and council papers. Financial risks, uncertainties and the quickly changing context we outline in this report reinforce the need for comprehensive, transparent, reliable and timely financial reporting. An overall picture of the financial position which includes details of what is owned (assets) and what is owed (liabilities) along with annual income and spending levels is essential to understand the risk to financial sustainability.

94. Councils' accounts are complex and include technical accounting adjustments to meet statutory requirements. As a result, it is not always clear to those without a financial background how councils performed against their budgets, or the extent to which they anticipate future funding gaps.

95. It is also difficult to get a clear picture of the overall liabilities and the likelihood and timing of meeting the liabilities in future. For example, while accounting rules require disclosure of a council's involvement in an ALEO in its annual accounts, councillors may not have a comprehensive picture of the overall, potential liabilities associated with their council's involvement in ALEOs. If ALEOs experience financial difficulties, the council may be required to provide additional financial support beyond that included in the council's budget.

96. This is an area for further consideration and development. We therefore welcome recent changes to the accounting regulations which require councils to include a management commentary in their accounts. In addition, the CIPFA/LASAAC Local Authority Accounting Code Board is continuing to work on a project to simplify how councils should report their financial performance in the financial statements.[33]

Councillors need training to help them set budgets and scrutinise performance

97. It is more important than ever that councillors have appropriate knowledge and expertise to carry out their role effectively:

- Our SPF follow-up report highlighted the funding arrangements for major capital investment, such as tax incremental financing and NPD, as an example of a complex area. Councillors and other public sector leaders may require help to ensure they are fully aware of the key issues, risks and impact of these financing models on public finances.

- Our *Procurement in councils report* [PDF] emphasised the importance of councillors having a good knowledge of procurement rules. We recommended that councils should encourage councillors sitting on the main committee or committees dealing with procurement to complete specific training to help them perform their role more effectively.

- Our report on borrowing and treasury management, which we will publish in March 2015, will consider whether councillors have enough expertise to challenge decisions in this complex area.

98. Where necessary, councillors should seek advice and training to support them in their role and councils should assure themselves that they provide appropriate support. For example, North Lanarkshire Council produces an annual learning and development programme and runs training courses for councillors. Two-thirds of councillors attended at least one training session in 2013/14. For the last few years, the Improvement Service has offered a voluntary Continuous Personal Development (CPD) framework for councillors. Alongside SOLACE, the Improvement Service is developing a programme of training for council chief executives, senior managers and councillors.

99. In addition to reviewing their training needs, councillors should ensure the recommendations in this report are implemented, where appropriate. We have provided a self-assessment tool on our website to help them do this.

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An overview of local government in Scotland 2015

Self-assessment tool for councillors

ACCOUNTS COMMISSION

This self-assessment tool is designed to help councillors review progress in implementing the recommendations in our report, *An overview of local government in Scotland 2015* [PDF]. They should consider each issue listed and decide which statement most accurately reflects their current situation. This approach will enable them to identify what actions need to be taken.

The last column in the checklist can be used to record sources of evidence, supplementary comments to support the assessment or to highlight actions to take forward.

Issue	Assessment of current position (continued)					
	No action needed	**No** but action in hand	**Yes** in place but needs improving	**Yes** in place and working well	**Not applicable**	**Comments**
Skills and expertise (paragraphs 97 to 99 [PDF])						
• Councillors review and update their own training needs and identify areas where they require further training.						
• Councillors work together with officers to ensure the council provides or arranges relevant training for them in appropriate areas, including assessing financial and service performance.						

Issue	Assessment of current position (continued)					
	No action needed	**No** but action in hand	**Yes** in place but needs improving	**Yes** in place and working well	**Not applicable**	**Comments**
• Councillors ensure they get support from officers when they identify gaps in knowledge and understanding.						
Financial and performance information (paragraphs 90 to 96 [PDF])						
• Officers are working to improve the way they report financial and performance information to councillors to make it clearer and easier to understand.						
• Officers provide councillors with relevant, up to date performance data, including benchmarking the council's performance with other relevant organisations or services.						
• Officers report performance information to the public in a way that helps them understand the council's performance.						
• Officers make councillors aware of future funding gaps and provide them with information to help make decisions on how to close the gaps.						
• Officers make councillors aware of changes to the proportion of the council's budget that will be required to repay debt.						

Cont.

Issue	No action needed	No but action in hand	Yes in place but needs improving	Yes in place and working well	Not applicable	Comments
	Assessment of current position (continued)					
• Officers make councillors aware of the financial impact of national and local policies (eg, taxes on land and buildings transactions, waste disposal to landfill and the implications of the Smith Commission agreement).						
Using local data and working with communities (paragraphs 53 to 61 [PDF])						
• The council uses local socio-economic data and works in close co-operation with service users to understand their needs, explore ways of meeting them, and deliver the services.						
• Officers make councillors aware of population trends in the area and the implications for service demand and capital budgets.						
Service delivery options (paragraphs 62 to 68 [PDF])						
• The council is reviewing all practical options for delivering services in new ways to help save money and improve services. It is identifying the benefits and risks of each option and monitoring the impact of the option chosen, including the risks associated with change						

Cont.

Issue	Assessment of current position (continued) **No** action needed	**No** but action in hand	**Yes** in place but needs improving	**Yes** in place and working well	**Not applicable**	**Comments**
• Councillors are aware of what actions the council has taken so far to make savings and the extent of staff reductions to date, and the impact of these on service delivery.						
• The council is investing in preventative approaches to help manage future demand for services						
• The council has a comprehensive workforce strategy to help plan and manage the impact of staff reductions						
Financial planning (paragraphs 69 to 73 [PDF])						
• The council has financial plans for the short (1-2 years), medium (3-5 years) and long term (5-10 years).						
• The strategies set out financial commitments, identify problems with affordability of services and allow members to understand whether the financial position is sustainable over an extended period.						
• The council's budget targets resources effectively at its priorities, including shared priorities identified with partners in the Single Outcome Agreement						

Cont.

Issue	Assessment of current position (continued) **No** action needed	**No** but action in hand	**Yes** in place but needs improving	**Yes** in place and working well	**Not applicable**	**Comments**
Governance arrangements (paragraphs 74 to 89 [PDF])						
• The council reviews governance arrangements following significant changes in staff, management or political structures.						
• The council's senior management team has the skills and capacity to provide effective leadership and management of finances, services and improvement programmes.						
• Councillors understand the role and statutory responsibilities of the S95 officer, the monitoring officer and the chief social work officer.						
• The scrutiny or audit committee has: – a chair who is not a member of the political administration – clear terms of reference – adequate support and access to independent advice – members who have the necessary skills and training.						

AGENDA ITEM 5

FALKIRK COUNCIL

Subject:	**AUDIT SCOTLAND NATIONAL REPORT - BORROWING & TREASURY MANAGEMENT IN COUNCILS**
Meeting:	**SCRUTINY COMMITTEE**
Date:	**20 AUGUST 2015**
Author:	**DIRECTOR OF CORPORATE & HOUSING SERVICES**

1. INTRODUCTION

1.1 The purpose of this report is to provide Members with a summary of the key messages/recommendations flowing from the Audit Scotland publication "Borrowing and Treasury Management in Councils". This was a national study and not specific to Falkirk Council. A copy of the report is attached. In addition to the report, Audit Scotland also published a supplementary paper to provide assistance to Members in their borrowing and treasury management scrutiny role. A copy of this guidance is also attached.

2. AUDIT SCOTLAND'S "BORROWING AND TREASURY MANAGEMENT IN COUNCILS"

2.1 The report examines the level of external borrowing across Councils, focusing mainly on the three years up to and including 2013/14. It highlights that the aggregate level of borrowing currently stands at £12bn and it is fairly constant over these three years. However, a comparison of Councils over the last ten years shows that seventeen out of thirty-two authorities have increased their borrowing in real terms, including Falkirk as per paragraph 3.2.4. It should be noted that any changes in borrowing levels over this time period will reflect a range of variables including changes in Councils' corporate priorities, capital investment programmes, level of cash reserves and the availability of other funding such as grants and capital receipts.

2.2 The focus of the work by Audit Scotland was on borrowing to fund capital programmes both General Fund and Housing. It did not include borrowing in relation to TIF projects. Borrowing is deemed to be external borrowing i.e. Public Works Loan Board [PWLB], Banks, other Local Authorities etc.

2.3 The audit assesses how Councils demonstrates best value as a result of borrowing and treasury management decisions, specifically affordability and sustainability of borrowing over the short and long term; to what extent Councils' Treasury strategies meet good practice and how effective the governance arrangements are in relation to borrowing and treasury management.

2.4 Audit Scotland's report received quite a lot of media attention when it was published. The media coverage included references to Members obtaining adequate information to make informed decisions and scrutinise borrowing with the need for Councils to do more to set out the longer term implications of borrowing. Cosla responded by saying that Councils are managing their debts prudently, that they have played a significant role in boosting the economy which was supported and encouraged by Scottish Government.

2.5 The key recommendations from the report are that Council Officers should:

- In conjunction with Members, review governance arrangements to ensure that reports are reviewed by the same committee and thereafter remitted to full Council for approval. These reviews are to include the annual Treasury Strategy report, the mid-year progress report and finally the year-end report.

- Use their Treasury Management Strategy to present a wider strategic review of borrowing and treasury management with Members being viewed as the key audience. Members are to be made aware of the links to capital investment decisions and the impact on revenue budgets of these decisions.

- Create more detailed and longer-term borrowing and treasury management analysis to include the impact of various scenarios e.g. different budgets, changes in interest rates, capital financing options and the use of indicators in excess of the three years set by the Prudential Code.

- Review the content of year end reports to ensure that they detail the effectiveness of the year's borrowing and treasury management activities. The report should also include appropriate indicators, comparative figures and explanations.

- Share Treasury Strategies with other Councils with a view to establishing good practice/exchange of ideas.

- Consider widening training options for Members and decide whether this should be mandatory. In addition, the content of the training should be reviewed to ensure it covers scrutiny skills and knowledge of treasury management

3. CURRENT PROCESS

3.1 The Council's treasury management activities are performed in compliance with the CIPFA Codes of Practice i.e. the Treasury Management Code and the Prudential Code. In addition the Council also has to comply with the Local Government in Scotland Act 2003 and the Local Government Investment (Scotland) Regulations 2010.

There are three key strands to our treasury management reporting activities:

- Annual Strategy
- Interim Review
- Year-end Review

The specifics of these strands are now explained further.

3.2 Annual Strategy

3.2.1 Preparation of the Council's annual Strategy is discussed with our Treasury advisers Capita Asset Services to ensure that it's fit for purpose. Although it is not shared with other authorities, it is on the Council's website. In addition there is a lot of networking through the CIPFA Treasury Management Forum and Capita hold various sessions throughout the year, sharing benchmarking information. As they currently act as advisors for 28 out of 32 local authorities, this is considered a more than adequate forum for sharing best practice.

3.2.2 Following Council approval of both the General Fund and Housing capital programmes in February each year, the Council's annual Treasury Strategy is reported to the Executive committee in March. The Strategy report recommends that Members agree that the report is referred to Council for approval and thereafter that Council agrees the borrowing and investment strategies for the forthcoming year, together with the Prudential Indicators detailed within the Strategy report.

3.2.3 The annual Strategy report to Members details the Council's long term borrowing requirement for the forthcoming year, highlighting those elements required to fund the capital programmes and that which is required to fund any debt that is due to mature during the year. The affordability of the capital programmes will already have been assessed as part of the revenue and capital budget process (see paragraph 3.2.6 below). The report also includes Prudential Indicators which set out the limits for debt maturity profiles and the exposure we have to changes in interest rates because of the level of variable loan debt. The Prudential Indicators cover the forthcoming three years.

3.2.4 The Council's external debt level is detailed below:

	2014/15	**2004/05**	**Increase**
	£'m	**£'m**	**£'m**
External Borrowing	228.6	156.5	72.1

The increase in external borrowing reflects the capital investment in Council assets e.g. in relation to housing, new build housing and a requirement to meet Scottish Housing Quality Standards (SHQS). In terms of the General Fund for example, investment in new and existing schools.

There is an element of under borrowing as previously advised to Members and we will be translating some of this under borrowing into long term loans on a gradual and managed basis reflecting an expectation that interest rates will rise in due course.

3.2.5 In addition to the Strategy report, the Capital Budget reports to Members in February each year, provide information on the impact of external borrowing as a result of capital investment plans. This information is detailed in a suite of Prudential Indicators. These indicators include the impact on Council Tax and Housing Rents of the General Fund and Housing Capital programmes; the proportion of income that is committed to repaying the debt chargeable to revenue budgets as a result of the capital investment plans; the projected external borrowing and the limits that we have set for external borrowing. Again the Prudential Indicators cover the forthcoming three years.

3.2.6 As part of the revenue and capital budget process, a detailed analysis is carried out by Finance to determine the debt charges and therefore the affordability of proposed capital investment plans. This analysis considers changes in interest rates, the impact of long term and short term borrowing and changes in the mix, changes in the level of capital investment plans etc. This is looked at over a 5 year period and therefore seeks to model affordability beyond the forthcoming financial year.

3.2.7 To further ensure affordability, the 2015-18 General Fund capital programme was fully funded from grants, receipts etc. with no additional borrowing being undertaken.

3.2.8 Finance Services also prepare a Medium Term Financial Plan [MTFP] for the Revenue Budget. This plan covers a five year period and incorporates the debt charges flowing from capital investment programmes. Finance is of the opinion that given the uncertainty surrounding government grant settlements, inflation, interest rates etc. that there is little value in preparing a financial plan beyond 5 years. However, in order to manage the risk associated with external borrowing which will have an impact beyond the timeframe of the MTFP, we have due regard to the maturity profile of existing debt to ensure that the maturity profile of all debt is evenly spread (see Appendix 1). In addition all borrowing requirements are discussed in detail with the Council's Treasury Advisors Capita Asset Services, with the complete range of borrowing periods considered.

3.3 Interim Review

3.3.1 An interim review of the Strategy is reported to the Executive normally by November each year. The report is considered by the Executive and thereafter referred to Council for approval, consistent with the Code.

3.3.2 The interim review provides Members with an update on our projected external borrowing requirement for the year. The update reflects any changes in the capital programme spend e.g. slippage and includes an updated forecast on external interest rates. In addition it includes Prudential Indicators which highlight our exposure to fluctuations in interest rates in terms of any variable interest rate loans we may have and also details our maturity profile for our fixed rate borrowing. Both these indicators compare our current performance with the Indicators that were approved in the annual Strategy.

3.4 Year-End Review

3.4.1 A year-end Strategy review is prepared and reported to Members by June each year. The report details the actual external borrowing that was undertaken compared with the estimated levels within the annual Strategy report. An explanation for any variance is provided in the report e.g. slippage in the capital investment plans. The report also provides information on the mix of borrowing i.e. short term and long term and justification for the split. In addition the report details the Prudential Indicators for the year and measures performance against the approved Prudential Indicators in the annual Strategy i.e. proportions of fixed and variable interest rate borrowing and maturity profile of debt.

4. MEMBERS TRAINING

4.1 Finance Services delivered a training session to Members in April 2014. Because treasury management and capital investment plans are intrinsically linked, the training session covered both elements. The training looked at what Treasury Management is, the definition of capital expenditure, how it is funded e.g. grants, borrowing etc. and Council priorities linked to capital spend. Other areas covered included borrowing and the Prudential Code; investments e.g. how we decide where to invest, limits etc. The session also looked at the scrutiny role of Members and Officers in terms of capital and treasury activities. The training was well received by those who attended but not compulsory.

5. OTHER MATTERS

5.1 Scottish Government is currently reviewing the legislation which governs how Councils carry out their borrowing. The results of this review may have consequences for Councils and a report detailing the implications of this review will be submitted to Members in due course when the position is clearer.

6. CONCLUSION

6.1 It is Finance Services view that the reporting mechanisms that are currently in place to advise Members of borrowing and treasury management activities are compliant with the requirements of the report. It is also the view that the controls inherent in the preparation of the annual Strategy ensure that we look beyond the immediate financial year when considering the impact of external borrowing.

7. RECOMMENDATION

7.1 Members are invited to note the content of the report.

7.2 Members are requested to consider whether any further training on Treasury Management is required.

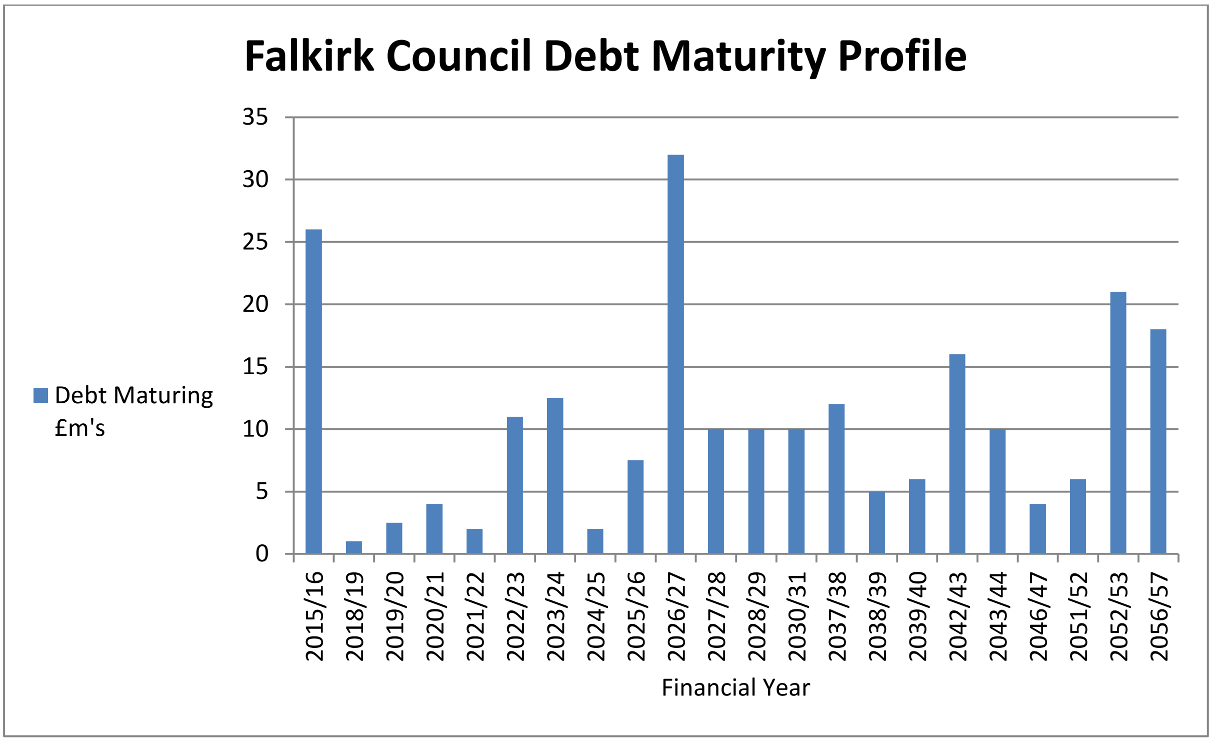
………………………………………………………...
Director of Corporate & Housing Services
Date: 13 July 2015
Ref: AAQ200815 – Borrowing Treasury Management in Councils
Contact Name: Carole McGhee, Account Capital Manager ext 6430

APPENDIX

Appendix 1: Falkirk Council Debt Maturity Profile

LIST OF BACKGROUND PAPERS

1. Audit Scotland – Borrowing Treasury Management in Scotland
2. Audit Scotland – Guidance Borrowing Treasury Management in Scotland



<u>**Notes**</u>

1. The level of debt maturing in 2015/16 relates to short term loans (£26m) taken out during 2014/15. These loans were taken out at substantially lower interest rates than the longer term PWLB. They may be replaced on a short term or long term basis depending on cash flow requirements and prevailing interest rates at the time.

2. The level of debt maturing in 2026/27 relates to 4 different loans which will mature at varying times throughout the financial year i.e. £14m in April 2026, £3m in October 2026 and £15m in March 2027, thereby spreading the maturity profile over an 11 month period. There may be opportunities over the next decade to reschedule these loans to smooth this peak.

Borrowing and treasury management in councils

ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2015

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac

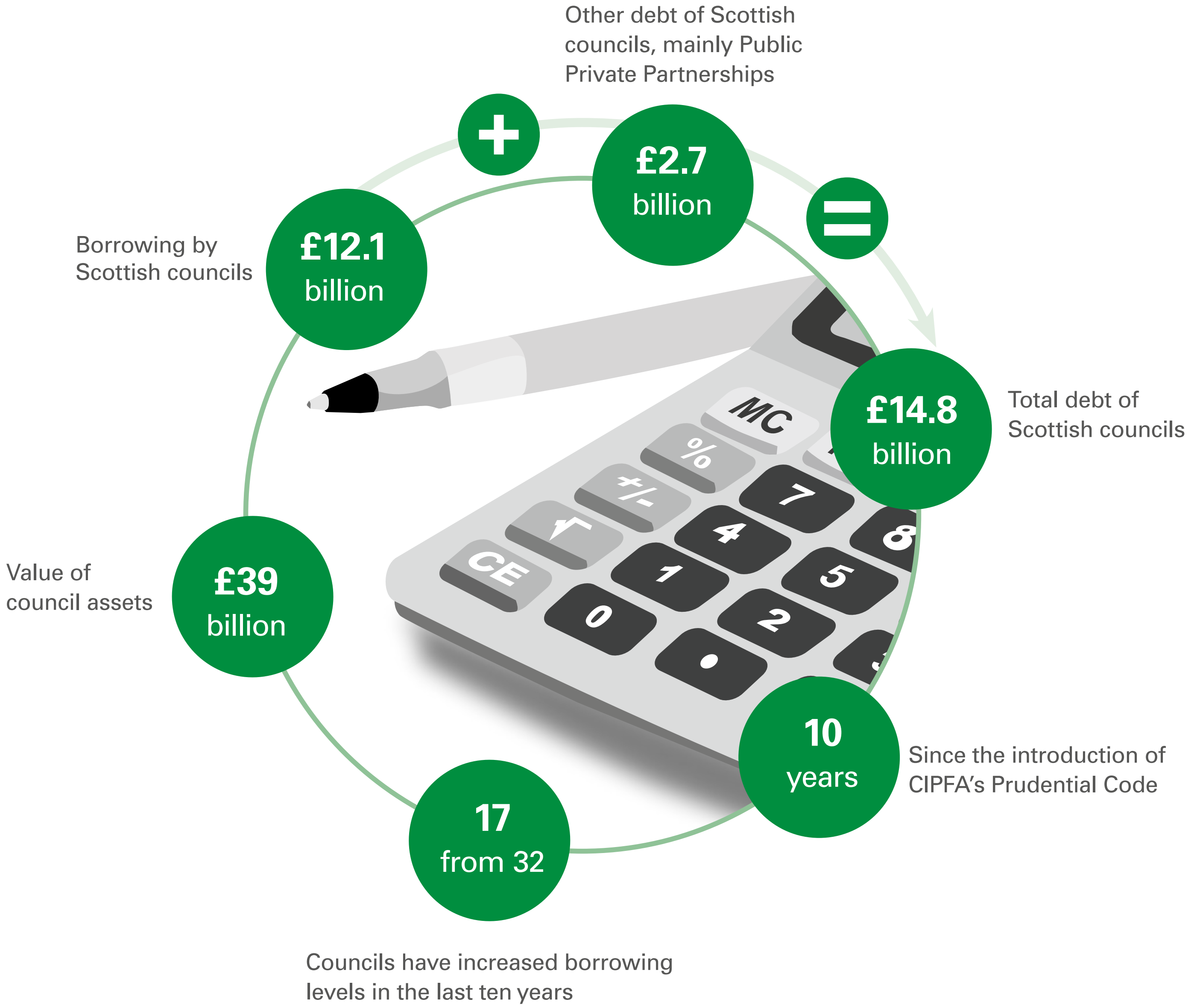
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Key facts


Other debt of Scottish councils, mainly Public Private Partnerships
£2.7 billion
Borrowing by Scottish councils
£12.1 billion
Total debt of Scottish councils
£14.8 billion
Value of council assets
£39 billion
10 years
Since the introduction of CIPFA's Prudential Code
17 from 32
Councils have increased borrowing levels in the last ten years

Summary

Key messages

1. Councils have total debt of £14.8 billion of which £12.1 billion, 82 per cent, is from borrowing. Debt commits councils to charges over the long term. There are different types of debt with different features and varying degrees of risk.

2. Borrowing is a key source of finance for councils to invest in vital public services. Overall borrowing has remained at around £12 billion for the last three years, with total assets of £39 billion. Councils have developed borrowing strategies to suit their own local priorities and needs, in response to the flexibility introduced by the Prudential Code in 2004. Seventeen councils have increased their borrowing levels, in real terms, over the last ten years.

3. Councils are following the general principles of the relevant codes of practice in demonstrating short-term affordability, but they are not always highlighting the strategic importance of borrowing and treasury management or clearly analysing and reporting the long-term affordability and sustainability of their borrowing. Councils need to develop detailed analysis to support borrowing decisions and to demonstrate they represent best value for the council.

4. Treasury management is a professionally run function in councils with appropriately qualified officers. Succession planning, ongoing training and the availability of appropriate professional qualifications are important. Councils have started to integrate their treasury management and capital investment functions which is a positive step.

5. Councils need to improve scrutiny of borrowing and treasury management. This is a complex and technical subject and officers need to provide wider training and support to councillors, and also provide clearer, more accessible reports. The current governance structures in some councils could be improved to support more effective scrutiny.

Recommendations

These recommendations focus on the evidence gathered and our findings on borrowing within councils. We suggest councils consider the wider relevance of these to total debt.

Council officers should:

- use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience. It should include how the borrowing strategy is informed by corporate priorities and capital investment needs. The strategy should include:
  - links to capital investment plans and corporate objectives
  - all borrowing and other debt
  - prudential indicators as a core part of the strategy
  - a clear assessment of the affordability and the impact on revenue budgets both in the short and long term
- create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy. It should include:
  - scenario planning to show the potential impact of different budget scenarios, income generation plans, and changes in external factors such as interest rates
  - analysis of capital financing options to compare affordability and sustainability between different debt and borrowing options
  - the use of indicators over a longer period than the minimum three years set by the Prudential Code
- share strategies with other councils to help inform good practice, and exchange of ideas
- carry out joint planning with other councils to identify future qualification and training needs and enhance their capacity, in order to negotiate with training providers
- review the content of year-end reports to ensure they provide an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include appropriate indicators, comparative figures, and appropriate explanations.

Council officers and councillors involved in treasury management should:

- review governance arrangements, and update as necessary, to ensure they provide:
  - the treasury management strategy, mid-year and year-end reports to the same council committee, and that the full council has access to them
  - councillors with mid-year reports by the end of December each year
  - councillors with the wider picture, that is, make the links to capital investment decisions and revenue budgets
  - councillors with access to all reports relating to borrowing and treasury management activity including risk registers
- ensure scrutiny arrangements are robust by:
  - considering widening the range of training options to councillors on borrowing and treasury management activities and whether this training should be mandatory
  - considering whether training for councillors provides a balance of scrutiny skills and knowledge of treasury management.

About the audit

1. This audit assesses how councils show best value in borrowing and treasury management decisions. Its specific objectives are to answer:

- What is borrowing and treasury management in councils?
- To what extent do councils' borrowing and treasury management strategies meet good practice and contribute to corporate plans and priorities?
- Can councils demonstrate the affordability and sustainability of borrowing decisions? For example, can they show that borrowing will not adversely affect their financial position? Will that continue to be the case in future?
- How effective are the governance arrangements for borrowing and treasury management? Governance covers areas such as responsibility and accountability for borrowing and treasury management decisions, arrangements for reporting decisions and for scrutinising them.

2. Councils have total debt of £14.8 billion, of which 82 per cent (£12.1 billion) is as a result of borrowing (Exhibit 1, page 9). Total debt includes Private Finance Initiative/Non Profit Distributing (PFI/NPD) contracts, Tax Incremental Financing (TIF), the City Deal agreement, the Growth Accelerator Model (GAM) and borrowing. Each type of debt has unique features, is at different stages of development and implementation and has varying degrees of risk. This is the first report that we have produced on council debt with the focus specifically on borrowing. This allows us to focus on the arrangements that councils have in place to assess the affordability of borrowing. We may propose further work on other elements of council debt in due course.

3. This report focuses on whether councils openly and clearly demonstrate the affordability and sustainability of borrowing decisions over the short term, ie the next couple of years, and long term, that is ten years onwards to cover the term of the borrowing. It also looks at whether councils' approach to borrowing, as outlined in their treasury management strategy, reflects their corporate priorities and aims. Councillors have a key role in holding officers to account and this report evaluates the councillor's role in considering borrowing and treasury management reports, including the strategy. We use the term borrowing to mean borrowing from a source outwith the council.

4. Our focus is on borrowing to fund capital expenditure, such as building schools or improving roads. We did not evaluate day-to-day cash, investment and borrowing transactions. We have not explored in detail other forms of debt. This includes the new capital financing options available to councils including TIF, or City Deal that may have an element of borrowing to them (Exhibit 1, page 9). These new options are just being introduced and are not yet fully operational. Although the messages in our report are based on current borrowing, they will apply equally to other forms of debt including these new financing options.

5. We gathered audit evidence from:

- published and unpublished data on borrowing and treasury management activity including audited accounts, Chartered Institute of Public Finance and Accountancy (CIPFA) statistics and Scottish Government data
- our review of the treasury management strategies of 12 councils
- fieldwork at six councils involving interviews with officers and councillors
- interviews with representatives from organisations including the Scottish Government, CIPFA, CIPFA Treasury managers' forum and the Society of Local Authority Chief Executives (SOLACE).

6. Appendix 1 provides further details of our audit approach.

7. This report has three parts:

- Part 1: setting the scene
- Part 2: demonstrating the affordability and sustainability of borrowing
- Part 3: effective management and scrutiny.

8. Our website contains a *Supplement: Scrutiny guidance and questions for councillors* [PDF] to help them implement the recommendation we make in this report.

Exhibit 1
Borrowing is 82% of total debt

Public Private Partnership £2.7bn

Tax Incremental Financing

New capital financing method. Council borrows to invest in infrastructure projects which will deliver economic growth. Additional business rate income from the new business generated pays for borrowing charges.

Private Finance Initiative

Partnership where public and private sector partners agree a contract to build and maintain an asset for public sector use.

Public body pays an annual charge over the life of the asset to the contractor from its revenue budget.

Non-profit distributing contracts

Similar to PFI, but limits the profits that the private sector contractor may retain.

Public body pays an annual charge over the life of the asset to the contractor from its revenue budget.

Total debt £14.8bn

Borrowing £12.1bn

From Public Works Loan Board (public sector source of lending for public bodies)

From banks

Borrowing charges paid from revenue budget over life of loan.

Growth Accelerator Model

Public body borrows to invest in capital investment project.

Expected that additional business rates will accrue to Scottish Goverment owing to investment.

Scottish Government makes payment to public body, based on additional economic growth.

City deal

Agreement signed with UK and Scottish Governments by the 8 Glasgow and Clyde Valley councils. Currently the only deal in Scotland.

The deal involves the councils investing an additional £130 million to unlock additional grants of £1 billion from the UK and Scottish Governments combined.

Investment by councils will involve additional borrowing, with charges covered by additional grant income.

Note: £2.7bn includes finance leases. TIFs, GAM and City Deal are just introduced and are not yet fully operational.
Source: Audit Scotland

Part 1

Setting the scene

Key messages

1 Councils' outstanding debt was £14.8 billion at 31 March 2014, with borrowing making up £12.1 billion, 82 per cent of this.

2 Councils use borrowing to pay for assets such as schools and roads to provide local services and meet local priorities. This has an impact on future revenue budgets, as the council needs to pay interest on the borrowing. Total assets were £39 billion at 31 March 2014.

3 The Prudential Code was introduced in 2004 to provide greater flexibility for councils to manage and control their own capital investment activity following a period of government regulation. Councils' borrowing strategies, levels of borrowing and debt profiles differ widely.

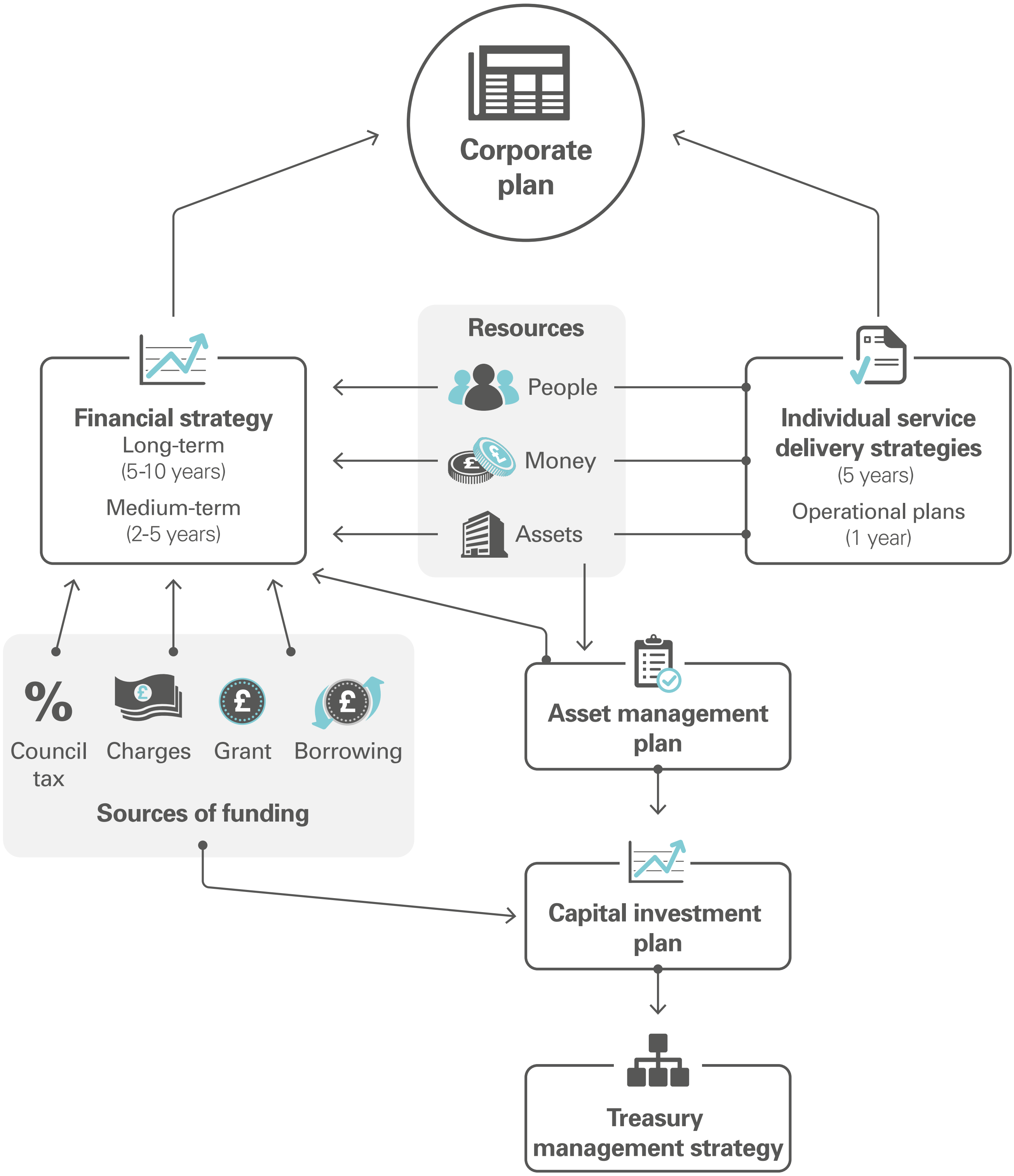
Councils invest in services for communities

9. A council has a corporate plan setting out its priorities and objectives and how it plans to achieve them (Exhibit 2, page 11). This may, for example, include the priority to build a new school to deal with an expected increase in demand as a result of significant new housing. These plans are often over the medium term, typically three to five years, but may be over a longer term, ie up to 15 years. The council targets its resources, that is people, money and assets, at its priorities and objectives. The corporate plan should feed into the asset management plan to identify what assets are needed to achieve its objectives. For example, this could be building new housing. The council, through a capital investment plan, sets out how it will finance the spending on these assets. This may be by using cash resources, for example cash reserves built up over time or capital grants, or through external finance.

10. Methods of external finance include borrowing, PFI schemes and other mechanisms including NPD schemes, TIF schemes, or the new GAM. Entering into external financing arrangements will create debt for the council, and means that the council needs to pay financing charges each year over the life of the arrangement, which may be up to 50 years. It is important for a council to assess the affordability of decisions in the context of the financing charges of its total debt.

councils' ability to manage and control their own investment activity is reflected in borrowing levels and strategies

Exhibit 2
Corporate and strategic influences on treasury management strategy



Source: Audit Scotland

11. Councils should also have medium (two to five year) and long-term (five to ten year) financial strategies. The council will estimate future funding and income, costs and demand for services, and how much it will need to spend to achieve its future objectives. The strategy should identify how the council will make up any shortfall between estimated funding and projected costs and demand. The financial strategy should include the financing cost of borrowing and other debt. This is the annual repayment of interest charged on borrowing or other external financing and any other associated costs. Councils make this repayment out of future budgets, so it decreases the level of available budget remaining and reduces flexibility in future budget decisions.

12. Borrowing involves accessing finance and then repaying it over a longer period of time. These periods can be for up to 50 years, so today's decisions can have a sustained impact on future generations. Borrowing decisions involve a careful balancing act between prioritising investment, and making sure the council can:

- manage the consequences of its decisions over the whole life of the borrowing
- provide evidence showing how it will manage these long-term consequences.

13. Borrowing therefore is set firmly within the framework of wider council activity and should be driven by the corporate plan, capital investment plan and medium and long-term financial plans (Exhibit 2, page 11).

Borrowing is the main element of total debt

Councils' outstanding borrowing is £12.1 billion and has been between £10.5 and £12 billion for the last six years

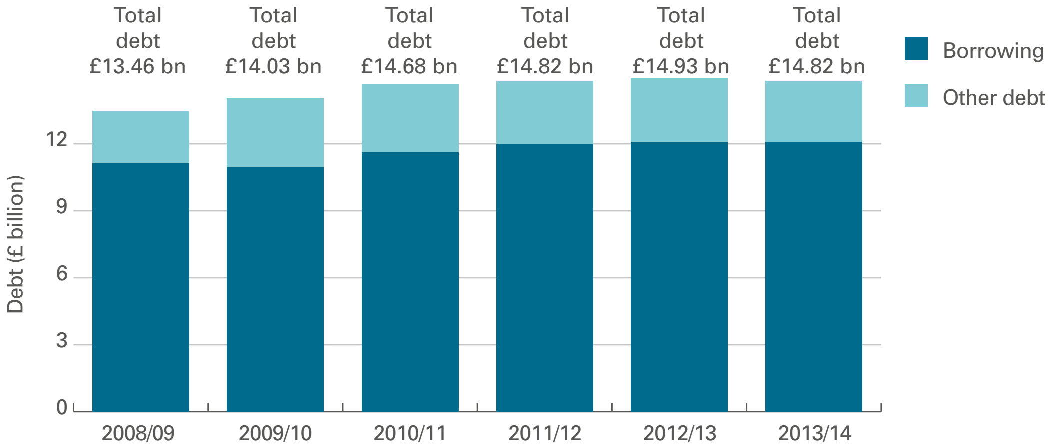
14. Councils spend around £20.8 billion a year. Of this, £18.6 billion is for day-to-day expenses including salaries, and £2.2 billion on buying, building and maintaining assets such as schools, housing and care homes.

15. Councils' total debt at 31 March 2014 was £14.8 billion, with total assets of £39 billion. Borrowing is the main form of debt for Scottish councils (Exhibit 1, page 9). Councils had overall borrowing of £12.1 billion at 31 March 2014 and other debt of £2.7 billion (Exhibit 3, page 13). Borrowing has remained between £10.5 and £12 billion for the last six years. Other debt levels have fluctuated between £2.2 billion and £2.8 billion over the last six years. Other debt comprises both PFI and NPD schemes and the new financing methods, including TIF, GAM and City Deal that are just being introduced.

16. Comparing council borrowing levels over the last ten years, between 2003/04 and 2013/14, shows that 17 of Scotland's 32 councils have increased borrowing levels in real terms, that is, including the effects of inflation (Exhibit 4, page 13). Changes in borrowing levels over this period reflect differences in councils' corporate priorities, capital investment plans, levels of cash resources and other available financing options, amongst other factors.

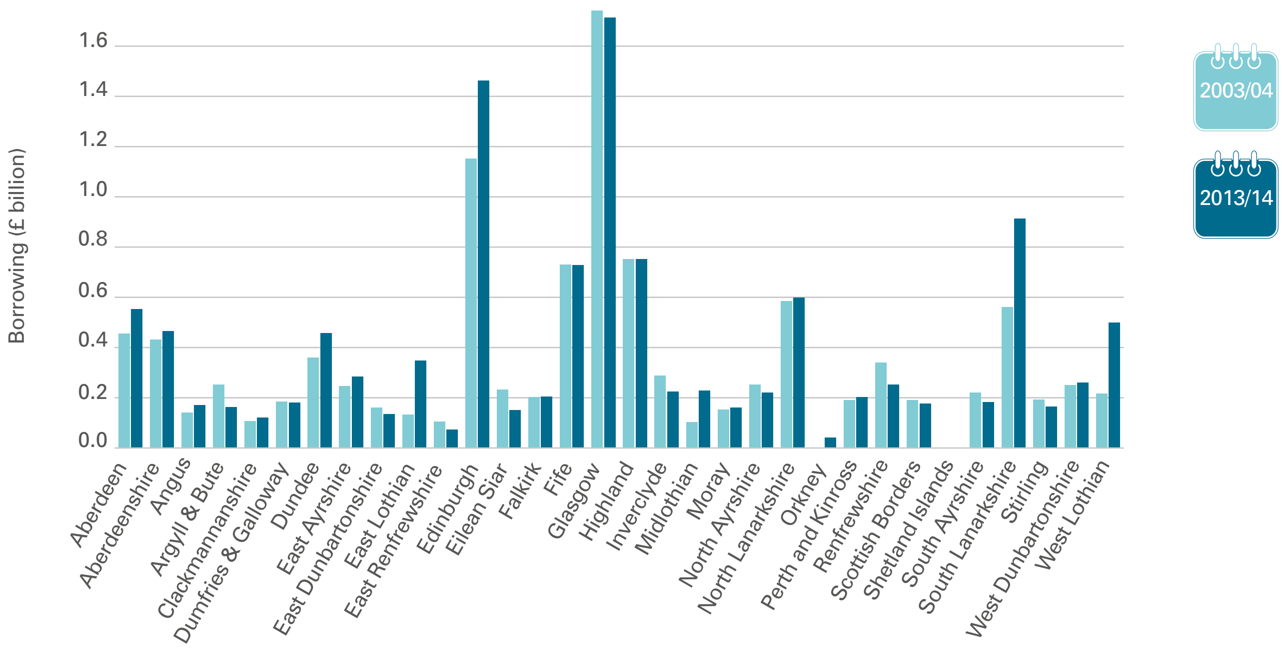
17. Councils do not always need to increase debt or borrowing if internal sources of finance are available to them. This includes using cash reserves that have been built up over time or capital grants.

Exhibit 3
Total debt of Scottish councils (2013/14 real terms prices)



Source: Council audited annual accounts 2008/09 to 2013/14

Exhibit 4
Comparison of total borrowing by councils in 2003/04 and 2013/14 (2013/14 real terms prices)



Source: Council audited annual accounts 2003/04 and 2013/14

18. Current interest rates are low, which is an advantage to councils that need to borrow for capital investment as interest charges are cheaper than when rates are higher. Our analysis shows that two-thirds of councils are currently borrowing, although fewer councils are borrowing now than ten years ago. Councils are borrowing shorter term, typically for less than 15 years, at fixed rates, from government-backed institutions such as the Public Works Loan Board (PWLB), as this has offered the most competitive rates.

Borrowing is a long-term commitment, with a third of current borrowing due to be repaid in over 40 years

19. The repayment of a council's borrowing influences its long-term financial planning and its assessment of whether it will be able to afford its existing borrowing in the future. To manage levels of borrowing we would expect to see a spread of borrowing with different maturity periods so that it is more manageable. We would also expect councils to avoid periods when high levels of repayments may impact on money available for other priorities. On maturity, councils can either decide to repay borrowing, or take a new loan to replace the old borrowing. Exhibit 5 (page 15) shows the profile of borrowing for 2009/10 to 2012/13 and highlights:

- the profile of borrowing is evening out and the percentage of loans maturing in over 20 years has fallen. At 2009/10, over 61 per cent of borrowing would mature in over 20 years; this decreased to 52 per cent by 2012/13

- councils have increased short-term borrowing. At 2009/10, around five per cent of borrowing was for less than two years, increasing to 8.5 per cent at 2012/13

- around a third of councils' borrowing is due to be repaid in the next ten years (35 per cent)

- around another third of borrowing will be due for repayment in over 40 years (34.8 per cent).

Borrowing is a key part of treasury management

20. Treasury management is the process that councils use to ensure cash is available when needed. This includes day-to-day expenses like paying salaries or electricity bills, and building new assets, such as a new school, or improving existing ones, such as roads. It also involves ensuring that any temporary surplus cash is safely invested. Borrowing is one of the larger cash flows that a council needs to manage, so borrowing is a central part of treasury management. Exhibit 6 (page 16) shows examples of the typical cash flows in a council together with their timing.

21. Councils have two types of budgets to finance and to balance: revenue and capital. Revenue expenditure pays for daily activities like salaries or electricity bills. Capital expenditure is what councils spend on premises, equipment and vehicles; on improvements like roads repairs; and on providing new assets like schools or council houses. Councils can borrow to finance capital expenditure but not revenue expenditure, unless approved by Scottish ministers. Borrowing charges are revenue expenditure. Councils that own council houses must keep a separate budget and account for revenue and capital expenditure on the housing stock.

Exhibit 5

Scottish councils–maturity of total borrowing 2009/10 to 2012/13

Percentage of borrowing due to be repaid in the periods shown.

Source: *Capital Expenditure and Treasury Management*, CIPFA Statistics, June 2014

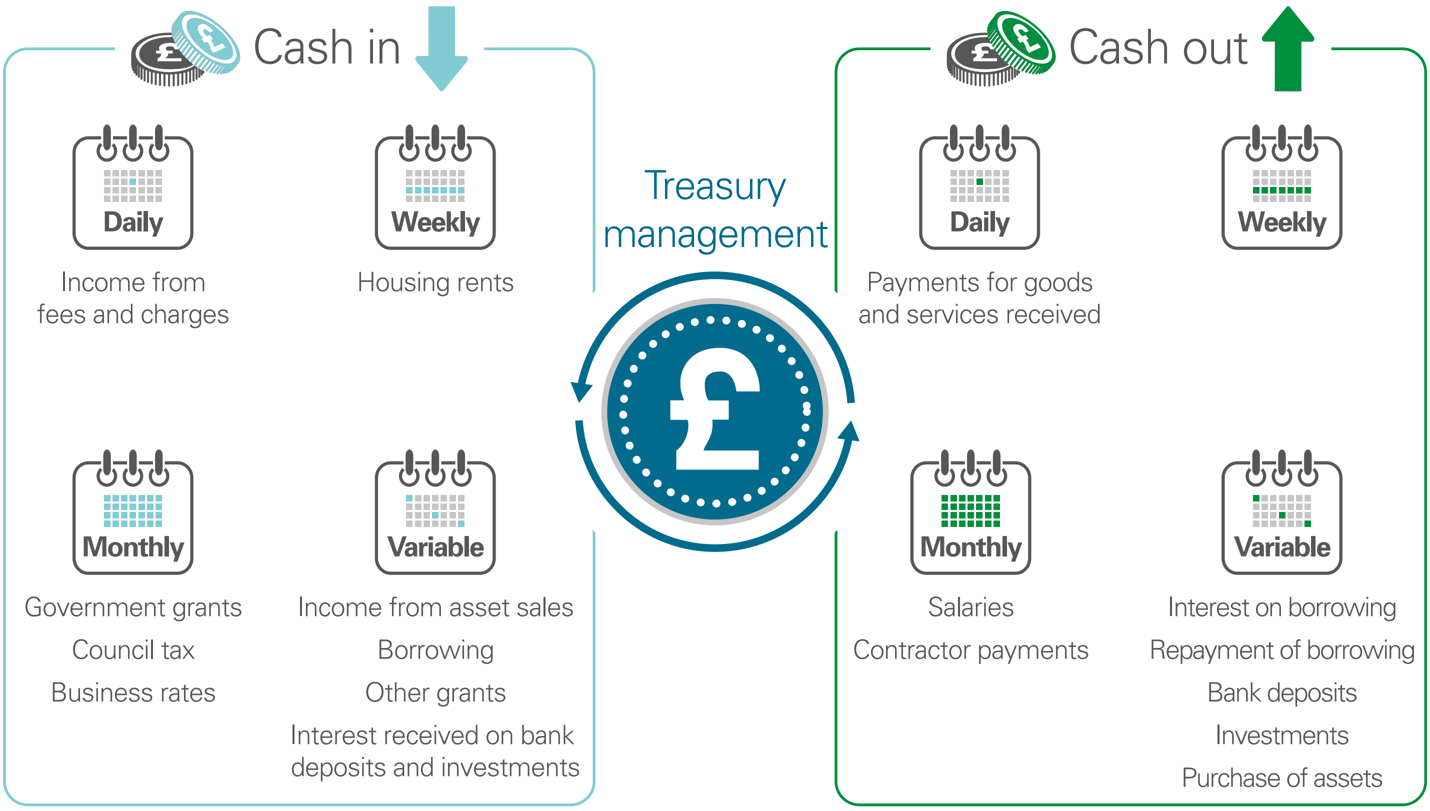
Borrowing to invest in housing must be repaid from the future housing budget, and therefore funded from future housing rental income.

Councils must comply with borrowing and treasury management rules and regulations

22. In recognition of the importance of capital investment in assets and treasury management to council activities, CIPFA and the Scottish Government set codes of practice and regulations for councils to follow. These ensure that councils have effective processes and practices in place to control, manage and govern capital investment decisions, that include borrowing, and treasury management practices (Exhibit 7, page 17).

23. The Prudential Code was introduced in 2004 as a framework to support councils and help them show effective control over levels of, and decisions relating to, capital investment activity, including borrowing. Before this, capital investment levels in councils were government-regulated.

Exhibit 6
Treasury management activities
An example of a council's cash flows with their timing to demonstrate their variability and predictability.



Source: Audit Scotland

24. This self-regulating approach has enabled councils to adopt borrowing and treasury management strategies that fit with their corporate plans and objectives. The framework allows for councils themselves to judge what is affordable and sustainable and will differ depending on local circumstances. The Prudential Code sits alongside CIPFA's treasury management code, which sets out the requirements for professional treasury management practice.

25. A key requirement of the codes is for councils to produce an annual treasury management strategy before the start of each financial year. CIPFA and the Scottish Government recommend that this is a single integrated strategy that combines plans for capital investment, including borrowing, treasury management, and investment. It also recommends that the strategy includes prudential indicators that are set out within the Prudential Code. These form a set of 12 limits and ratios that all councils must calculate and use to show to councillors and the public that capital investment plans are affordable and sustainable.

Exhibit 7
Codes of Practice and Regulations

The Prudential Code for Capital Finance in Local Authorities–CIPFA	A professional code of practice to help councils with capital investment decisions by providing a framework. The Prudential Code sets out indicators that councils must use to help demonstrate public accountability. It also recommends that councils have an integrated treasury management strategy within which its borrowing and investments are managed.
Treasury management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes–CIPFA ('the CIPFA treasury management code')	Adopting this code is a requirement of the Prudential Code. This makes recommendations to provide a basis for councils to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices. A key recommendation is for a treasury management strategy before the start of the year, a mid-year report and an end-year review report.
Finance Circular 5/2010–The investment of money by Scottish local authorities	Provides Scottish ministers' consent for councils investing money and sets out the recommendations and requirements they must meet when making investments. It requires local authorities to 'have regard' to the Prudential Code and the Treasury Management Code and recommends that the strategy form part of a wider single annual strategy covering capital investment, treasury management and prudential information.
Local Government (Scotland) Act 1975	Sets out the statutory basis on which councils can borrow and lend.

Source: Audit Scotland

26. This report focuses on borrowing, to finance capital investment, and treasury management. Most of the indicators are not specific to borrowing but relate to total capital investment and are calculated using figures for total finance costs, total capital expenditure or total debt. This allows councils to assess the affordability of borrowing in the context of the total debt position of the council. The indicators relating specifically to borrowing are the estimated and actual capital financing requirement. This calculates the amount of capital investment that needs to be met from borrowing or other method of external finance.

27. The prudential indicators are designed to help councils make and record local decisions. They are not designed to be comparative performance indicators across councils as they are set according to the individual needs of each council. In particular, councils had widely different debt positions when the Prudential Code was introduced. These differences are likely to increase over time as councils' choices reflect local priorities. The system is designed specifically to help councils take local decisions in ways that are publicly accountable.

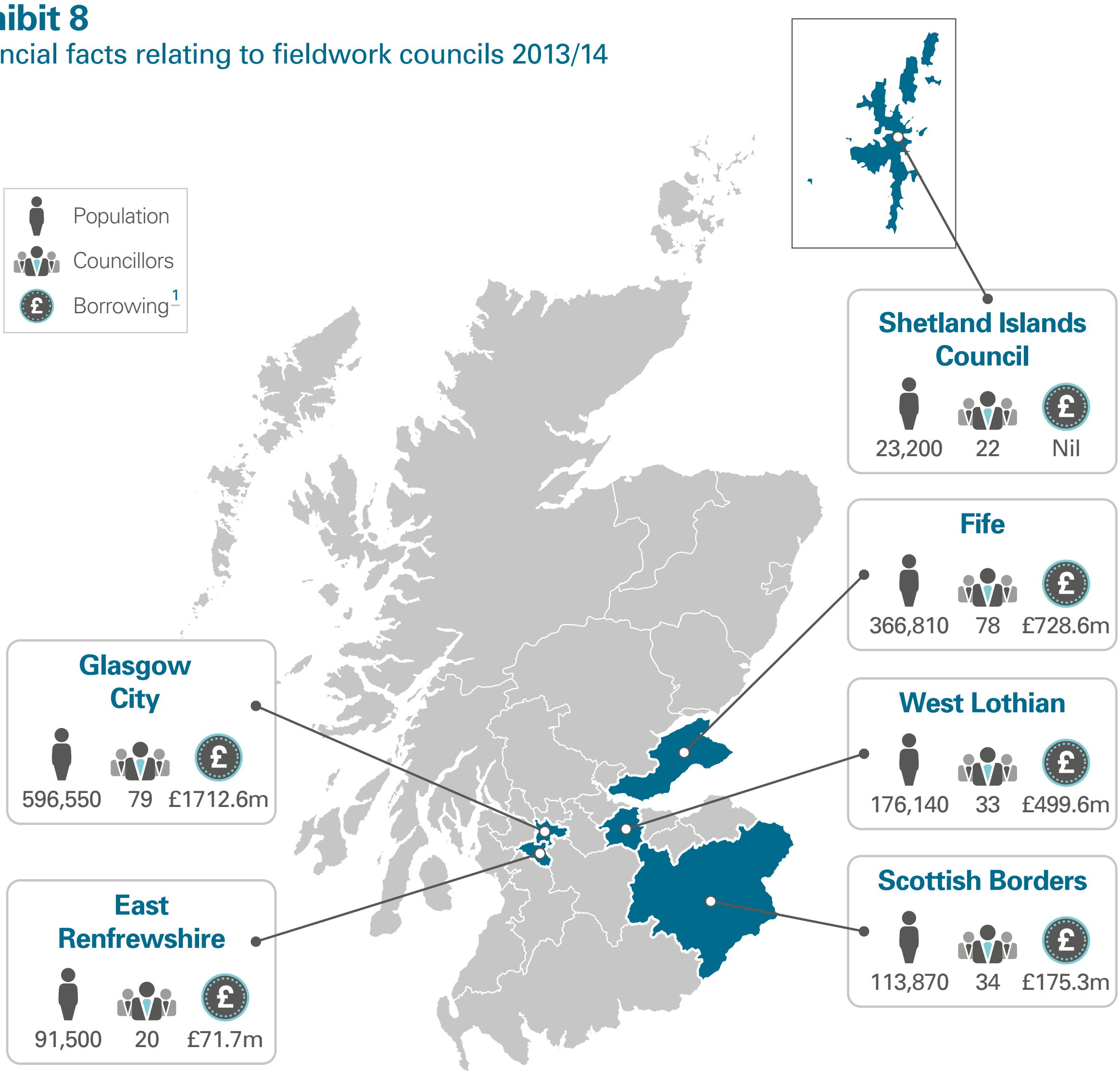
Our fieldwork sites reflect the variation in councils' borrowing and treasury management strategies

28. We reviewed the strategies of 12 councils to give us a better indication of the variation in local circumstances, the need for borrowing and the resulting treasury management strategy. We selected six councils out of the 12 to undertake more detailed fieldwork, including interviews.

29. Our six fieldwork sites reflect the level of variation in councils' borrowing and treasury management strategies, and therefore their levels of borrowing (Exhibit 8, page 19 and (Exhibit 9, pages 20 and 21). Although interest rates are currently low and expected to increase, not all councils have set their strategy to borrow for future capital investment. For example, East Renfrewshire Council has not borrowed externally for five years, but it has previously financed a higher proportion of investment through other methods of external financing such as the PFI scheme, and therefore has a higher proportion of other debt. Shetland Islands Council had never borrowed until July 2014. This change in strategy was as a result of appraising whether using internal cash reserves or borrowing at low interest rates represented the best value for the council.

30. Councils have different sizes of capital investment programmes to finance. Some councils have no housing stock to improve and add to, while others must consider how to invest in their housing stock without placing too high a burden on future housing budgets and rents. Councils must repay the borrowing and interest charges for investment in housing from the housing revenue budget; whereas investment in other assets must be repaid from the general budget.

Exhibit 8
Financial facts relating to fieldwork councils 2013/14



	Shetland Islands	East Renfrewshire	Scottish Borders	West Lothian	Fife	Glasgow City
Fixed assets[2]	£406m	£770m	£416m	£1,346m	£2,151m	£4,367m
Investments[3]	£211.4m	£45.1m	£13.7m	£117.1m	£3.1m	£136.5m
Cash reserves[4]	£240.9m	£53m	£25.7m	£114.8m	£90.6m	£135m
General capital programme[5]	£69.5m (2014-19)	£100.7m (2014-22)	£271.4m (2014-24)	£277.3m (2013-18)	£532.2m (2013-23)	£455.7m (2013-18)
Housing capital programme[5]	£5.8m (2014-19)	£17.2m (2014-19)	No housing	£202.9m (2013-18)	£390.4m (2013-23)	No housing

Notes:
1. Borrowing is long and short-term borrowing from council audited accounts at 31 March 2014. 2. Fixed assets is the value of long-term tangible fixed assets, such as buildings and equipment, and long-term intangible assets such as software, from the audited accounts at 31 March 2014. 3. Investments includes long and short-term investments, investment property where relevant, and cash and cash equivalents from the audited accounts at 31 March 2014. 4. Cash reserves is the total usable reserves of the council, from the audited accounts at 31 March 2014. 5. The length of councils' capital programmes can vary and spending is phased over the length of the programme. The timeframe of each council's programme is given in brackets.

Source: Council audited annual accounts 2013/14; *Mid 2013 Population Estimates Scotland*, National Records of Scotland, June 2014

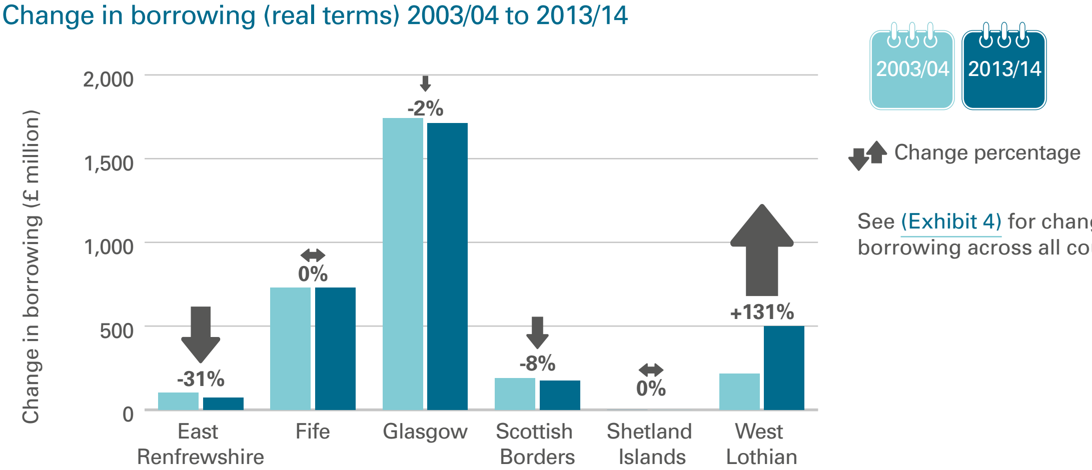
Exhibit 9
Key borrowing facts for our six fieldwork councils

Graph A
2013/14 debt levels

See (Exhibit 3) for overall picture and councils' debt levels

Source: Council audited annual accounts 2013/14; *Mid 2013 Population Estimates Scotland*, National Records of Scotland, June 2014

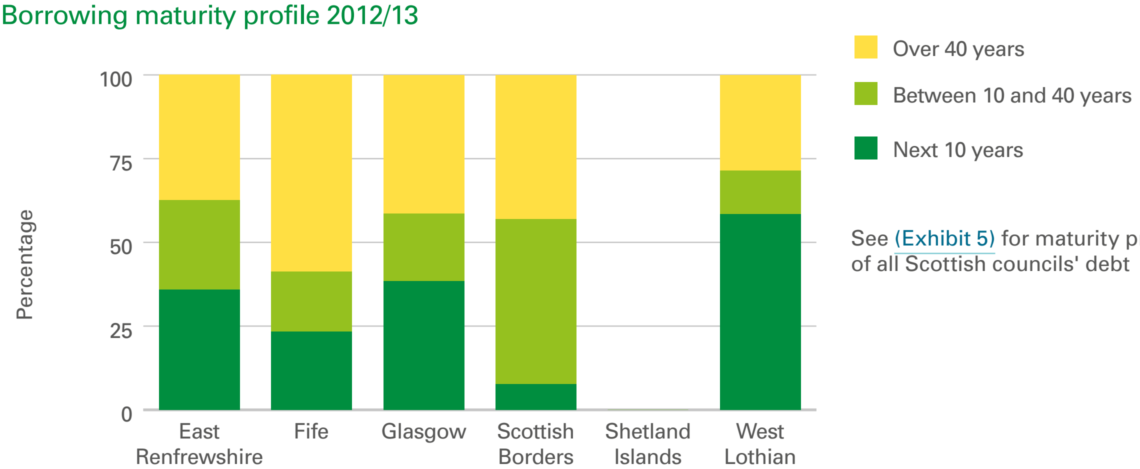
Graph B
Change in borrowing (real terms) 2003/04 to 2013/14



See (Exhibit 4) for change in borrowing across all councils

Source: Council audited annual accounts 2013/14

Graph C
Borrowing maturity profile 2012/13



See (Exhibit 5) for maturity profile of all Scottish councils' debt

Source: *Capital Expenditure and Treasury Management*, CIPFA Statistics, June 2014

Exhibit 9 (continued)

East Renfrewshire Council

- Just over half of East Renfrewshire's debt relates to PFI/PPP schemes for schools and roads **(Graph A)**.
- The council has not undertaken any external borrowing since 2009/10. The overall level of borrowing has been reduced by 31 per cent compared to ten years ago **(Graph B)**.
- The borrowing maturity profile generally follows the national profile with approximately one-third of borrowing to be repaid in next 10 years and one-third over 40 years **(Graph C)**.
- Capital investment requirements are currently being met with cash from reserves, cash balances and cash flow.
- The council will need to borrow to participate in the City Deal project.

Fife Council

- Borrowing makes up 90 per cent of the council's total debt **(Graph A)**.
- The council has borrowed £165m since 2008/09. The level of borrowing has remained static compared to ten years ago **(Graph B)**.
- Almost two-thirds of borrowing needs to be repaid in 40 years or more **(Graph C)**.
- The council uses a combination of cash, council reserves and borrowing to meet capital investment requirements.
- The council is a pilot site for a TIF scheme which will involve an element of borrowing.

Glasgow City Council

- Borrowing makes up 90 per cent of the council's total debt **(Graph A)**.
- The council has taken out loans of £677m since 2008/09. The overall level of borrowing has decreased slightly, by two per cent, compared to ten years ago **(Graph B)**.
- The borrowing maturity profile is broadly aligned with the national profile **(Graph C)**.
- The council uses funds and reserves, and has a preference for cheaper short-term borrowing for capital investment purposes.
- The council will need to borrow to participate in the City Deal project.

Scottish Borders Council

- Borrowing makes up 75 per cent of the council's total debt **(Graph A)**.
- The council has taken out loans of £7.5m since 2008/09. Overall level of borrowing has fallen by eight per cent compared to ten years ago **(Graph B)**.
- It has a small proportion of borrowing maturing in the next ten years when compared to other councils **(Graph C)**.
- The council has been using reserves cash balances and cash flow for capital investment.
- It has received consent to borrow for lending to support the National Housing Trust and Registered Social Landlords.

Shetland Islands Council

- The council borrowed for the first time in 20 years in summer 2014. Borrowing is only planned to fund the new Anderson High School, the council is using cash balances or reserves to fund other capital expenditure.
- It will borrow for capital expenditure if interest rates are lower than average investment return.

West Lothian Council

- Borrowing makes up around 90 per cent of the council's total debt **(Graph A)**.
- Has taken out £371m in new loans since 2008/09. Overall level of borrowing has increased compared to ten years ago **(Graph B)**.
- Over half (59%) of the council's borrowing is due to mature in the next ten years **(Graph C)**.
- Will continue to borrow externally while interest rates remain low.

Source: Audited accounts 2003/04–2013/14, Audit Scotland; CIPFA Statistics

Part 2

Demonstrating the affordability and sustainability of borrowing

Key messages

1 The six councils in our sample are following the general principles and framework of relevant codes and regulations.

2 Councils are using the prudential indicators to demonstrate and monitor the short-term affordability of borrowing. But councils are not clearly analysing and reporting their assessment of the longer-term affordability and sustainability of borrowing. Officers present the repayment profile of borrowing to councillors, but are not presenting this together with other information such as different budget scenarios, interest rates scenarios, or capital investment strategies. This is important to inform councillors of the future risks to the affordability and sustainability of current and new borrowing.

3 Long-term financial planning will help councils develop more detailed analysis on the longer-term affordability and sustainability of borrowing.

4 Councils could present information more clearly to councillors. Some councils are not presenting councillors with all the relevant information at one time to support borrowing decisions, for example in the treasury management strategy. This is important to ensure that decisions made are based on an assessment of all the relevant analysis and risks.

clear reporting to councillors on affordability and sustainability is important for sound decision making

Councils assess the short-term affordability of borrowing

31. Councils should have short, medium and long-term financial strategies that include the financing cost of borrowing and other debt and show the impact on the revenue budget. Decisions on borrowing and other debt need to be taken on the basis of affordability.

32. Our evidence shows that councils demonstrate the short-term implications of borrowing and other debt financing on the revenue budget through use of the prudential indicators. There are 12 prudential indicators that councils must set for each year. Eleven of them must be set for a minimum of three years ahead. Two of these 11 indicators specifically highlight the affordability of capital investment decisions, including borrowing (Exhibit 10, page 23). These indicators cover all debt and are not specific to borrowing.

Exhibit 10
Affordability prudential indicators

Indicator	What it means	What it is used for
Financing cost to net revenue stream: actual and estimated for next three years	The percentage of the revenue budget set aside each year to pay debt financing costs	• Assesses the risk to future budgets, eg from changing interest rates • Provides comparisons over time • Measures the impact of changing financing costs on the financial strategy
Impact of capital investment decisions on council tax and housing rents	This estimates the impact of new capital investment decisions on council tax and on the average weekly housing rent	• Allows councillors to consider all the council's plans at budget setting time • Allows comparison of different capital financing options by assessing the potential impact on council tax or housing rents

Source: CIPFA Prudential Code

33. The Prudential Code requires councils to estimate the impact of capital investment on the budget for the next three years, as a minimum. No councils in our sample reported estimates for a longer timeframe, and no councils had developed their own indicators to assess affordability. The Prudential Code suggests that councils use their own additional indicators, and this would be a good option for councils to monitor an impact that was important and relevant to their strategy.

34. The indicator 'financing costs to net revenue stream' is used to show how much of council income would be used to pay borrowing and debt charges. For councils with housing, they must separately calculate this indicator showing how much of housing rents income will be required to finance housing-related borrowing and debt charges. Exhibit 11 (page 24) shows the data published by West Lothian Council to provide an example of how this indicator is used.

Exhibit 11

An example of a council's ratio for 'financing costs to net revenue stream'

West Lothian Council is planning to invest in its assets over the next three years, including a council house new build programme. This is shown by the increasing capital financing requirement. Its strategy is to borrow in order to finance this capital investment. The impact of this is to increase the ratio of 'financing costs to net revenue stream' for both the general revenue budget, and the housing budget. This example shows that there is an expected increase in the proportion of income used to finance capital investment over the next three years. It will increase from 7.3 pence of every £1 to 8.6 pence. In relation to investment in housing the expected increase is from 20.8 pence in every £1 of housing rent income to 31.2 pence.

	2013/14 actual	2014/15 estimate	2015/16 estimate	2016/17 estimate
Capital financing requirement				
General Fund	£438,788	£444,404	£446,834	£446,534
Housing	£148,885	£174,561	£200,871	£226,174
Ratio of financing costs to net revenue stream				
General Fund	7.3%	7.8%	8.3%	8.6%
Housing	20.8%	25.4%	28.9%	31.2%

Source: West Lothian Council treasury management annual and prudential indicator reports

Councils are not making good use of all prudential indicators

35. The indicator for the 'impact of capital investment decisions on the council tax/housing rents' is a good example of how councils demonstrate, to councillors and the general public, what the financial implications of council decisions could be for members of the public. This could be an increase or decrease in council tax or housing rents.

36. We found that all councils are reporting this indicator. Out of our sample, three of the 11 councils that we reviewed did not report any impact of capital investment on council tax.[1] The main reason for councils not doing this is that there is currently a freeze on councils' ability to increase council tax. We acknowledge that while the council tax freeze remains, council tax may not increase, but the indicator can still be used to demonstrate what the potential impact of capital investment plans would be. The council tax freeze makes it more important to show how much of the budget is being used to finance capital investment. Councils may also seek to reduce any impact on the budget through making savings. In these cases, we would expect this to be clear in the narrative to the indicator.

Councils are not clearly analysing and reporting the long-term affordability and sustainability of borrowing decisions

37. Councils face reducing revenue budgets and increasing demand for services. As a result many councils have projected funding gaps and need to generate recurring long-term savings. Councils' existing borrowing commitments extend for up to 50 years, and while any current decisions to borrow allow the council to invest in services they also place more pressure on revenue budgets. Councils therefore need to clearly set out how current and past borrowing decisions impact on the future revenue budget over the life of the borrowing term. The Prudential Code sets out a minimum three years for reporting prudential indicators. Borrowing commitments can extend up to 50 years and, in our view, three years is inadequate to demonstrate to councillors the affordability of borrowing.

38. We found that, while councils were demonstrating the impact of borrowing decisions over a three-year period using prudential indicators, none of the councils in our sample presented councillors with a longer-term view. The Prudential Code provides a minimum framework for councils to demonstrate and monitor the impact of their capital financing decisions on their future budget and income streams. In our view councils could extend the use of the framework and provide an extended analysis to demonstrate the longer-term affordability of borrowing. Officers could provide us with: information on capital investment requirements for up to ten years, when borrowing is due to be repaid and what this will cost, and interest rate forecasts, but there was no analysis bringing this together with budget scenarios to assess affordability. Councillors are not therefore always provided with information on the future affordability of new borrowing and the potential risks. This analysis should bring together the financing charges for all debt, to consider peaks in charges, and the additional risks of new borrowing or debt to this affordability profile.

Demonstrating the affordability and sustainability of borrowing needs effective long-term planning

39. Our report on *Scotland's public finances: Progress in meeting the challenges* [PDF] highlighted a lack of long-term financial planning. Long-term financial planning should include scenario planning to outline the different options available to the council based on a range of different assumptions about income, expenditure and activity. The borrowing and treasury management analysis could expand on this financial planning to look at the impact on affordability of using borrowing or different finance methods within each of the options. It could also add external assumptions including changes in interest rates to look at future risk factors to the affordability of borrowing. Exhibit 12 (page 26) highlights how the information in a long-term financial plan can be used to inform detailed analysis on borrowing and treasury management.

40. This more detailed analysis and scenario planning would allow officers and councillors to be clear about the evidence supporting decisions on borrowing. It would highlight all the financing options available and the risks and affordability of each option. Councillors would be aware of any risks when making a decision. As councils are required to produce an annual treasury management strategy, such analysis could be included in the strategy. The strategy would bring together all the key information and set out the supporting evidence. As a public document this would increase the transparency of council decisions.

Councils' treasury management strategies need to clearly demonstrate a more integrated approach

41. The treasury management strategy provides the council with an opportunity to set out its approach and rationale to borrowing, and to provide assurance on how borrowing and treasury management activity will help the council to meet its objectives. Strategies should clearly demonstrate the links to other council

Exhibit 12
The key components of long-term borrowing analysis

Components of long-term financial planning	Essential elements to inform a long-term borrowing analysis	Example
Scenario planning Scenario planning to outline the best, worst and most likely scenarios of the financial position and the assumptions used	• Projections for financial settlements, both revenue and capital • Long-term economic forecasts and inflation rates • Projections for interest rates	The council develops scenario plans for the revenue budget based on a range of assumptions about future revenue streams. This is compared with projected borrowing charges to highlight potential periods of pressure on the revenue budget
Assets and reserves Details of assets and reserves and how these will change over time	• Borrowing profile and schedule of repayments • Future reserves policy and contingency levels • Projected reserve levels (based on scenario planning above) • Future impact of asset management plans	A council is currently using reserves to finance capital investment. It could use different combinations of borrowing and reserves to finance projected capital investment needs. The council should model these different combinations to show the impact on reserve levels and the revenue budget. This would highlight the risks and benefits of each combination
Capital investment activity Details of investment needs and plans and how these will be paid for	• The impact of future service demands on capital investment needs. There may be a range of options • Estimated cost of the capital investment options • Future available funding options • Projected borrowing rates	A council has a range of existing borrowing and wider debt, including PFI. The council should prepare analysis showing the combined financing charge to the revenue and service level budget over the life of the asset or borrowing term. This would be based on different scenarios of interest rates or inflation. If the council wants to invest in more capital, it can model the additional impact of borrowing or debt onto this analysis

Source: Audit Scotland

strategies and plans such as the capital programmes, short, medium and long-term financial strategies, reserves policies, etc. The strategy enables councils to bring together this key information and to show how borrowing decisions fit into this bigger picture.

42. We evaluated strategies against the requirements and good practice recommendations of the Prudential Code, Treasury Management Code and Scottish Government investment regulations. The codes and regulations largely cover operational practice, and councils generally met their requirements. We found the language of the codes and regulations difficult to interpret. Strategies that followed the good practice recommendations as well as the requirements were clearer and told a better story about the council's intended direction for borrowing and treasury management. Scottish Borders Council presents this wider story within its strategy and it is a good example of a clearer strategy.

Not all strategies clearly show the link to corporate and capital plans

43. None of the strategies of our fieldwork councils refers directly or provides links to corporate objectives. This is important to demonstrate how the proposed strategy will help the council to meet its overall aims and objectives and improve services to communities.

44. Councils' treasury management strategies link plans for future capital investment, the financing and affordability of those plans and how cash will be safely managed to meet a council's financial commitments. We acknowledge that there is a wider process within councils to consider and agree capital investment programmes and plans. This includes the use of capital working groups or committees, usually comprising a mix of officers and councillors. These are not usually public forums and the associated reports and papers are not usually public documents. As outlined at paragraph 41, the treasury management strategy is the public document that should bring together capital investment plans and the financing of those plans, including borrowing. In our view, it is the appropriate document for councils to use to demonstrate that other options have been considered. Some councils choose not to approve annual capital investment plans, for example Glasgow City Council approved a two-year capital plan for 2013/14 and 2014/15. It is important therefore for councils to reflect the links to capital investment plans in their annual strategy.

45. Councils do not borrow for specific projects but consider how to finance their whole capital investment programme each year. In identifying the capital expenditure for the year they identify internal sources available before considering borrowing. The Prudential Code requires councils to calculate their 'capital financing requirement', which is the capital expenditure that they need to finance from other sources, that is, through borrowing or other method of external finance.

46. References to the capital programme and capital investment plans vary in detail within strategies. Councils are making better links between treasury management and capital investment at operational level through closer working between treasury management and capital functions but this link is not always reflected in strategies. Glasgow City and East Renfrewshire councils refer to the capital financing requirement and prudential indicators within their strategy, making the link to capital investment. The Scottish Borders Council strategy is clearer and provides a much wider perspective on its capital investment plans in the strategy including capital expenditure forecasts, capital financing assumptions, the predicted borrowing need and affordability. Relevant prudential indicators are used throughout the strategy.

47. We found little evidence of councils actively sharing strategies with each other to inform good practice, or different ways of presenting information. Some strategies, for example councils in the Lothian region, had similar sections and wording.

Councils are not always using the strategy to clearly explain the prudential indicators

48. We found variation in how councils link the prudential indicators with the treasury management strategy and how the strategy fits with the revenue budget setting process. Councils should use the prudential indicators to demonstrate affordability, prudence and sound treasury management in capital investment decisions. The local authority investment regulations recommend that the treasury management strategy will cover capital, investment and borrowing and the prudential indicators.

49. Only two of six fieldwork councils (Scottish Borders and Shetland Islands councils) included the prudential indicators as a key part of the strategy. Other councils included these indicators as an appendix, and East Renfrewshire Council reports the indicators separately in a different report.

50. We found that councils are setting and reporting on prudential indicators to the full council and appropriate committees but the level of commentary provided within reports is variable. References in reports to the indicators are based on the technical definitions, with few giving the overall context and implications. This is particularly the case where the prudential indicators are provided solely as an appendix to the treasury management strategy or a separate report. A lack of context means that the council is not providing an explanation of how it is actively using the indicators to measure and monitor the affordability of borrowing. Nor is it explaining what the indicators actually mean for the council and its communities, in terms of increasing or decreasing pressure on budgets, or any risks highlighted by the forecast indicators.

Recommendations

Council officers should:

- use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience. It should include how the borrowing strategy is informed by corporate priorities and capital investment needs. The strategy should include:
  - links to capital investment plans and corporate objectives
  - all borrowing and other debt
  - prudential indicators as a core part of the strategy
  - a clear assessment of the affordability and the impact on revenue budgets both in the short and long term
- create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy. It should include:
  - scenario planning to show the potential impact of different budget scenarios, income generation plans, and changes in external factors such as interest rates
  - analysis of capital financing options, to compare affordability and sustainability between different debt and borrowing options
  - the use of indicators over a longer period than the minimum three years set by the Prudential Code
- share strategies with other councils to help inform good practice and exchange of ideas.

Part 3

Effective management and scrutiny

Key messages

1 Treasury management is a professionally run function in councils with appropriately qualified officers. Joint planning with other councils, ongoing training and the availability of appropriate professional qualifications are important.

2 Scrutiny of borrowing and treasury management decisions could be improved. This involves officers providing clearer information to councillors to help them in their scrutiny role. In most councils the content and clarity of reports could be improved, particularly performance information in year-end reports. All reports need to be to be easily accessible to councillors and the public.

3 Councils need to provide a range of training and support to councillors to help improve scrutiny of treasury management. We found no additional formal arrangements in place specifically aimed at helping councillors in this complex area.

4 We found some examples where governance structures do not fully meet the codes' requirements and where there could be more consistency in reporting arrangements.

councillors need a combination of scrutiny skills and knowledge of treasury management to carry out their role effectively

Treasury management is a professionally run function

51. Treasury management staff in councils deal with the day-to-day treasury functions, including managing short-term cash. They also develop the treasury management strategy and related reports to councillors. The links between the capital investment function and treasury management functions have been strengthened over the last ten years in the councils we visited. The staffing structure within most councils deliberately brings the functions together. For example Scottish Borders Council has a structure that places capital investment and treasury management functions together. It also undertook a recent restructuring to separate out day-to-day transactions, allowing capacity for the development of forward planning and strategic development. In Fife Council the treasury management and capital investment functions are separate. However, staff from the capital investment function have been working in the treasury management function and this has strengthened the links between the two functions.

52. The size of the treasury management function is related to a council's size and budget. The number of personnel involved in treasury management in our sample varied from less than a full-time equivalent at East Renfrewshire Council to two full-time equivalents at Glasgow City Council. We would expect staff numbers to vary across councils according to the level of treasury management and borrowing activity, and the budget.

53. Officers involved in treasury management have relevant experience and qualifications, and some hold the CIPFA treasury management qualification. Training for new officers is currently provided by on-the-job experience, CIPFA treasury management network events, the treasury management forum, technical updates and toolkits, Capita seminars and training sessions.

54. Treasury management is an important function in councils and they need to actively plan for the succession of qualified staff members and other professional training needs that may arise. CIPFA do not currently provide the treasury management qualification owing to insufficient demand but have enhanced their treasury management network. Other treasury management qualifications are available for councils to consider.

55. Officers recognise that keeping in contact with other treasury managers and those involved in treasury management is critical. The CIPFA treasury management forum provides a source of information that enables officers to develop knowledge, discuss areas of concern and share information.

56. All councils use external treasury management advisers. The services provided include professional treasury management advice, seminars and training for officers and elected members and regular information on economic forecasts. Capita provides services to 28 Scottish councils, including all of those in our sample. There is an inherent risk in having a single provider of advice to so many councils, however, we found that all councils had bought services through open tendering processes within the last four years for terms of between three to five years. All council officers meet regularly with Capita to review their objectives, options, strategies and performance.

Council governance structures are in place but not all meet code requirements

57. The codes of practice and regulations place certain requirements on a council's governance structures:

- They recommend that the full council should approve the treasury management strategy.
- They require a specific committee to be responsible for scrutinising reports.
- They also require borrowing and treasury management activities to be structured and managed in a fully integrated manner and for responsibilities to be clear.

58. CIPFA considers that it is an essential part of a public service organisation's treasury management arrangements to have clearly defined responsibilities for approving and scrutinising borrowing and treasury management activities. Exhibit 13 (page 32) includes a summary of the main tasks involved in treasury management and suggested allocation of duties.

Exhibit 13
Allocation of responsibilities for scrutinising borrowing and treasury management activities

Full council	• Receives and reviews reports on treasury management policies, practices and activities • Approves annual strategy
Committee or panel with responsibility for scrutiny	• Approves or amends the organisation's treasury management policy statement and treasury management practices • Considers and approves budget • Approves the division of responsibilities • Receives and reviews regular monitoring reports and acts on recommendations • Approves the selection of external service providers and agrees terms of appointment • Reviews the treasury management policy and procedures and makes recommendations to the responsible body
The responsible officer	• Monitors the council's compliance with policy and practices • Submits regular treasury management policy reports • Submits budgets and budget variations • Recommends the appointment of external service providers

Source: Audit Scotland

59. For our sample of 12 councils we looked at the approval, recommendations and scrutiny for each report. Most councils fully met the requirements of the codes but we found the following arrangements that were not in line with the codes' requirements and other arrangements that may not give members the opportunity to scrutinise reports consistently:

- The treasury management strategy at Glasgow City Council is considered and approved by the Executive Committee. The full council considers and approves the minutes of the Executive Committee.
- The governance structure at Fife Council is such that the Executive Committee has responsibility for all budget and treasury management decisions. Full council then approves treasury management reports through the minutes.
- Shetland Island Council's Executive Committee approves the treasury management strategy but receives no other reports.

- In East Renfrewshire Council, the Audit and Scrutiny Committee approves the strategy but the Executive Cabinet scrutinises the mid-year, and year-end reports.

Councillors need further support to improve their scrutiny role

60. Borrowing and treasury management decisions are complex and involve a significant level of financial risk. It is essential that any decisions are effectively scrutinised to demonstrate sound financial management and help councils achieve their local outcomes and priorities. Councils' scrutiny committees are a vital part of a council's governance arrangements and it is important that these committees are effective. Councils have a responsibility to ensure that those charged with governance have access to the skills and knowledge they need to carry out their role effectively. The councillors on committees need to have a combination of technical knowledge and scrutiny skills for the committee to be most effective. Those charged with governance also have a personal responsibility to ensure that they have the appropriate skills and training for their role. We found that councils provide both scrutiny training and treasury management training to councillors. Scrutiny training tends to be provided at the start of a political term, or for new councillors, as part of the induction process.

61. In areas of high importance and complexity, such as treasury management, additional scrutiny arrangements can be put in place. For example:

- Councils seek members with appropriate expertise for the relevant scrutiny panel.
- Councils nominate lead members for borrowing and treasury management to help guide other members.
- Councils seek external expertise to help members on the scrutiny committee.

62. We found some examples where this was being applied. Scottish Borders Council appoints non-executive members to its Audit Committee to provide financial expertise. Fife Council has a lead member for finance. Some councillors on scrutiny committees have highly relevant financial experience but, apart from Scottish Borders Council, councils do not have formal processes in place for selecting councillors with relevant skills.

63. The most important aspect of scrutiny is the challenge of reports and information presented to councillors through asking questions. We found variation in the type of questions that councillors ask, from issues of detail to clarification of the meaning of phrases in reports. Some councillors told us that they are not always confident in challenging the strategy and framework for future decisions and asking questions about the content of reports. Many have built up trust and confidence in officers and look for officers to highlight issues or problems for them. All councillors we spoke to would welcome additional support in their scrutiny role. We have prepared a supplement to this report which includes questions to help councillors in their scrutiny role.[2]

Officers need to present clearer and fuller information to councillors to help them scrutinise treasury management activity and risks

64. CIPFA's Treasury Management Code states that councils or committees will receive regular monitoring reports on treasury management activity and risks. Regular reporting with a clear and full analysis of performance and activity helps members to:

- understand why officers are proposing decisions
- understand the risks
- ask relevant questions.

65. The Treasury Management Code sets out three minimum reporting requirements for councils:

- a strategy in advance of the year
- a mid-year review
- an annual report after the financial year-end.

66. We found that all councils meet these requirements. However, both Fife and Glasgow City councils prepare a single report covering both the annual report for the previous year and the mid-year review for the current year. In our view this does not meet the intention of the code. These mid-year and annual reports are an important source of information to help councillors effectively monitor and review treasury management activity. Councillors need time to consider any comments or make changes from scrutiny of the annual report to influence activity or performance for the following year.

67. No councils have reporting arrangements that go further than the minimum required by the code, for example quarterly performance or monitoring reports, or more detailed performance reports for the scrutiny committee.

68. We found that councils do not hold separate risk registers for treasury management but they are included in their wider finance risk registers. Reports on the wider finance risks may not be considered by the same committee considering treasury management reports. This means that councillors are not informed of any relevant treasury management risks.

Councils could improve the content and clarity of reports

69. We found that both the layout and content of treasury management reports could be improved, particularly year-end reports on performance. Annual reports are the main performance report and vary in quality. Performance monitoring, including information on the actual figures for the prudential indicators against forecast figures, is not reported fully or consistently across all councils. Some councils only report against indicators and some do not report performance at all. Some of the reports we reviewed did not provide any comparative data. This meant that readers could not reach an objective opinion on performance.

70. From the review of the councils in our sample, we found the following:

- Clackmannanshire, East Lothian, Midlothian, Scottish Borders, Shetland Isles, West Dunbartonshire and West Lothian councils all provided comparative information in their annual reports on all indicators.
- East Renfrewshire, Fife and Renfrewshire councils provided comparative information on some of their indicators.
- Glasgow City Council provided information only on the actual performance without any estimates.
- City of Edinburgh Council did not include any detail on indicators in the annual report, but some are reported in capital monitoring reports.

71. Most treasury management reports are publicly available, although they were not always easy to find on councils' websites. This lack of clear and accessible information means that it is difficult for members of the public to understand how borrowing and treasury management activity is contributing to their council's priorities, and to understand what the performance of the council has been.

72. Officers must use accessible language when reporting on borrowing and treasury management but many strategies and reports contain a lot of technical language. This does not help councillors scrutinise effectively as any questions they ask are more likely about clarity rather than challenge. Exhibit 14 (page 36) shows how Shetland Islands Council used worked examples to explain to councillors why it was recommending to borrow for the first time.

Councils should provide a wider range of training and support to improve councillor attendance and help them in their scrutiny role

73. All councils provide training on treasury management to councillors. This consists of courses provided once or twice a year and, in West Lothian Council, when a new administration is formed as a minimum. Attendance is voluntary although it has been generally poor (varies between 40 and 100 per cent attendance for these sessions), (Exhibit 15, page 37). Attendance at training events is focused mainly towards councillors who sit on relevant scrutiny committees rather than all councillors.

74. Councillors' views on the training they attend are positive. Councillors also felt officers gave them extra support if required, for example by providing additional information or responses to any questions they had.

75. Training and support for councillors should aim to equip all councillors with a minimum level of knowledge and understanding. We found councillors' experience varied, for example from councillors who had been accountants or finance directors to those with little or no previous finance experience.

76. Councillors told us that it was often difficult to attend training owing to other commitments. In their view, a full-day training course was a substantial commitment. Regular training will be required to keep councillors up to date with economic developments. As councillors only consider treasury management issues, on average, three times a year, the timing of the training is important. Councils should consider different ways to provide training including courses, short briefings and perhaps online training.

Exhibit 14
How officers at Shetland Islands Council explained why it was recommending the council borrow

The economic case for borrowing externally, or using the council's own reserves to finance capital expenditure, is essentially down to whether interest rates are higher or lower than the long-term average return on the council's external investments.

If interest rates are higher than the long-term average return on the council's investments (currently 5.75%) then it means the cost of borrowing is higher than the lost income forgone by using reserves. So it would make financial sense to use reserves for capital expenditure.

For example, if interest rates were 10% for a £1m loan:

- Annual interest payable on £1m at 10% = £100,000
- Investment income of 5.75% generated on £1m = £57,500.

In this example to borrow would cost £100,000 a year, and to use reserves would present an opportunity cost of £57,500 in lost investment income. In this example, using reserves would present a saving of £42,500 per year over using borrowing.

However, the reverse is true if interest rates are lower than the long-term average return on the Council's investments (currently 5.75%).

For example if interest rates were 2% for a £1m loan:

- Annual interest payable on £1m at 2% = £20,000
- Investment income of 5.75% generated on £1m = £57,500.

In this example, to borrow would cost £20,000 a year and to use reserves would present an opportunity cost of £57,500 in lost investment income. In this example borrowing would save the council £37,500 per year.

Therefore when interest rates are lower than long-term investment returns, the default position of the council should be to borrow in order to achieve a Best Value outcome.

Source: Shetland Islands Council Borrowing Strategy 2014/15

Exhibit 15
Councillor attendance at treasury management training

	East Renfrewshire	Fife	Glasgow City	Scottish Borders	Shetland Islands	West Lothian
Date of last training	2014	2014	2013	2012	2014	2011
Frequency	Annually	Biannually	Annually	Biannually	Annually	Each administrative term
Offered to	Full council	Full council - but target Executive Committee members	Members of Executive Committee and members of Finance and Audit Scrutiny Committee	Audit Committee	Full council	Full council
% attendance full council	40%	11.5%	22.8%	91%	Not available	46.8%
% attendance Scrutiny committees	57% Scrutiny 37.5% Cabinet	40.9%	66.7% Scrutiny 40% Executive	100%	Not available	Not available Committee structure changed

Source: Audit Scotland

Recommendations

Council officers involved in borrowing and treasury management should:

- carry out joint planning with other councils to identify future qualification and training needs and enhance their capacity, in order to negotiate with training providers

- review the content of year-end reports to ensure they provide an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include appropriate indicators, comparative figures, and appropriate explanations.

Council officers and councillors involved in treasury management should:

- review governance arrangements, and update as necessary, to ensure they provide:
  - the treasury management strategy, mid-year and year-end reports to the same council committee, and that the full council has access to them
  - councillors with mid-year reports by the end of December each year
  - councillors with the wider picture, that is, make the links to capital investment decisions and revenue budgets
  - councillors with access to all reports relating to borrowing and treasury management activity including risk registers

- ensure scrutiny arrangements are robust by:
  - considering widening the range of training options to councillors on borrowing and treasury management activities and whether this training should be mandatory
  - considering whether training for councillors provides a balance of scrutiny skills and knowledge of treasury management.

Endnotes

1. Glasgow City Council, Renfrewshire Council and West Lothian Council. As Shetland Islands Council did not borrow until 2014/15, we would not expect this indicator to be set for 2013/14.
2. *Borrowing and treasury management in councils: Scrutiny guidance and questions for councillors,* [PDF] Audit Scotland, March 2015.

Appendix 1

Audit approach

Our audit looked at councils' strategies for borrowing and treasury management and whether councils can demonstrate the affordability and sustainability of their borrowing decisions over the short and long term. Councillors have a crucial role in holding officers to account and this report also evaluates this. We did not evaluate day-to-day cash, investment and borrowing transactions.

Methodology

To achieve our aim and objectives, our audit included reviewing documents, analysing data and interviews. The audit had three main components:

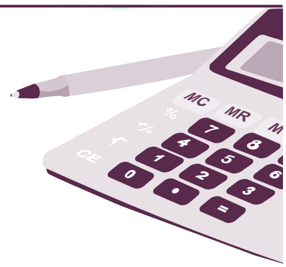
Data analysis: We analysed information on borrowing and debt from councils' audited accounts, CIPFA statistics and the Scottish Government in order to inform a selection of 12 councils for further desk research. The 12 that were selected were City of Edinburgh, Clackmannanshire, East Lothian, East Renfrewshire, Fife, Glasgow City, Midlothian, Renfrewshire, Scottish Borders, Shetland Islands, West Dunbartonshire and West Lothian councils. The councils were selected to include a mix of council size and to reflect initial thoughts, based on our financial analysis, that they had different approaches and strategies to borrowing and treasury management.

Desk research: We reviewed a range of relevant written material on borrowing and treasury management, focusing on the treasury management strategies for our 12 councils. We also looked at the committee arrangements for consideration of these and other treasury management reports. This informed our sample of six councils for interview. We selected the sample so that it included large, small, urban and rural councils and reflected different levels of borrowing and other forms of debt.

Interviews with councils and stakeholders: We visited six councils to find out more about their approach and strategy for treasury management, their governance arrangements and scrutiny and training for councillors. We spoke to council leaders and councillors about their role in scrutinising borrowing and treasury management and their experience of the training and support received. We also interviewed representatives from organisations including the Scottish Government, CIPFA and the CIPFA Scottish Treasury Managers' forum.

Appendix 2

Membership of the project advisory group



We would like to thank members of the advisory group for their input and advice throughout the audit.

Member	Position
Andy Witty	Policy Officer, COSLA
David Robertson	Chief Financial Officer, Scottish Borders Council
Gareth Davies	Policy and Technical Officer, CIPFA Scotland
Hazel Black	Head of local authority accounting, Scottish Government
Innes Edwards	Treasury Manager, City of Edinburgh Council

Note: Members of the project advisory group sat in an advisory capacity only.

Borrowing and treasury management in councils

This report is available in PDF and RTF formats, along with a podcast summary at: www.audit-scotland.gov.uk

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Borrowing and treasury management in councils

Scrutiny guidance and questions for councillors

ACCOUNTS COMMISSION

About the audit

1. Our audit 'Borrowing and treasury management in councils' assessed how councils show best value in borrowing and treasury management decisions. Its specific objectives were to answer:

- What is borrowing and treasury management in councils?
- To what extent do councils' borrowing and treasury management strategies meet good practice and contribute to corporate plans and priorities?
- Can councils demonstrate the affordability and sustainability of borrowing decisions? For example can they show that borrowing will not adversely affect their financial position? Will that continue to be the case in future?
- How effective are the governance arrangements for borrowing and treasury management? Governance covers areas such as responsibility and accountability for borrowing and treasury management decisions, arrangements for reporting decisions and for scrutinising them.

Purpose of the scrutiny guidance and questions

2. We have developed this guidance to assist councillors in their borrowing and treasury management scrutiny role. Councillors have important responsibilities to ensure that the appropriate level of scrutiny is given to decisions made by council officers.

3. This guidance is intended to be used by councillors as an aide when scrutinising borrowing and treasury management reports and activity. It suggests potential questions that can be asked of council officers. It also outlines the reasons why these questions are important and what type of response should be expected. The suggested questions are for the following areas:

- treasury management strategies and related reports
- borrowing and other financial decisions
- affordability and sustainability
- performance and benchmarking.

4. This guidance is in three parts. Part 1 sets the scene and provides some background to borrowing and treasury management. Part 2 highlights the key responsibilities councillors have in relation to borrowing and treasury management. It also highlights the key scrutiny findings from our audit report. Part 3 contains some questions councillors can use when scrutinising borrowing and treasury management reports and activity.

Part 1

Setting the scene

Councils invest in services for communities

5. A council has a corporate plan setting out its priorities and objectives and how it plans to achieve them (Exhibit 1, page 4) This may, for example, include the priority to build a new school to deal with an expected increase in demand as a result of significant new housing. These plans are often over the medium term, typically three to five years, but may be over a longer term, ie up to 15 years. The council targets its resources, that is people, money and assets, at its priorities and objectives. The corporate plan should feed into the asset management plan to identify what assets are needed to achieve its objectives. For example, this could be building new housing. The council, through a capital investment plan, sets out how it will finance the spending on these assets. This may be by using cash resources, for example cash reserves built up over time or capital grants, or through external finance.

6. Methods of external finance include borrowing, Public Finance Initiative schemes and other mechanisms including Non Profit Distributing schemes, Tax Incremental Financing schemes, or the new Growth Accelerator Model. Entering into external financing arrangements will create debt for the council, and means that the council needs to pay financing charges each year over the life of the arrangement, which may be up to 50 years. It is important for a council to assess the affordability of decisions in the context of the financing charges of its total debt.

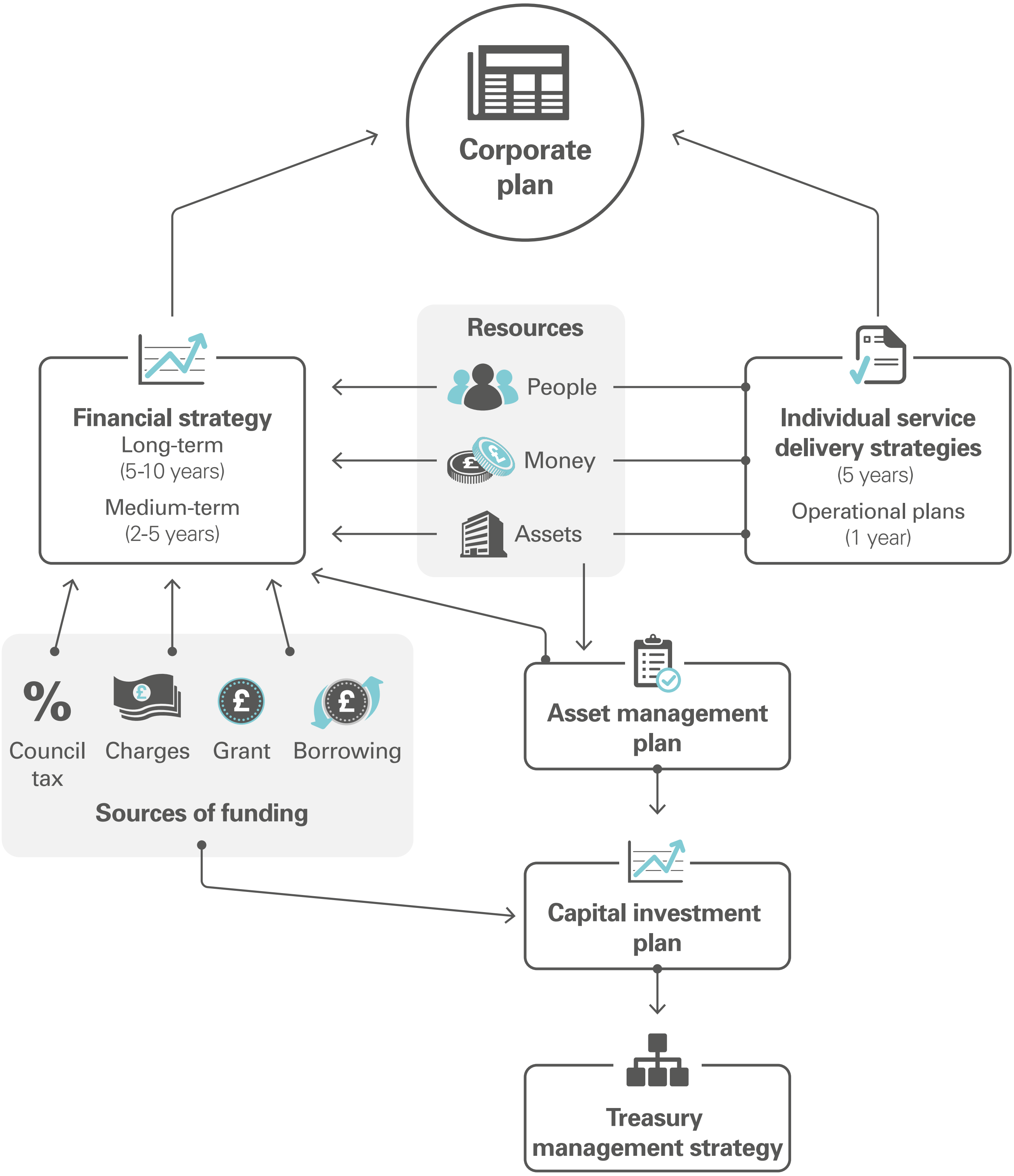
7. Councils should also have medium (two to five year) and long-term (five to ten year) financial strategies. The council will estimate future funding and income, costs and demand for services, and how much it will need to spend to achieve its future objectives. The strategy should identify how the council will make up any shortfall between estimated funding and projected costs and demand. The financial strategy should include the financing cost of borrowing and other debt. This is the annual repayment of interest charged on borrowing or other external financing and any other associated costs. Councils make this repayment out of future budgets, so it decreases the level of available budget remaining and reduces flexibility in future budget decisions.

8. Borrowing involves accessing finance and then repaying it over a longer period of time. These periods can be for up to 50 years, so today's decisions can have a sustained impact on future generations. Borrowing decisions involve a careful balancing act between prioritising investment, and making sure the council can:

- manage the consequences of its decisions over the whole life of the borrowing
- provide evidence showing how it will manage these long-term consequences.

9. Borrowing therefore is set firmly within the framework of wider council activity and should be driven by the corporate plan, capital investment plan and medium and long-term financial strategies (Exhibit 1, page 4).

Exhibit 1
Corporate and strategic influences on treasury management strategy



Source: Audit Scotland

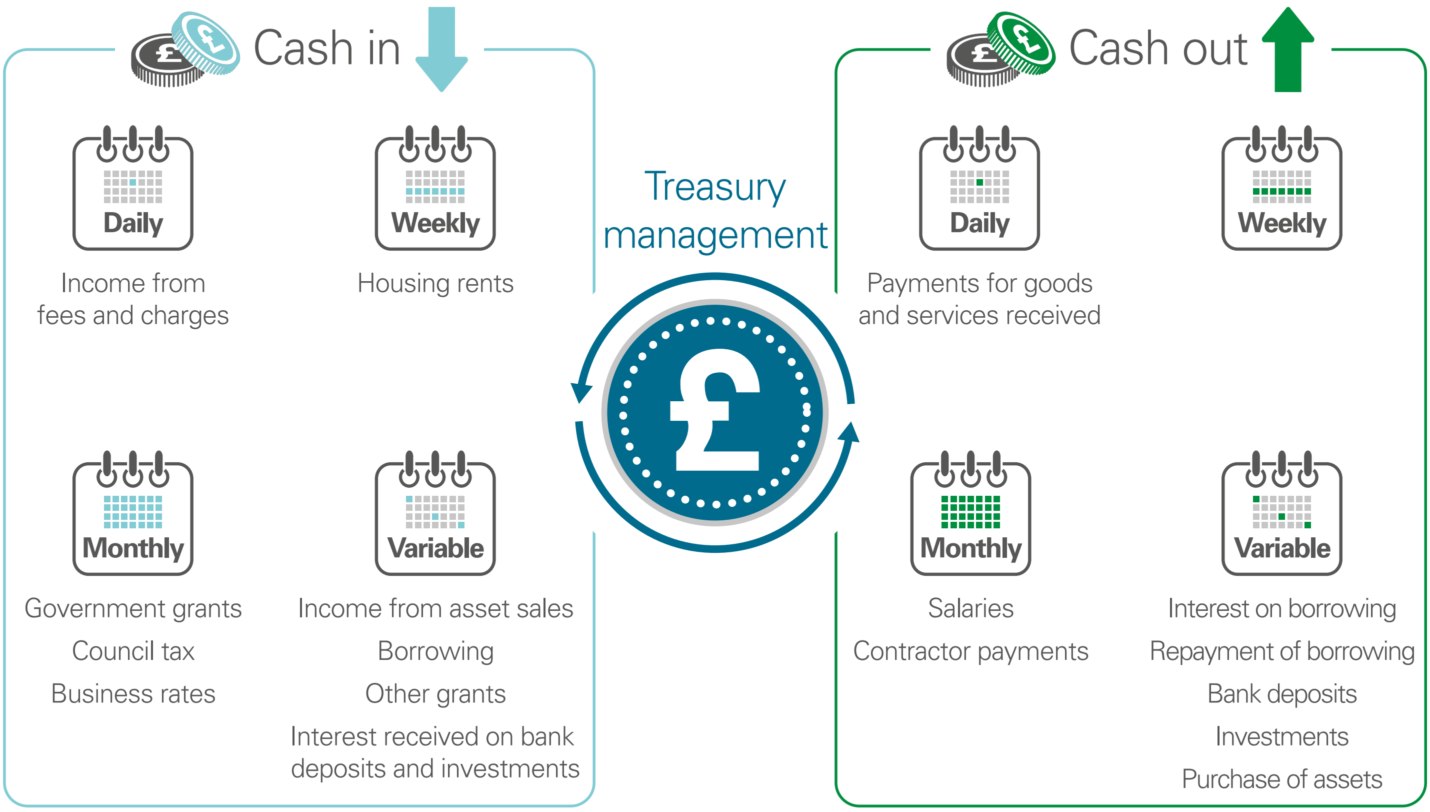
Borrowing is a key part of treasury management

10. Treasury management is the process that councils use to ensure cash is available when needed. This includes day-to-day expenses like paying salaries or electricity bills, and building new assets, such as a new school, or improving existing ones, such as roads. It also involves ensuring that any temporary surplus cash is safely invested. Borrowing is one of the larger cash flows that a council needs to manage, so borrowing is a central part of treasury management. Exhibit 2 shows examples of the typical cash flows in a council together with their timing.

Exhibit 2

Treasury management activities

An example of a council's cash flows with their timing to demonstrate their variability and predictability.



Source: Audit Scotland

11. Councils have two types of budgets to finance and to balance: revenue and capital. Revenue expenditure pays for daily activities like salaries or electricity bills. Capital expenditure is what councils spend on premises, equipment and vehicles; on improvements like roads repairs; and on providing new assets like schools or council houses. Councils can borrow to finance capital expenditure but not revenue expenditure, unless approved by Scottish Ministers. Borrowing charges are revenue expenditure. Councils that own council houses must keep a separate budget and account for revenue and capital expenditure on the housing stock. Borrowing to invest in housing must be repaid from the future housing budget, and therefore funded from future housing rental income.

Councils must comply with borrowing and treasury management rules and regulations

12. In recognition of the importance of capital investment in assets and treasury management to council activities, CIPFA and the Scottish Government set codes of practice and regulations for councils to follow. These ensure that councils have effective processes and practice in place to control, manage and govern capital investment decisions, that include borrowing, and treasury management practices (Exhibit 3).

13. The Prudential Code was introduced in 2004 as a framework to support councils and help them show effective control over levels of, and decisions relating to, capital investment activity, including borrowing. Before this, capital investment levels in councils were government-regulated.

14. This self-regulating approach has enabled councils to adopt borrowing and treasury management strategies that fit with their corporate plans and objectives. The framework allows for councils themselves to judge what is affordable and sustainable and will differ depending on local circumstances. The Prudential Code sits alongside CIPFA's treasury management code, which sets out the requirements for professional treasury management practice.

Exhibit 3
Codes of Practice and Regulations

The Prudential Code for Capital Finance in Local Authorities-CIPFA	A professional code of practice to help councils with capital investment decisions by providing a framework. The Prudential Code sets out indicators that councils must use to help demonstrate public accountability. It also recommends that councils have an integrated treasury management strategy within which its borrowing and investments are managed.
Treasury management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes-CIPFA ('the CIPFA treasury management code')	Adopting this code is a requirement of the Prudential Code. This makes recommendations to provide a basis for councils to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices. A key recommendation is for a treasury management strategy before the start of the year, a mid-year report and an end-year review report.
Finance Circular 5/2010-The investment of money by Scottish local authorities	Provides Scottish ministers' consent for councils investing money and sets out the recommendations and requirements they must meet when making investments. It requires local authorities to 'have regard' to the Prudential Code and the Treasury Management Code and recommends that the strategy form part of a wider single annual strategy covering capital investment, treasury management and prudential information.
Local Government (Scotland) Act 1975	Sets out the statutory basis on which councils can borrow and lend.

Source: Audit Scotland

15. A key requirement of the codes is for councils to produce an annual treasury management strategy before the start of each financial year. CIPFA and the Scottish Government recommend that this is a single integrated strategy that combines plans for capital investment, including borrowing, treasury management, and investment. It also recommends that the strategy includes prudential indicators that are set out within the Prudential Code. These form a set of a 12 limits and ratios that all councils must calculate and use to show to councillors and the public that capital investment plans are affordable and sustainable.

16. Our audit report focused on borrowing, to finance capital investment, and treasury management. Most of the indicators are not specific to borrowing but relate to total capital investment and are calculated using figures for total finance costs, total capital expenditure or total debt. This allows councils to assess the affordability of borrowing in the context of the total debt position of the council. The indicators relating specifically to borrowing are the estimated and actual capital financing requirement. This calculates the amount of capital investment that needs to be met from borrowing or other method of external finance.

17. The prudential indicators are designed to help councils make and record local decisions. They are not designed to be comparative performance indicators across councils as they are set according to the individual needs of each council. In particular, councils had widely different debt positions when the Prudential Code was introduced. These differences are likely to increase over time as councils' choices reflect local priorities. The system is designed specifically to help councils take local decisions in ways that are publicly accountable.

Part 2

Scrutiny responsibilities and report findings

Councillor scrutiny responsibilities

18. Councillors have a key role in holding officers to account. Borrowing and treasury management decisions are complex and involve a significant level of financial risk. It is essential that any decisions are effectively scrutinised to demonstrate sound financial management and help councils achieve their local outcomes and priorities.

19. The main ways in which councillors do this is by scrutinising and approving borrowing and treasury management strategies and reports. Council officers are required to produce an annual treasury management strategy prior to the start of each financial year, which needs to be approved by full council. Councillors should also be presented with a mid-term and year-end report which monitors the progress made against the annual strategy.

20. Prior to approval by full council, these reports should be scrutinised by an appropriate scrutiny committee. Councils' scrutiny committees are a vital part of a council's governance arrangements and it is important that these committees are effective. Councillors on committees need to have a combination of technical knowledge and scrutiny skills for the committee to be most effective.

21. The codes of practice and regulations place certain requirements on a council's governance structure. CIPFA suggest the below allocation of duties and responsibilities for those involved in approving and scrutinising borrowing and treasury management activities (Exhibit 4).

Exhibit 4
Allocation of responsibilities for scrutinising borrowing and treasury management activities

Full council	• Receives and reviews reports on treasury management policies, practices and activities • Approves annual strategy
Committee or panel with responsibility for scrutiny	• Approves or amends the organisation's treasury management policy statement and treasury management practices • Considers and approves budget • Approves the division of responsibilities • Receives and reviews regular monitoring reports and acts on recommendations • Approves the selection of external service providers and agrees terms of appointment • Reviews the treasury management policy and procedures and makes recommendations to the responsible body
The responsible officer	• Monitors the council's compliance with policy and practices • Submits regular treasury management policy reports • Submits budgets and budget variations • Recommends the appointment of external service providers

Source: Audit Scotland

22. There is a responsibility placed on council officers to ensure that councillors are enabled to provide effective scrutiny. This includes ensuring that information provided to councillors is clear and understandable. Officers should also ensure that councillors are aware of the wider impact that borrowing and treasury management decisions can have.

23. Councillors charged with governance have a personal responsibility to ensure that they have the appropriate skills and training for their role. Council officers are responsible for ensuring that councillors have the required level of technical knowledge and scrutiny skills. This is done through providing training to councillors as and when required, which is often part of the induction process at the start of a political term.

Audit findings

24. Our audit report found that councils need to improve scrutiny of borrowing and treasury management. As this is a complex and technical subject, officers need to provide councillors with access to the skills and knowledge they need to carry our their role effectively. The audit report found that current governance structures in some councils could be improved to support more effective scrutiny.

25. We found that some councils use additional scrutiny arrangements in this area. This included using non-executive appointments to provide financial expertise and nominating a lead member on the scrutiny committee for finance. Councillors asked a range of scrutiny questions, from issues of detail to questions of clarification, and all councillors we spoke to would welcome additional support.

26. The layout and content of reports could be improved. In year-end reports, performance monitoring is not reported fully and consistently across councils. Some councils do not provide any comparative data, which makes it difficult to reach an objective opinion on performance. Officers must use accessible language in reports. Many of the strategies and reports we reviewed contained technical language, which does not enable effective scrutiny.

27. Councils do provide both scrutiny training and treasury management training to councillors. Attendance at training sessions is generally poor, but councillors who did attend had positive views. However, some councillors told us that they are not always confident in challenging the strategy or reports. Training and support should equip all councillors with a minimum level of knowledge and understanding. Councillors noted it was often difficult to attend training owing to other commitments.

Audit recommendations for improved scrutiny

Council officers should:

- use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience. It should include how the borrowing strategy is informed by corporate priorities and capital investment needs. The strategy should include:
  - links to capital investment plans and corporate objectives
  - all borrowing and other debt
  - prudential indicators as a core part of the strategy
  - a clear assessment of the affordability and the impact on revenue budgets both in the short and long term
- review the content of year-end reports to ensure they provide an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include appropriate indicators, comparative figures, and appropriate explanations.

Council officers and councillors involved in treasury management should:

- review governance arrangements, and update as necessary, to ensure they provide:
  - the treasury management strategy, mid-year and year-end reports to the same council committee, and that the full council has access to them
  - councillors with mid-year reports by the end of December each year
  - councillors with the wider picture, that is, make the links to capital investment decisions and revenue budgets
  - councillors with access to all reports relating to borrowing and treasury management activity including risk registers
- ensure scrutiny arrangements are robust by:
  - considering widening the range of training options to councillors on borrowing and treasury management activities and whether this training should be mandatory
  - considering whether training for councillrs provides a balance of scrutiny skills and knowledge of treasury management.

Part 3

Scrutiny checklist for councillors

Questions for councillors on borrowing and treasury management

Question	Why should I ask this?	What do I expect to see/hear in the response from officers?
Treasury management strategy and related reports		
Do the contents of the treasury management strategy and related reports include all recommendations in the CIPFA codes?	The CIPFA codes are best practice guidance and councils should be meeting the guidance. Only in exceptional circumstances should councils not be following the guidance.	Officers should provide assurance that reports meet all recommendations but will highlight any departures from the code with an explanation why.
Do the contents of the treasury management strategy reflect the wider picture of how we plan to meet our capital commitments?	CIPFA's Prudential Code helps councils demonstrate good capital investment decisions. The treasury management strategy reflects how these decisions impact on treasury management activity. Our expectation is that the strategy is self-explanatory.	Minimal additional explanation should be required from officers to explain the wider context.
Borrowing and other financing decisions		
Is the proposed borrowing option the best option for the council?	Other viable financing options may be available. Officers should be considering all options and appraising these.	Officers can explain the other options that they have considered. Officers should be able to demonstrate that they have considered different scenarios. The treasury management strategy should reflect on the options that have been considered and include links to further information.

Cont.

Question	Why should I ask this?	What do I expect to see/hear in the response from officers?
What would affect the decision and how will I be informed if the situation changes?	Economic circumstances, such as interest rates, may change throughout the year that will affect decisions. As a councillor you should expect officers to keep you updated on significant changes in circumstances that will affect treasury management decisions.	Officers may be able to offer briefings or updates in these circumstances.
What are the risks?	Treasury management risks should be identified within the appropriate council risk register. In making or approving decisions you need to be aware of the potential risks and how likely they are to emerge. New financing options may have additional or different risks to traditional borrowing.	Officers should: • outline how they identify, monitor and act on treasury management risks • identify and discuss the risks and the likelihood of them occurring • refer to other treasury management risk registers and reports.
Have we received any external advice?	It may be helpful to seek external advice, particularly on new financing options.	Officers should explain the nature of any advice they received and whether or not they took it.
What are other councils doing?	Councils have policies in place, have different circumstances and have to do what is right for them but knowing what other councils are doing can provide assurance on your own decisions.	Officers should: • know whether there are any councils with similar circumstances and draw comparisons • be aware of other councils' borrowing patterns and where they are borrowing from • be aware of new financing options and whether other councils are using them, and their experience of using them.

Cont.

Question	Why should I ask this?	What do I expect to see/hear in the response from officers?
Affordability and sustainability		
Is the borrowing and finance affordable?	Decisions will impact on current and future budgets when finances are already tight.	Officers should: • detail the costs of different options and scenarios • detail the impact of the preferred option on the revenue budget.
What is our current maturity profile for our borrowing?	Borrowing decisions made today have a long-term impact on revenue budgets. The maturity profile shows the future impact of past and current borrowing decisions. It will highlight future periods of demand on the revenue budget. Councils should be trying to 'smooth' their maturity profile, that is, try to ensure as even a spread of debt and demand on the revenue budget as possible.	A chart of maturity dates is usually easier to interpret. Officers will be able to identify future periods of potential financial pressure from the charts. Officers can explain what steps are being taken now to ensure the financial resources are in place in future. Officers can also explain how decisions to borrow will affect the future profile.
How does our profile compare to other councils?	This can highlight whether the council will face similar pressures to others. It is useful for drawing on the experience of other councils.	A chart comparing the council's profiles with others will highlight similarities and differences. Officers can explain similarities with other councils and may be able to explain how other councils plan to deal with similar financial pressures.
What other debt do we have? (Examples include: PPP/PFI, NPD and TIFs)	Commitments to borrow shouldn't be taken in isolation. Other debt has a long-term financial impact.	The treasury management strategy should set out all of the council's existing liabilities. The strategy should indicate the financial commitments and include a link to the detail.
Are we liable for the debt of ALEOs or other external bodies?	Effective risk management includes identifying and monitoring potential financial commitments.	The treasury management strategy should include the nature of debt with ALEOs or other external bodies. Officers should be able to identify debts, what the relationships are, what the nature of the potential debt is and the likelihood of it occurring. Officers should be able to refer to a risk assessment.

Cont.

Question	Why should I ask this?	What do I expect to see/hear in the response from officers?
Performance and benchmarking		
What do the prudential indicators tell me?	The indicators use technical terms and are based on figures from the financial statements. They can indicate an increasing proportion of spend on debt repayments and when things are becoming less affordable. It is useful to compare trends year-on-year. There is the potential for comparing trends and patterns with other councils although the indicators are meant to be used by councils individually.	The treasury management strategy should explain, in layman's terms, what the indicators mean. Officers should provide further explanation or clarification. Although indicators are for the use of individual councils, officers may be able to draw trend comparisons with other councils. Officers should explain any action they have taken or plan to take in relation to the indicators.
Is 'under-borrowing' a good thing? What does this mean in practice?	'Under-borrowing' means the council did not need to borrow up to the level of the estimated capital financing requirement. 'Under borrowing' is usually seen as positive but can be a sign of other issues, such as, not accurately identifying the borrowing requirement or slippage in the capital programme.	Officers should explain why this happened, for example, additional money from capital receipts meant the reduced need to borrow less.
Do we have other performance measures?	The Prudential Code sets out the minimum requirements for performance reporting. Councils can introduce other performance measures.	Officers should be able to explain the purpose, details and any necessary remedial action in relation the performance measure.
What do our advisors cost and what do we get for this?	There are very few advisors in the market. The council needs to: • ensure that a thorough and impartial appointment process is in place • have assurance that advice is tailored to the individual authority • ensure that officers ultimately take the decisions.	Officers should provide details of: • the tendering process for appointing the advisors • the cost and terms of the contract, including what services the advisors will provide • examples of advice not taken and why.

Cont.

Question	Why should I ask this?	What do I expect to see/hear in the response from officers?
Do we have the treasury management skills that we need?	This is a very technical area that requires suitably skilled and trained staff. CIPFA treasury management qualification is no longer available. It is important to have succession planning: that is, what arrangements are in place if treasury management staff leave.	Officers should be able to: • detail the cost, number of staff and skills/qualifications of those involved in treasury management • justify current staffing requirements • detail future staff needs or training requirements and how they will be met.

AGENDA ITEM 6

FALKIRK COUNCIL

Subject:	**COUNCIL HOUSING INVESTMENT PROGRAMME – CONTRACT MANAGEMENT**
Meeting:	**SCRUTINY COMMITTEE**
Date:	**20 AUGUST 2015**
Author:	**DIRECTOR OF DEVELOPMENT SERVICES & DIRECTOR OF CORPORATE & HOUSING SERVICES**

1. INTRODUCTION

1.1 The purpose of this report is to provide Members with details of the operating arrangements in relation to the delivery of the Council's Housing Investment Programme (HIP). The report will seek to provide Members with:

- The context, scale and diversity of the programme
- The various stages involved in delivering the programme, from planning through to the completion of works
- The roles and responsibilities of the relevant Services, sections and teams involved in the delivery of the programme
- Information on areas of continuous improvement and development

2. BACKGROUND

2.1 The HIP is agreed by the Council at the budget meeting in February each year and is based on a 3 year forward looking plan. Appendix 1 provides details of the programme agreed at a Special Meeting of the Council in February 2015.

2.2 The programme comprises two primary elements:

- Improvements to the standards of our housing stock, with the focus being on ensuring our stock meets the Scottish Housing Quality Standard (SHQS) and where applicable new housing standards e.g. the Energy Efficiency Standard for Social Housing (EESSH).
- Provision of additional housing to meet the demand for affordable housing e.g. via new build housing; buy-backs of ex-Council properties and Mortgage to Rent acquisitions.

2.3 The table below details the approved expenditure since 2010 and shows a spending programme of over £180m over the last 6 years, an average of £30m per annum. In addition, there has been an increasing level of expenditure primarily focused on an increased programme of improvements to ensure the 2015 SHQS is met and the commencement of a new build and buy-backs programme.

FINANCIAL YEAR	£'000
2010/11	21.25
2011/12	25.20
2012/13	29.85
2013/14	40.11
2014/15	36.53
2015/16	29.32
TOTAL	**182.26**
AVERAGE per annum	**30.38**

2.4 The HIP is funded in the main from borrowing and revenue financing from the Council's Housing Revenue Account (HRA) e.g. over the next 3 year programme, 90% of investment expenditure (£77m) will require to be funded by either borrowing or revenue contributions. The costs of borrowing and revenue contributions require to be funded from Council house rents and as such there is a need to establish a balance between setting affordable rent levels and the levels of investment. Given the long-term nature of financing borrowing e.g. up to 40 years, the financial impacts on the HRA budget are modelled over 50 years to ensure the future viability of the HRA budget.

3. SCOTTISH HOUSING QUALITY STANDARD (SHQS)

3.1 SHQS investment covers a range of improvements to the Council's housing stock, including roofing, roughcasting and external wall insulation, renewal of kitchens and bathrooms, upgrading of electrical systems, replacement heating, improvement to our estates and various health and safety related works. The programme previously also included upgrading works to all of the Council's high rise flats. It is anticipated that improvement works to over 9,000 homes will be undertaken during the current financial year.

3.2 As at the end of March 2015, 82.8% of all Council houses were fully compliant with the SHQS. The Council was unable to bring the remaining 17.2% of properties up to the SHQS due to either specific properties being exempt from SHQS or due to factors outwith the Council's control i.e. abeyances. The SHQS guidance provides clear criteria for exemptions and abeyances and based on these criteria, there are currently 730 properties which are exempt and an additional 2,080 properties with an abeyance; therefore the target of 100% of properties the Council could ensure met SHQS by 2015 has been achieved. Appendix 2 provides a detailed breakdown of exemptions and abeyances. Work will continue to reduce the number of properties which are either exempt or with an abeyance, wherever possible. Ongoing repair and investment work on these properties are required to maintain this standard beyond end March 2015, and have been identified and programmed in line with the Housing Asset Management Plan.

3.3 Full details of compliance by criteria are detailed below:

Scottish Housing Quality Standard Compliance	Pass Within the Scope	No. of Abeyance/ Exemption	Pass Against Stock
Compliant with the current Tolerable Standard	100%	11	99.99%
Free from Serious Repair	100%	0	100%
Energy Efficient	100%	2,627	83.90%
Modern Facilities and Services	100%	1	99.99%
Health, Safe and Secure	100%	171	98.95%
Total SHQS Compliance	**100%**	**2,810**	**82.79%**

4. HIP KEY STAGES

4.1 The development of the HIP involves a number of key stages and stakeholders, including Tenants, Members and Council officers. Outlined below is an indication of the key stages and the respective Service divisions/lead contacts involved. Further details on each stage are also provided in the next sections of the report. The stages outlined below are consistent with the project management methodologies set out by the Royal Institute of British Architects (RIBA) and where applicable, Development Services Building Design Unit adopts the RIBA plan of work as a model for managing the various stages outlined below.

KEY STAGES	STAKEHOLDERS
Assessment of need and development of projects for inclusion in the Housing Investment Programme Lead/Contact: Housing Asset Team (C&HS)	• Housing Asset Team (C&HS) • Housing Asset Management Plan Tenant's Group (C&HS) • Tenants and residents forum • Members
3 Year Budget Approval Lead/Contact: Housing Asset Team & Finance (Capital) (C&HS)	• Housing Asset Team (C&HS) • Finance (Capital) (C&HS) • Members
Appraisal, Consultation (Tenants/Owners) and Development of design briefs Lead/Contact: Housing Asset Team & Local Housing Offices (C&HS); Design Team (Development)	• Housing Asset Team (C&HS) • Local Housing Offices (C&HS) • Design Team (Development Services)

Detailed design; statutory approvals and procurement Lead/Contact: Design Team (Development)	• Design Team (Development Services) • Planning (Development Services) • Building Standards (Development Services)
Site Works; Contractor Management and Tenant & Owner Liaison Lead/Contact: Customer Care Team & Design Team (Development); Local Housing Offices (C&HS)	• Design Team (Development Services) • Clerk of Works (Development Services) • Customer Care Team (Development Services) • Local Housing Area Offices (C&HS)
Post Contract Review and Performance Analysis, including data interface updates Lead/Contact: Housing Asset Team (C&HS); Design Team (Development)	• Design Team (Development Services) • Housing Asset Team (C&HS)

4.2 As outlined above, the delivery of the HIP involves a range of stakeholders and is dependant on cross-service working, utilising appropriate skills and knowledge and strong project management. Central to delivering the HIP are monthly programme monitoring meetings. These are held with senior officers from the Housing Asset Team (C&HS) and the Design Team (Development Services). The focus of these monitoring meetings is to monitor and review the delivery of the programme in terms of areas such as customer feedback; quality control; timescales and financial management. These meetings provide an opportunity to identify areas of concern and also facilitate pre and post contract reviews.

5. STAGE 1 – ASSESSMENT OF NEED

5.1 The HIP is founded on the basis of the Council's 5 year Housing Asset Management Plan which was approved in 2013 and aims to deliver assets that:

- Are fit for purpose;
- Are sustainable;
- Are in good condition;
- Are accessible to all;
- Are safe and secure;
- Meet service needs;
- Meet the needs of our communities;
- Are closely aligned to the Local Housing Strategy.

5.2 The Council has an asset management database (Keystone). At the core of this database is information in relation to the condition; property type and construction of all Council houses i.e. c16,300 properties. The information is based on an independent and comprehensive stock condition survey of all properties undertaken in 2010 and subsequent on-going updates informed by a rolling programme of condition assessments undertaken by Corporate & Housing Services employees. This provides the necessary information to inform the development of the HIP.

5.3 Following the identification of properties, a Housing Investment Programme booklet is prepared to provide advance notice of projects and works that maybe carried out within respective areas. The booklet is however a preliminary assessment and may be subject to change at the next stage of the process. This document is circulated to Members and is available in respective local housing offices.

6. STAGE 2 – APPRAISAL, CONSULTATION AND DEVELOPMENT OF DESIGN BRIEFS

6.1 This stage is conducted jointly between Corporate & Housing Services and Development Services' officers and involves undertaking a Technical Appraisal and the preparation of initial project briefs, confirming key requirements, constraints and the programme of work. This stage also involves the identification of procedures, organisational structure and defines those who are to be engaged in the project.

6.2 Following the preparation of initial project briefs, further work is then undertaken to prepare outline proposals, including sketch drawings, specification, re-appraisal of costs and identification of materials being proposed. The outline proposals require to be jointly approved before commencing the detailed design stage.

6.3 Where applicable, consultation with all affected owners will be undertaken after the design stage, providing owners with details of proposed works and information on preliminary costs, subject to tendered costs being provided when available.

7. STAGE 3 – DESIGN AND PROCUREMENT

7.1 Following the preparation of detailed proposals, application for statutory approvals, where required, is progressed e.g. planning permissions and building warrants. Final design proposals are thereafter prepared and agreed, sufficient for the co-ordination of all the components and elements of the projects.

7.2 Based on the final design proposals, tender documentation (bills of quantities etc) are prepared in sufficient detail to enable a tender or tenders to be obtained for the project. Procurement is thereafter undertaken in accordance with the Council's Contract Standing Orders and relevant national and European procurement legislation e.g. advertising, evaluation and approval processes.

7.3 Affected owners will also be consulted on any significant changes to the proposed works from that already consulted on at Stage 2 above. Owners will also be provided with a breakdown of costs, following the approved outcome of the tender process.

8. STAGE 4 – SITE WORKS AND CONTRACT MANAGEMENT

8.1 Following the acceptance of the contract and appointment of the contractor in accordance with Contract Standing Orders, a pre-contract meeting is held with the contractor and all necessary contract information (including emergency contact nos.) is thereafter exchanged, including Health and Safety information to enable the contractor to commence site operations.

8.2 Following the appointment of the contractor, all necessary information relating to the contract e.g. appointed contractor, contact details and contract timescales is shared with relevant parties including owners, tenants, members, housing staff and contact centre staff.

8.3 During the construction phase of the projects, Development Services officers will administer the contract up to and including practical completion. This will include a programme of regular inspections, contractor site meetings, agreement on contract variations, regular progress reports and issuing practical completion certificates.

8.4 Development Services Customer Care officers, in conjunction with the Clerk of Works and Contractor's staff, will deal with customer enquiries, including the issue of customer satisfaction surveys to tenants/owners on completion and the provision of advice on the use of new equipment, where necessary providing leaflets and manufacturer guidance.

8.5 Contractor performance and workmanship is monitored against the contract specifications through regular site inspections undertaken by Development Services Clerk of Works and Design Team Officers. Any work not in accordance with the contract is recorded with corrective actions identified. This information is gathered through a number of means including verbal instruction, Clerk of Works directions and weekly reports, Architect's Instructions and recording at fortnightly/monthly site progress meetings. Payments are only made after defined stages of work have been completed satisfactorily and a 5% retention of the value of the works is held during the contract period.

Contract performance bonds (10% of contract value) are also required for contracts in excess of £1m. Industry standard contract documents embed provisions for addressing defaults in a contract, with specific contract clauses covering completion of the works, the quality of materials, goods and workmanship and contractual remedies for non-performance, up to and including termination of the contract. Contingent with Procurement Regulations any actions taken must be taken in a proportionate manner, with clear opportunity for remedial action to be taken.

9. STAGE 5 – POST CONTRACT REVIEW AND PERFORMANCE ANALYSIS

9.1 In the final stages of contract completion and post completion of the works, a number of tasks are undertaken, including final joint inspections between Clerk of Works and Contractors, defects monitoring and rectification, issue of certificate of making good defects and the agreement of the final contract value. Additionally, support and assistance is provided to building users during the initial occupation period.

9.2 Customer satisfaction survey cards are issued by the Development Services Customer Care Team at the end of each contract, with results summarised and analysed on a quarterly basis, with feedback provided directly to the project teams, where matters of concerns are identified to ensure continuous improvement. Annual satisfaction figures for the last three financial years are detailed below:

FINANCIAL YEAR	% SATISIFIED OR VERY SATISFIED
2012/13	92.53%
2013/14	92.64%
2014/15	95.87%

9.3 As outlined above, the financial scale of the HIP is significant and as such a key performance measure for delivery of the programme is the final outturn position compared to budget. Outlined below is a summary of the outturn position since 2010/11. Overall the programme has operated consistently close to budget, notwithstanding that as it is a rolling programme project spending will inevitably cross over financial years.

YEAR	BUDGET £m	O'TURN £m	VAR. £m	VAR. %	No of Homes Improved	No of additional homes
2010/11	21.25	16.82	-4.43	-20.84	14,888	24
2011/12	25.20	27.36	2.16	8.57	10,027	101
2012/13	29.85	27.65	-2.20	-7.37	14,033	55
2013/14	40.11	48.73	8.62	21.49	10,204	97
2014/15	36.53	35.06	-1.47	-4.02	11,097	242
TOTAL	**152.94**	**155.62**	**2.68**	**1.75**		**519**

9.4 In summary, over the last 5 years there has been a small overspend on the Housing Investment Programme of £2.68m, which represents less than 2% of the 5 year cumulative budget of c£153m. The overspend was funded by additional resources and did not require any additional borrowing. Over the 5 year period, the HIP has helped facilitate improvements to over 10,000 homes per annum and delivered over 500 additional homes.

9.5 Following the completion of contracts, details of the work carried out is used to update the Housing Asset Management System (Keystone) to ensure the asset information is accurate, up to date and reflects life cycles to inform future investment programmes. This information is also used to inform annual Scottish Housing Regulator returns and other performance reports.

9.6 In addition, final accounts will be issued by the C&HS Billing Team to any owners participating in the contracts, as outlined in para 7.3.

10. CONTINUOUS IMPROVEMENT

10.1 Recognising the scale, diversity and complexity of the HIP, it is acknowledged that issues will arise. As such, as issues are identified and addressed, these issues are also used as a means of identifying changes and improvements to operating methods.

10.2 Examples of continuous improvement and development in delivering the HIP include:

- The establishment of a comprehensive guidance document for C&HS and Development Services staff to ensure a consistent and best practice approach to delivering the HIP
- On-going improvements in communication with tenants and owners
- Refinement of design specifications based on learning from previous project experience
- Clearer and more specific contractual instructions
- More extensive pre-survey work to confirm contract specifications are matched to particular site requirements
- Targeted on-site inspections to ensure works are fully in accordance with the agreed specification, prior to allowing further works to proceed
- Agreement and provision of standard specifications to cover unusual situations and subsequent solutions
- Profiling and programming of work better aligned with contractor resourcing
- Regular testing of value for money
- Monthly management review meetings are held to monitor progress and financial management of the respective contracts
- Improved systems in relation to recharging owners and in recovery of monies due

11. CONCLUSIONS

11.1 The Council undertakes a significant investment programme, with works aimed at improving the Council's 16,300 plus houses, whilst also providing additional homes to meet the need for affordable housing.

11.2 The HIP works are delivered in a staged and programmed manner, consistent with best practice guidance. Performance information indicates that the programme is being satisfactorily delivered on both a qualitative and financial basis. However, it is acknowledged that issues arise in the delivery of projects of the scale and diversity included within the programme. As such, as issues emerge a process of continuous improvement is in place, learning from the on-going delivery of the programme.

12. RECOMMENDATION

It is recommended that the Committee notes the approach taken in respect of the development and management of the Council's Housing Investment Programme.

DIRECTOR OF DEVELOPMENT SERVICES	**DIRECTOR OF CORPORATE & HOUSING SERVICES**

Date: 26 June 2015
Ref: AAQ – 200815–CHIP – Contract Management
Contact Officers: Robert McMaster, Head of Roads and Design, ext 4953
David McGhee, Head of Procurement & Housing Property, ext 0788

<u>LIST OF BACKGROUND PAPERS</u>

1. Nil

Appendix 1

AGENDA ITEM 6

FALKIRK COUNCIL

Subject: **HOUSING INVESTMENT PROGRAMME 2015/16 to 2017/18**
Meeting: **FALKIRK COUNCIL**
Date: **11 February 2015**
Author: **DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES**

1. INTRODUCTION

1.1 This report sets out the 3 year forward planning assumptions for the HRA Investment Programme for the years 2015/16 to 2017/18 (Appendix 1).

2. BACKGROUND

2.1 Members will be aware of the Council's requirement to ensure its housing stock meets the Scottish Housing Quality Standard (SHQS) by 2015. To enable this to be achieved and to ensure this standard is maintained beyond 2015, a comprehensive stock condition survey was undertaken in 2010. This information has been subsequently kept up to date in order to provide an overall position statement regarding the housing stock condition.

2.2 The stock condition information provides the basis for the Council's Housing Asset Management Plan and future investment plans to ensure that all Falkirk Council properties are fully SHQS compliant by the 2015 deadline and their condition is maintained to the specified standard thereafter.

3. SHQS POSITION UPDATE

3.1 In accordance with the interpretation of the SHQS criteria, 87.3% (14,120 properties) of our stock currently meets the standard, compared to 81% previously. The remainder of our stock is at various stages of meeting the SHQS criteria and some will only require minor alterations in order to bring them up to the required standard. These findings show a continued improvement since the sample stock condition surveys were undertaken in 2009, which indicated that approximately 33% of the stock met SHQS at that time. It is considered that the Council should be well placed to meet the SHQS by 2015. On-going repair and investment work on these properties will however be required to maintain that standard beyond 2015, in line with the Housing Asset Management Plan.

3.2 A positive outcome of the investment strategy to date is that Falkirk Council has no properties which currently fail the Tolerable Standard or the Serious Disrepair (Primary) elements criteria. This reflects previous year's investment to address these issues.

3.3 In terms of those properties currently assessed as not meeting SHQS(12.7% 2,055 properties), the main areas requiring improvement are:

- Energy Efficiency (1,922 properties) – Installation of insulation and efficient central heating systems
- Serious Disrepair (Secondary) (154 properties) – Improvement to secondary elements including roof coverings, chimney stacks and rainwater goods.

3.4 Members will recall that additional resources of c£5m p.a. were provided in previous years Housing Investment Programmes. Recognising the priority work required to bring the remaining 12.7% of our housing stock to SHQS and continue at that standard thereafter, the proposed Housing Investment Programme in Appendix 1 continues the provision of additional resources, particularly in relation to external fabric improvements; kitchen and bathroom renewal and electrical work. The planned investment programme set out in Appendix 1, together with the continuation of the existing level of revenue funding of repair and maintenance, should therefore ensure the necessary improvement in our stock to ensure SHQS standards are achieved beyond 2015.

3.5 As well as the continued requirement to maintain our stock to the Scottish Housing Quality Standard beyond the 2015 target, the Scottish Government launched the new Energy Efficiency Standard for Social Housing (EESSH) at the end of March 2014. This new standard, which will be introduced from 2015/16, is aimed at improving the energy efficiency of social housing. The EESSH sets a minimum Energy Efficiency rating for landlords to achieve that varies dependant upon the dwelling type and the fuel type used to heat it. The target date to achieve the first milestones within the EESSH is 31 December 2020; therefore, the new standards will inevitably influence the Council's future investment decisions and priorities. The impact of EESSH has been considered as part of identifying priorities within the Housing Investment Programme.

4. SHQS HOUSING INVESTMENT (£51.45m)

4.1 As outlined in Section 3 above, to date 87.3% of the Council's housing stock meets SHQS. The priority improvement works necessary to enable the remaining proportion of the stock to meet the SHQS by 2015 and maintained beyond have been identified. A total of £51.45m has been provided over the next 3 years for SHQS related investment.

4.2 In relation to the procurement of capital contracts, this will be carried out in accordance with the Council's Contract Standing Orders. A combination of competitive tendering and single tendering arrangements are expected to be used, the latter involving the Council's Building Maintenance Division, when Best Value can be clearly evidenced.

4.3 The key features of the SHQS Housing Investment Programme for 2015/16 are detailed below, with proposed expenditure figures for 2015/16 shown in brackets:

Elemental Improvements (£13.9m)

4.4 In line with previous years Investment Programmes, additional funding has continued to be provided in order to undertake SHQS priority work over the next 3 years. Proposed expenditure on fabric improvements e.g. re-roofing and roughcasting, has been set at £8.7m, with electrical works of £3.0m and £2.2m of kitchen and bathroom replacement also planned. This represents an additional provision of £2.5m compared to the current 2014/15 programme. As part of the electrical works expenditure, £1m per annum has been provided over the next 3 years to establish an installation programme of Carbon Monoxide detectors. It is anticipated that the £13.9m investment will allow the upgrade of c8,400 properties, of which c4,000 homes will benefit from Carbon Monoxide detector installation.

Energy Efficiency Works (£2.2m)

4.5 The heating replacement budget reflects the large-scale investment undertaken in previous years and will enable an on-going programme of heating system upgrades beyond the 2015 SHQS requirement and will improve the energy efficiency of these properties. It is estimated that c800 properties will benefit from having energy efficient heating/controls installed or replaced each year.

Estate Improvements (£0.5m)

4.6 The programme continues the provision of £0.5m included in previous years to enable a rolling programme of estate landscaping improvement works to be undertaken, in conjunction with the Council's Estates Management division.

Priority Areas (£0.2m)

4.7 A provision of £0.2m has been included to enable the investigation and potential establishment of pilot renewable energy efficiency projects.

4.8 The refurbishment of all the Council's high rise flats will be completed by 2015 in line with SHQS requirements.

Health & Safety (£0.35m)

4..9 As in previous years funding has been provided to allow a range of health and safety type works (£0.35m) to be undertaken e.g. asbestos removal.

5. NON-SHQS HOUSING INVESTMENT PROGRAMME (£34.2m)

5.1 A total of £34.2m has been provided in the 3 year programme for non SHQS investment.

5.2 The key features of the non SHQS Housing Investment Programme for 2015/16 are detailed below, with proposed expenditure figures for 2015/16 shown in brackets:

New Build Council Housing (£4.0m)

5.3 The Investment Programme provides resources for the continuation of the Council's new house building programme. Funding is included over the current financial year and the next 2 years to enable the completion of the following projects, delivering a further 86 new homes, additional to the 338 already completed or currently under construction, increasing the Council's new build programme to c424 new houses.

- Main Street, Stenhousemuir 18 units
- Duke Street, Denny 20 units
- Haugh Street, Falkirk 6 units
- Woodend Farm, Hallglen 42 units

5.4 The proposed Investment Programme included in Appendix 1 provides for the completion of the programme of 424 units by the end of 2017/18, with a total financial provision over the next three financial years of £10.15m.

5.5 With the exception of the proposed new build project at Woodend Farm, Hallglen, the other 3 projects listed above are included within the Council's Strategic Local Programme (SLP) to 2016/17 approved by Members in January 2015. It is estimated that these projects will cost c£4.7m, with a total of £2.024m funding anticipated from Scottish Government New Build funds £0.966m (c£40,000 per unit) and £1.058m from a combination of 2nd Homes Council Tax income and affordable housing planning contributions. The balance of costs on these projects of £2.676m will be funded through prudential borrowing.

5.6 At this time the Scottish Government have only advised indicative Resource Planning Assumptions for 2017/18 and 2018/19 and as such work is on-going with partners to develop projects of years 2017 to 2019 and an SLP for this period will be submitted to Executive, once this work has been concluded. As the project at Woodend Farm, Hallglen is not anticipated to commence until 2017/18, this project will be considered as part of the development of the 2017-19 SLP.

Property Buy-Backs (£6m)

5.7 The Investment Programme provides for an additional £1m of funding, increasing the annual provision to £6m to fund the buy-back of ex-Council properties to help meet housing demand. Approximately 150 additional homes have been purchased through the buy-back programme to date. Provision of £6m per annum over the next three financial years has been made to continue the acquisition programme. This will fund the acquisition of around 80-90 additional homes per annum.

Mortgage to Rent (£1.0m)

5.8 The Investment Programme now includes provision for the costs of buying houses under the Mortgage to Rent initiative. The initiative is demand led and as such the estimated provision is based on current year levels of demand, which may be subject to change. The revenue consequences of the additional borrowing required to fund the acquisition costs will be met from the rent income from these newly acquired properties.

Other Works – LHS Initiatives (£0.7m)

5.9 This provision will enable a continued programme of initiatives (£0.7m) designed to meet housing demand identified in the Local Housing Strategy e.g.: remodelling of properties; acquisitions and the tenants incentive scheme.

Window Leasing Buy-Back (£0.5m)

5.10 Continued provision of c£0.5m per annum over the next two financial years has also been made to meet the costs of buying out window leases. The buy-out of leasing costs will deliver longer-term financial benefits to the Housing Revenue Account.

6. RESOURCES FOR 2015/16 (£29.3m)

6.1 Within the context of the Prudential Regime it has been estimated that approximately £1.6m will be available from the sale of Council houses in 2015/16 and reflects the 2014/15 financial year budget. The budget for 2016/17 and subsequent years reflects the termination of the right to buy from August 2016. It is estimated that the abolition of right to buy would be broadly cost neutral i.e.: the lost capital receipts and corresponding additional borrowing costs, would be offset by retaining the rental income which we'd otherwise expected to lose.

6.2 House sales receipts will be supplemented in 2015/16 by revenue resources of £4.264m, energy efficiency grant related income estimated at £0.3m, Scottish Government New Build Grant of £0.966m, Scottish Government Mortgage to Rent Grant of £0.2m and total borrowing of £20.9m, which includes Mortgage to Rent borrowing. In addition, funding from second home Council Tax income and affordable housing planning contributions of £1.058m has been estimated in respect of the proposed new build projects at Stenhousemuir and Denny. Relevant Prudential indicators for the period are appended in Appendix 2.

6.3 In total, the above assumptions provide an estimated £29.3m for new investment in 2015/16. From a strategic planning perspective it is proposed that the Council make resources available of £26.1m in 2016/17 and £30.3m in 2017/18, to ensure our stock meets SHQS requirements and enables the continuation of initiatives to meet the increasing demand for affordable houses. The resource breakdown is detailed in Appendix 1.

6.4 Members should note that the revenue costs associated with borrowing required to fund the Investment Programme requires to be met from the Council's Housing Revenue Account (HRA) through rental income. The financing costs of the Investment Programme have been accommodated within the recommended HRA budget. Given the long-term impacts and affordability of the capital investment programme, the financial impacts on the HRA budget have been modelled over the next 50 years to ensure future financial viability of the HRA budget.

7. SUMMARY

7.1 The key priorities in respect of the Housing Investment Programme are outlined in this report along with a proposed expenditure profile covering the next 3 financial years 2015/16 - 2017/18. The 3 year programme assumes a total investment of £85.7m, an average of c£28.6m per annum.

7.2 The housing investment programme is a rolling programme of improvements, which means that as major projects complete e.g.: High Flats, new priorities emerge such as window replacement. The proposed investment programme therefore continues the additional investment necessary to meet the outcomes of the house condition survey and keeps the Council on course to achieve and maintain the SHQS beyond 2015, in line with the Housing Asset Management Plan.

7.3 Over the life of the programme c£51.45m will be spent on improving and maintaining our existing council housing stock to the SHQS and c£34.2m in delivering a range of initiatives to deliver new and additional affordable homes and to expand the scope of housing options to help meet tenants housing needs.

8. RECOMMENDATION

Members are invited to:

8.1 **Approve the expenditure proposals outlined in the 2015/16 to 2017/18 Housing Investment Programme in Appendix 1**

DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES

Date 27 January 2015
Ref:
Contact Officer: David McGhee, Head of Resources & Procurement, ext 0788

APPENDIX 1

2015/16 to 2017/18 HOUSING INVESTMENT PROGRAMME

PROPOSED EXPENDITURE PROFILE

		2015/16	2016/17	2017/18
SCOTTISH HOUSING QUALITY STANDARD (SHQS) WORKS		**£'000**	**£'000**	**£'000**
Elemental Maintenance & Improvements				
External Fabric Improvements		8.700	8.700	8.700
Kitchen/Bathroom Renewal		2.200	2.200	2.200
Electrical Works		3.000	3.000	3.000
	Sub-Total	**13.900**	**13.900**	**13.900**
Energy Efficiency Works				
Replacement Heating		2.200	2.200	2.200
	Sub-Total	**2.200**	**2.200**	**2.200**
Estate Improvements				
Estate Landscaping Improvement Work		0.500	0.500	0.500
	Sub-Total	**0.500**	**0.500**	**0.500**
Priority Areas				
High Rise Flats		0.000	0.000	0.000
Other Priority Areas		0.200	0.200	0.200
	Sub-Total	**0.200**	**0.200**	**0.200**
Health & Safety		**0.350**	**0.350**	**0.350**
NON-SHQS WORKS				
New Build Housing				
Construction Works		3.976	0.734	5.437
	Sub-Total	**3.976**	**0.734**	**5.437**
Property Buy-Backs		6.000	6.000	6.000
Mortgage to Rent		1.000	1.000	1.000
Other Works (LHS Initiatives)		0.700	0.700	0.700
Window Leasing Buy-Back		0.497	0.469	0.000
	Sub-Total	**8.197**	**8.169**	**7.700**
Total Expenditure		**29.323**	**26.053**	**30.287**
Resources				
Prudential Borrowing		20.135	19.745	25.483
Mortgage to Rent Borrowing		0.800	0.800	0.800
Council House Sales & Other Receipts		1.600	0.800	0.000
Energy Section Income		0.300	0.300	0.300
CFCR		4.264	4.208	3.504
Scottish Government Mortgage to Rent Grant		0.200	0.200	0.200
New Build (SG Grant; Planning; 2nd Homes Council Tax)		2.024	0.000	0.000
Total Income		**29.323**	**26.053**	**30.287**

FALKIRK COUNCIL
HRA PRUDENTIAL CODE INDICATORS

PRUDENTIAL INDICATOR		2015/16	2016/17	2017/18	COMMENTS
1.	Ratio of Financing Costs to Net Revenue Stream	17%	19%	21%	Shows how much of the Council's HRA income is committed to repaying debt arising from capital investment.
2.	Incremental Impact of Capital Exp. on weekly Rent February 2014 February 2015 Incremental Impact	£6.01 £6.34 £0.33	£5.70 £6.45 £0.75	N/A £5.86 £5.86	Affordability Indicator showing implications of capital expenditure and its financing on the "bottom-line". The indicator takes into account revenue contributions to capital hence the impact on the weekly rent. This has been fully accounted for in the Revenue Budget.
3.	Capital Expenditure	£29.3m	£26.1m	£30.3m	Simply the planned capital expenditure per the appended HRA Capital Programme
4.	Capital Financing Requirement	£136.7m	£152.3m	£172.4m	The Capital Financing Requirement reflects the underlying need to borrow for HRA Capital Investment

APPENDIX 2

APPENDIX 2

EXEMPTIONS & ABEYANCES

EXEMPTIONS

A total of 730 Properties

- 244 properties have undergone a design feasibility study to extend our existing Combined Heat & Power system and install a district heating scheme.
- 24 properties are located within a conservation area, which is restricting the energy efficiency measures that can be carried out.
- 462 properties have an electric wet heating system installed. Currently working with Building Research Establishment (BRE) and Scottish Government to ensure that the energy efficiency methodology best reflects the performance of these systems.

ABEYANCES

A total of 2,080 Properties

- 57 properties that await gas supply.
- 569 properties have gas supply installed and we are waiting on the tenants arranging their meter upgrade.
- 262 properties where we have been unable to gain access
- 1,026 properties where tenants have refused programmed work
- 166 properties where owner occupiers have refused to participate.

AGENDA ITEM 7

FALKIRK COUNCIL

Subject: **OVERVIEW AND ANALYSIS OF SQA ATTAINMENT WITHIN FALKIRK SECONDARY SCHOOLS 2012-14**
Meeting: **SCRUTINY COMMITTEE**
Date: **20th AUGUST 2015**
Author: **DIRECTOR OF CHILDREN'S SERVICES**

1. INTRODUCTION

1.1 Following the Education Services report to the Performance Panel on the 26th March 2015, the Scrutiny Committee has requested an overview and analysis of SQA attainment in Falkirk schools over time.

1.2 The overview and analysis contained in this report is intended to inform and support Elected Members in their scrutiny of school attainment through examination of trend data across a range of attainment measures.

1.3 The report also examines how our secondary schools are performing in relation to similar schools in other authorities.

2. BACKGROUND

2.1 The report considers the trends for Falkirk Council over a three year period (2012-14) in overall attainment by the end of S6, in certain key national measures.

2.2 The table in **Appendix 1** shows trends over 2012-14 in SQA[1] attainment at Higher level and at other levels in the accreditation framework.

2.3 These figures give us a picture of year-on-year variation for the Authority. There has been improvements over time in eight of the ten selected measures. There will be greater variation on a year to year basis for individual schools than for the whole authority, and an expected variation in performance between schools.

2.4 In any given year, and for any particular measure there will be three main factors affecting school level performance:

- The effectiveness of the school itself (including leadership, quality of learning and teaching, and quality of support for individual pupils).
- The socio-economic profile of the school's catchment area (including its levels of relative deprivation).

[1] Scottish Qualifications Authority

- The relative ability of a particular group of pupils in any given year (year-on-year variations will be more apparent at school level than authority level, due to the smaller numbers involved).

2.5 It is important when making comparisons between schools to consider each school's socio-economic context. It is not appropriate to compare the raw attainment figures of different schools without knowing more about them.

2.6 One way of taking this context into account is to look at the Scottish Index of Multiple Deprivation (SIMD) for the schools concerned. With reference to this measure, Falkirk High School and Grangemouth High School serve the most deprived areas within Falkirk Council area. Larbert High School serves the least deprived areas (see **Appendix 2**).

2.7 A more valid way of comparing a school's performance is to compare it's results to schools from across Scotland with similar characteristics.

2.8 **Appendix 3** gives a three year picture of performance by the end of S6 for individual Falkirk schools, relative to comparable groups of schools. It does this for Higher, National 5, and for level 3 English and Mathematics. The group of schools, for example, that Falkirk High School is compared to is a different group to that for Denny High School.

2.9 This appendix indicates whether each school is performing *in line with*, *better than*, or *less well* that its comparator group of schools with similar characteristics.

2.10 To seek greater consistency in performance between schools then this should be interpreted in terms of:

- a school's performance improving over time and/or
- a school comparing favourably to other schools that have similar socio-economic characteristics.

2.11 Within that interpretation, very good performance in SQA attainment could be evidenced by a school consistently performing better than comparable schools in a range of key measures.

2.12 The SQA performance of Falkirk secondary schools could be predominantly described as 'improving' as evidenced in **Appendix 1**. However when **Appendix 3** is examined it is clear that for the most part Falkirk's schools are performing *in line with* schools with similar characteristics across the range of performance measures (65%). Comparatively few measures are *better than* (24%) and there are a number of measures for which Falkirk schools are performing *less well* than other Scottish schools. (**Appendix 3** looks at 6 measures over three years for 8 schools. Of these 144 measures: 34 were *better than*; 94 *were in line with*; and 16 were *less well*.)

2.13 There is therefore room for significant improvement in attainment levels across the authority as a whole.

2.14 All Falkirk secondary schools have refined their systems for tracking pupil progress in the senior phase (S4-6). This has allowed for more targeted support and intervention for pupils where it is required, and for more accurate target setting by schools in relation to recognised performance measures.

2.15 Schools are generally using data well to drive performance and address areas for improvement at whole school or departmental level. The analysis of data is further strengthened through support and challenge arrangements involving central officers, and in some instances, peer review.

2.16 Through the implementation of better systems of tracking pupil progress; more robust support and challenge arrangements involving central officers; and on-going professional development Children's Services will support Falkirk's schools to drive up attainment levels.

3 RECOMMENDATIONS

It is recommended that Members of Scrutiny Committee:

3.1 note the information contained within this report, particularly with reference to appendices 1 and 3.

3.2 request the Director of Children's Services to provide a further update on 2015 attainment to the Education Executive and the Scrutiny Committee when this information is available.

3.3 request that further reports should provide the basis for regular performance reporting on attainment and achievement, focusing on overall attainment, progress of lower attaining pupils, and attainment relative to socio-economic deprivation.

Director of Children's Services

Date: 30 July 2015

Contact Officer: Alex Black, Education Service Manager, ext. 6629

Appendix 1

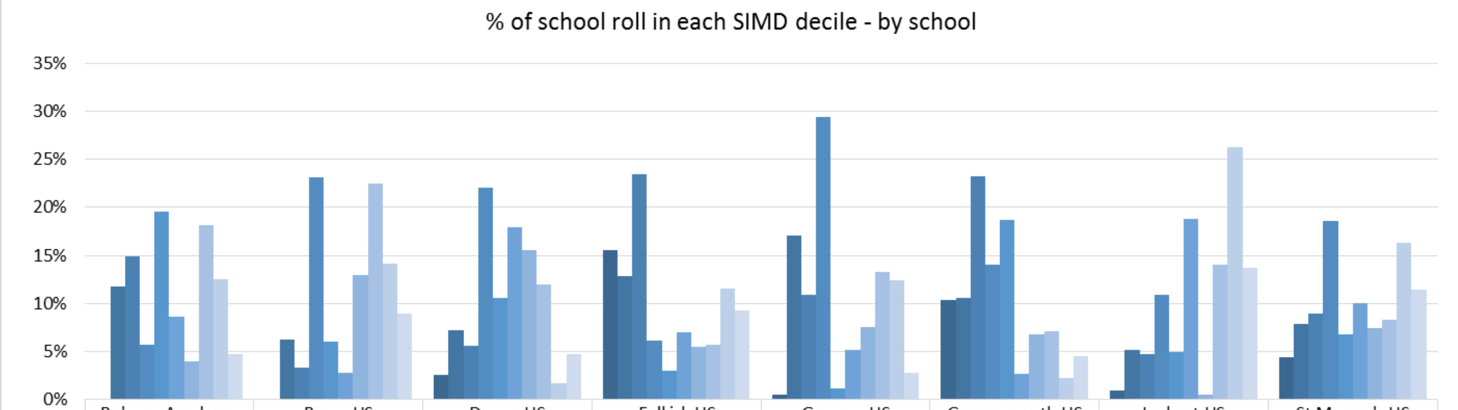
Attainment by the end of S6 (shown as percentage of original S4 roll)[2]

	2012	2013	2014
5 or more awards at SCQF Level 6 or better	24	27	28
3 or more awards at SCQF Level 6 or better	37	41	40
1 or more awards at SCQF Level 6 or better	53	55	57
5 or more awards at SCQF Level 5 or better	50	53	54
5 or more awards at SCQF Level 4 or better	73	75	78
5 or more awards at SCQF Level 3 or better	81	82	85
Literacy at SCQF Level 5 or better	67	68	70
Numeracy at SCQF Level 5 or better	57	58	63
Literacy at SCQF Level 4 or better	89	90	89
Numeracy at SCQF Level 4 or better	79	79	81

[2] Level 6 on the SCQF (Scottish Certification & Qualifications Framework) equates to Higher level. Level 5 equates to Credit level or Intermediate 2 in the old qualifications, and National 5 in the new qualifications. Level 4 is equivalent to General level or Intermediate 1 in the old qualifications, and National 4 in the new qualifications. Level 3 is equivalent to the old Foundation at Standard Grade, Access 3, or the new National 3. Later in the report, Level 7 corresponds to the Advanced Higher.

Appendix 2

The chart below shows the percentage of pupils in each SIMD decile in each secondary school



	Bo'ness Academy	Braes HS	Denny HS	Falkirk HS	Graeme HS	Grangemouth HS	Larbert HS	St Mungo's HS
1	0%	0%	3%	16%	0%	10%	1%	4%
2	12%	6%	7%	13%	17%	11%	5%	8%
3	15%	3%	6%	23%	11%	23%	5%	9%
4	6%	23%	22%	6%	29%	14%	11%	19%
5	20%	6%	11%	3%	1%	19%	5%	7%
6	9%	3%	18%	7%	5%	3%	19%	10%
7	4%	13%	16%	5%	8%	7%	0%	7%
8	18%	23%	12%	6%	13%	7%	14%	8%
9	13%	14%	2%	12%	12%	2%	26%	16%
10	5%	9%	5%	9%	3%	5%	14%	11%

Additional notes to Appendix 2:

- SIMD = Scottish Index of Multiple Deprivation
- The index is calculated using factors such as income, employment and educational levels within an area
- This index divides the country into 10 equal parts (or deciles) with decile 1 representing the most deprived areas of Scotland, and decile 10 representing the least deprived areas
- The profiles of Bo'ness Academy, Braes High School, Denny High School and St Mungo's RCHS are unremarkable, in that the pupils in those schools live in a spread across the deciles
- Falkirk High School has the greatest percentage of pupils living in the more deprived deciles (1-3) at 50%
- Grangemouth also has a significant percentage of its pupils living in the more depriived areas (44%), but also has less of its pupils than Falkirk High School living in the least deprived areas (deciles 8-10)
- Graeme High School has a skewed distribution with almost a third of its pupils living in areas within decile 4 (slightly more deprived than the national average).
- Larbert High school serves the least deprived areas in Falkirk with 54% of its pupils living in areas within deciles 8-10

Appendix 3[3]

Bo'ness Academy	2012	2013	2014
1 or more awards at Level 7			
5 or more awards at Level 6 or better			
3 or more awards at Level 6 or better			
1 or more awards at Level 6 or better			
5 or more awards at level 5 or better			
English & Maths at Level 3 or better			

Bo'ness Academy mostly performs in the mid 50% range of comparable schools. S6 in 2013 was a less able cohort overall.

Braes High School	2012	2013	2014
1 or more awards at Level 7			
5 or more awards at Level 6 or better			
3 or more awards at Level 6 or better			
1 or more awards at Level 6 or better			
5 or more awards at level 5 or better			
English & Maths at Level 3 or better			

Across a three year period, Braes High School has mostly perfiormed in line with comparable schools, but with a strong performance in some measures in 2013

Denny HS	2012	2013	2014
1 or more awards at Level 7			
5 or more awards at Level 6 or better			
3 or more awards at Level 6 or better			
1 or more awards at Level 6 or better			
5 or more awards at level 5 or better			
English & Maths at Level 3 or better			

Denny High School mostly performs in line with schools that have similar characteristics

Falkirk High School	2012	2013	2014
1 or more awards at Level 7			
5 or more awards at Level 6 or better			
3 or more awards at Level 6 or better			
1 or more awards at Level 6 or better			
5 or more awards at level 5 or better			
English & Maths at Level 3 or better			

Falkirk High School performed well in 2014, providing more pace and challenge to pupils in S6

[3] within the middle 50% range of performance of comparable schools
within the upper 25% range of performance of comparable schools
within the lower 25% range of performance of comparable schools

Graeme High School	2012	2013	2014
1 or more awards at Level 7			
5 or more awards at Level 6 or better			
3 or more awards at Level 6 or better			
1 or more awards at Level 6 or better			
5 or more awards at level 5 or better			
English & Maths at Level 3 or better			

Graeme High School performs well, or in line with comparable schools. The end of S6 performance in 2013 was notably strong

Grangemouth High School	2012	2013	2014
1 or more awards at Level 7			
5 or more awards at Level 6 or better			
3 or more awards at Level 6 or better			
1 or more awards at Level 6 or better			
5 or more awards at level 5 or better			
English & Maths at Level 3 or better			

Grangemouth High School has a variable attainment profile with some stronger and weaker performances in some years and measures. The school has a staying on rate below the national average, and this will also affect the proportion of the S4 roll achieving awards in S5/6. The S6 cohort in 2013 was a relatively able cohort

Larbert High School	2012	2013	2014
1 or more awards at Level 7			
5 or more awards at Level 6 or better			
3 or more awards at Level 6 or better			
1 or more awards at Level 6 or better			
5 or more awards at level 5 or better			
English & Maths at Level 3 or better			

Larbert High School has performed strongly in most measures across the three years cited. It has refined its tracking and monitoring systems., allowing for more focused personal support to pupils where required

St Mungo's High School	2012	2013	2014
1 or more awards at Level 7			
5 or more awards at Level 6 or better			
3 or more awards at Level 6 or better			
1 or more awards at Level 6 or better			
5 or more awards at level 5 or better			
English & Maths at Level 3 or better			

St Mungo's RCHS performs mostly in line with schools that have similar characteristics. A particular focus on the Advanced Higher in S6 has had a positive impact upon attainment in that measure in 2014.