

The Accounts Commission for Scotland

Agenda

Meeting on Thursday 13 October 2011,
in the offices of Audit Scotland, 18 George Street, Edinburgh

The meeting will begin at 10:00 am

1. **Apologies for absence**
2. **Declarations of interest**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 16 and 17 in private.
4. **Minutes of meeting of 8 September 2011**
5. **Minutes of meeting of the Performance Audit Committee of 1 September 2011**
6. **Minutes of the meeting of the Financial Audit and Assurance Committee of 15 September 2011**
7. **Chair's introduction:** The Chair will report on recent activity and issues of interest to the Commission.
8. **Update report by the Controller of Audit:** The Commission will consider a report by the Controller of Audit on significant recent activity in relation to the audit of local government.
9. **Scottish Government consultations on the future of police and fire and rescue services in Scotland:** The Commission will consider a report by the Director of Best Value and Scrutiny Improvement.
10. **Report of the Christie Commission and the response of the Scottish Government:** The Commission will consider a report by the Secretary and Business Manager.
11. **Scottish Spending Review 2011 and Draft Budget 2012-13:** The Commission will consider a report by the Secretary and Business Manager.
12. **Supporting improvement and accountability within Community Planning Partnerships:** The Commission will consider a report by the Director of Best Value and Scrutiny Improvement.
13. **Accounts Commission meeting dates 2012:** The Commission will consider a report by the Secretary and Business Manager.
14. **Appointment as auditors of local authority charities:** The Commission will consider a report by the Assistant Auditor General.
15. **Best Value audit: Stirling Council:** The Commission will consider a report by the Controller of Audit.
16. **Best Value audit: Stirling Council:** The Commission will consider the action it wishes to take on the report.
17. **Audit Scotland budget for 2012/13 and charges for 2011/12 audits:** The Commission will consider proposals from Audit Scotland for charges for the 2011/12 audits of local authorities.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of the meeting of the Commission of 8 September 2011	AC.2011.10.1
Agenda Item 5: Minutes of meeting of the Performance Audit Committee of 1 September 2011	AC.2011.10.2
Agenda Item 6: Minutes of the meeting of the Financial Audit and Assurance Committee of 15 September 2011	AC.2011.10.3
Agenda Item 8: Update report by the Controller of Audit	AC.2011.10.4
Agenda Item 9: Report by the Director of Best Value and Scrutiny Improvement	AC.2011.10.5
Agenda Item 10: Report by the Secretary and Business Manager	AC.2011.10.6
Agenda Item 11: Report by the Secretary and Business Manager	AC.2011.10.7
Agenda Item 12: Report by the Director of Best Value and Scrutiny Improvement	AC.2011.10.8
Agenda Item 13: Report by the Secretary and Business Manager	AC.2011.10.9
Agenda Item 14 Report by the Assistant Auditor General	AC.2011.10.10
Agenda Items 15 & 16 Cover note by the Secretary and Business Manager Report by the Controller of Audit	AC.2011.10.11 AC.2011.10.12
Agenda Item 17 Report by the Assistant Auditor General App 1 SCPA/AS Budget Proposal 2012/13 App 2 AS Fee Strategy	AC.2011.10.13

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

MINUTES OF PREVIOUS MEETING

Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 8 September 2011, at 10am

PRESENT: John Baillie (Chair)
Michael Ash
Alan Campbell
Sandy Cumming
Colin Duncan
James King
Bill McQueen
Christine May
Colin Peebles
Linda Pollock
Graham Sharp
Douglas Sinclair (Deputy Chair)

IN ATTENDANCE: Fraser McKinlay, Controller of Audit and Director of Best Value and Scrutiny Improvement (BVSI)
Fiona Kordiak, Director of Audit Services
Gordon Smail, Acting Secretary & Business Manager
Barbara Hurst, Director of Performance Audit (PAG) [Items 7, 11]
Angela Canning, Assistant Director, PAG [Items 7, 11]
Andra Laird, Project Manager, PAG [Item 7]
Stephen Reid, KPMG [Item 9, 10]
Miranda Alcock, Portfolio Manager, PAG [Item 11]
John Lincoln, Project Manager, PAG [Item 11]
Antony Clark, Assistant Director, BVSI [Item 12]

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 14 July 2011 and 17 August 2011
5.	Chair's introduction
6.	Update report by the Controller of Audit
7.	Performance audit programme
8.	Accounts Commission digest
9.	Strathclyde Partnership for Transport – report by Controller of Audit
10.	Strathclyde Partnership for Transport – consideration of Controller's report
11.	Performance audit draft report – Community Planning Partnerships
12.	Supporting improvement and accountability within Community Planning Partnerships

1. Apologies for absence

There were no apologies.

2. Declarations of interest

Christine May declared an interest in Item 7, insofar as the programme of performance audits includes proposals relating to renewables and outsourcing.

3. Decisions on taking business in private

The Commission agreed to take Items 10, 11 and 12 in private to allow deliberations on: actions arising from its consideration of the Controller of Audit's report on Strathclyde Partnership for Transport (Item 10); a draft audit report on Community Planning Partnerships to be published in November (Item 11); and improvement and accountability within Community Planning Partnerships (Item 12).

4. Minutes of meetings of 14 July 2011 and 17 August 2011

The minutes of the meetings of 14 July 2011 and 17 August 2011 were submitted and approved.

5. Chair's introduction

The Chair reported that:

- On 25 August, he and the Deputy Chair attended the annual Scottish Government/SOLACE conference. Earlier that day, he and the Deputy Chair met with SOLACE representatives to discuss performance measures and benchmarking.
- On 31 August, he and the Deputy Chair met with the Cabinet Secretary for Finance, Employment and Sustainable Growth to discuss the Commission's paper on Community Planning Partnership scrutiny.
- On 7 September, he met with the Permanent Secretary for a general discussion.
- On 9 September, he was due to meet with the President and Chief Executive of COSLA, as part of the on-going liaison between the Commission and COSLA.
- He is currently in discussions about the Controller of Audit function and will update members on the position at the Commission meeting in October.
- Paul Reilly has been appointed Secretary and Business Manager of the Accounts Commission for the next two years. The Chair thanked Gordon Smail for covering the role since the end of April.

6. Update report by the Controller of Audit

The Commission considered and noted a report by the Controller of Audit providing an update on significant recent activity in relation to the audit of local government.

During discussion the Commission noted:

- The continuing turnover of council senior managers and the need to flag the related potential risks in its forthcoming local government overview report.
- Recent developments in relation to the Edinburgh trams project. The Commission noted in particular that it was important to be clear about the nature and limitations of the auditor's role in past and any future audit work.
- Current issues at individual councils.

7. Performance audit programme

The Commission considered a report by the Director of Performance Audit summarising the responses to the recent consultation on proposed national performance audits; and making proposals for the joint programme of performance audits that would be published during 2012/13.

During discussion the Commission noted:

- Charging for council services was increasingly important and might feature as part of the 'How councils work' series of reports.
- There may be scope to include a performance audit on protective services as part of the rolling programme of audits. Further discussion is required on where this may feature in the programme.
- Interest in 'preventative spending' is increasing and should be kept under review.
- Consultations are on-going about the specific justice-related topic to be taken forward following publication of the justice overview report.
- Workforce planning is an important topic which will need to be carefully scoped to ensure it achieves most effect with the intended audience.

Thereafter the Commission noted the outcome of the consultation process and approved the programme.

8. Accounts Commission digest

The Commission considered and noted its regular briefing on current issues, and sought further information on a number of points.

9. Strathclyde Partnership for Transport – report by Controller of Audit

The Commission considered the Controller of Audit's update report on Strathclyde Partnership for Transport.

During discussion, the Commission sought clarification and further explanation from the Controller of Audit and the auditors on a number of points in the report.

10. Strathclyde Partnership for Transport – consideration of Controller's report (In private)

Following discussion, the Commission agreed to make findings which will be published in due course.

11. Performance audit draft report - Community Planning Partnerships (In private)

The Commission considered a report by the Director of Performance Audit inviting it to consider and approve the draft performance audit report on *The role of community planning partnerships in economic development*, prepared on behalf of the Commission and the Auditor General.

The Commission approved the draft report for publication, subject to consideration being given to a number of points raised in discussion.

12. Supporting improvement and accountability within Community Planning Partnerships (In private)

The Commission received an update from the Chair about the completion of the paper it had considered at its meeting in August and about subsequent discussions with Scottish Government.

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

MINUTES OF PERFORMANCE AUDIT COMMITTEE

Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 1 September 2011 at 10.30am.

COMMITTEE MEMBERS PRESENT: John Baillie (Chair)
Mike Ash
Alan Campbell
Jim King
Christine May
Colin Peebles

OTHER COMMISSION MEMBERS PRESENT: Colin Duncan

IN ATTENDANCE: Barbara Hurst, Director, Performance Audit Group (PAG)
Ronnie Nicol, Assistant Director, PAG
Gordon Smail, Acting Secretary and Business Manager
Cathy MacGregor, Project Manager, PAG [Item 4]
Tricia Meldrum, Portfolio Manager, PAG [Item 5]
Dick Gill, Portfolio Manager, PAG [Item 6]
Andra Laird, Project Manager, PAG [Item 7]

<u>Item no.</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 9 June 2011
4.	Commissioning social care – emerging messages
5.	Commonwealth Games: 2 nd position statement – draft project brief
6.	Improving public sector efficiency – impact report
7.	The rolling programme of performance audits
8.	Performance audit programme update
9.	Date of next meeting
10.	Any other business

1. Apologies for absence

Apologies were received from Douglas Sinclair. In his absence, John Baillie chaired the meeting.

2. Declarations of interest

Christine May declared an interest in Item 7, insofar as the programme of performance audits includes proposals relating to renewables and outsourcing.

3. Minutes of meeting of 9 June 2011

The minutes of the meeting of 9 June 2011 were submitted and approved.

4. Commissioning social care – emerging messages

The Committee considered a report by the Director of Performance Audit presenting emerging messages from a performance audit on commissioning social care.

The Committee welcomed this work and approved the emerging messages as the basis for a draft report, subject to consideration being given to points raised in discussion.

The Committee noted that the draft audit report would be submitted to the Commission in November.

5. Commonwealth Games: 2nd position statement – draft project brief

The Committee considered a report from the Director of Performance Audit setting out a draft project brief for a performance audit on *Planning for the delivery of the XXth Commonwealth Games*, to be conducted jointly on behalf of the Accounts Commission and the Auditor General. This will be the second progress report on this topic.

The Committee welcomed the proposed scope of the study and noted the scale of the work, the tight timescales and the related audit risks.

The Committee in particular noted:

- matters relating to the legacy from the games.
- the team will maintain links with the National Audit Office given the NAO's on-going interest in the preparations for the London Olympics.
- the importance of maintaining a tight scope for the audit work and setting out caveats and limitations of the audit work.

Thereafter, the Committee approved the approach set out in the project brief and the issues and investigations matrix.

6. Improving public sector efficiency – impact report

The Committee considered and noted a report by the Director of Performance Audit on the impact of the report *Improving public sector efficiency* which was published in February 2010.

7. The rolling programme of performance audits

The Committee considered a report by the Director of Performance Audit providing a summary of responses to a recent consultation on proposed national performance audits and making proposals for the programme of performance audits for publication in 2012/13.

The Committee welcomed the report and agreed that the results from the consultation endorsed the approach. During discussion the Committee commented on projects in the proposed programme and agreed that these will be taken forward when the individual project briefs are brought to the Committee in due course.

Thereafter the Committee noted the outcome of the consultation process and approved the paper for referral to the September Accounts Commission meeting.

8. Performance audit programme update

The Committee considered a report by the Director of Performance Audit and Director of Best Value and Scrutiny Improvement giving an update on progress for performance audit reports, the How Councils Work series and impact reports.

The Committee noted the position.

9. Date of next meeting

The Committee was scheduled to meet next on 3 November 2011 but noted that a meeting in December would better fit the timetable for the work that will be brought to it. The Committee agreed to meet in early December, on a date to be arranged in consultation with the Committee Chair.

Note: following consultation with the Committee Chair and members, the meeting was set for 10am on Friday 9 December, in Audit Scotland's offices at 18 George Street, Edinburgh.

10. Any other business

There was no other business.

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

MINUTES OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 15 September 2011, at 10.30am.

PRESENT: Bill McQueen (Chair)
Sandy Cumming
Colin Duncan
Linda Pollock
Graham Sharp
John Baillie

IN ATTENDANCE: Fraser McKinlay, Controller of Audit
Russell Frith, Assistant Auditor General
Fiona Kordiak, Director of Audit Services
Paul Reilly, Secretary and Business Manager
Gordon Smail, Portfolio Manager, Best Value and Scrutiny Improvement

1. Apologies
2. Declarations of interest
3. Minutes of meeting of 12 May 2011
4. Current audit issues in councils
5. 2011 overview – progress report
6. Accounting and auditing developments
7. Any other business

1. Apologies

Apologies for absence were received from Douglas Sinclair.

2. Declarations of interest

Colin Duncan advised that he is a personal acquaintance of one of the recently retired Head of Community Development of South Ayrshire Council, who is referred to in the report considered at item 4.

3. Minutes of meeting of 12 May 2011

The minutes of the meeting of 12 May 2011 were approved. In relation to Item 4, the Controller of Audit advised that the three councils where no formal consideration of the overview report 2010 had taken place (i.e. Falkirk, Scottish Borders and Stirling) have developed processes to ensure future formal consideration of Accounts Commission reports.

The Committee noted this position.

4. Current audit issues in councils

The Committee considered a report by the Director of Audit Services informing on emerging issues, recurring themes and individual issues of interest in Scottish councils.

During a discussion on matters raised the Committee noted the following issues and agreed that they should be drawn to the attention of the Commission —

- Discussions continue between the external auditor and Shetland Islands Council with regard to (i) the production of accounts compliant with International Financial Reporting Standards; and (ii) the treatment of Shetland Charitable Trust in its group accounts.
- Discussions continue between the external auditor and East Lothian Council with regard to the treatment of joint boards in its group accounts.
- This year's Local Government Overview report will include a number of issues arising in the Director's report, namely equal pay; borrowing and capital planning; management restructuring (including current position of section 95 officers); and council housing stock valuations.
- Members were invited to liaise with the Director of Audit Services to share any views they may have about the format of the 'current issues' report.

[Actions—

- *The Controller of Audit will report to the Commission in December on Shetland Islands Council on progress since the public hearing in June 2010.*
- *The Controller of Audit will report to the Commission in November on progress on shared services, with particular reference to the ongoing work of the Clyde Valley Community Planning Partnership.*
- *The Director of Audit Services will provide further information on the Local Government Pension Scheme Pathfinder Project.*
- *The Controller of Audit will provide a concluding report to a future meeting of the Commission on Caithness Heat and Power Limited.*
- *The Director of Best Value and Scrutiny Improvement (BVSI) will circulate a paper setting out the findings of a BVSI review of changes to council management structures.*
- *The Director of BVSI will report on the implications for audit work of the current investigation within the property services department in South Ayrshire Council.]*

5. Overview of local government 2011 - progress

The Committee considered a report by the Director of Best Value and Scrutiny Improvement on the progress of the local government overview report 2011.

During discussion the following issues were raised—

- The Committee is keen, in line with the Accounts Commission Strategy Seminar in February 2010, to emphasise in the report the improvement agenda for local government in Scotland.
- Similarly, the Committee is keen on emphasising the importance of the leadership role for councils in relation to community planning partnerships.
- There is potential for the overview report to refer to matters arising from recent and ongoing investigations in individual councils.

Thereafter the Committee noted the progress of the 2011 local government overview report.

6. Accounting and auditing developments

The Committee considered a report by the Assistant Auditor General informing members of recent accounting and auditing developments affecting the public sector, and particularly local government, in Scotland.

During discussion the following issues were raised—

- Any change in measuring transport infrastructure costs from a depreciated historical cost basis to a depreciated replacement cost basis could result in significant sums being reported in accounts.
- There are significant numbers of local authority charities affected by the direction of the Office of the Scottish Charity Regulator to comply with the Charity and Trustee Investment Act 2005 by 2013/14 at the latest.

Thereafter the Committee agreed to note the report.

7. Any other business

There was no other business.

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

REPORT BY THE CONTROLLER OF AUDIT

UPDATE REPORT

Introduction

1. The purpose of this regular report is to provide an update to the Commission on significant recent activity in relation to the audit of local government.
2. It is intended to complement the intelligence reports to the Financial Audit and Assurance Committee, which provide a more detailed update on issues arising in local government. The most recent such report was at the Committee meeting of 15 September.

Local government issues

3. On the 21st of September the Cabinet Secretary for Finance, Employment and Sustainable growth announced the results of the Spending Review for 2011. There is a separate item on this topic on today's agenda. The Government also announced its response to the Christie Commission, which is also on today's agenda.
4. The accounts for all 32 councils and the 45 other local authorities (including joint boards) have been audited and signed by the deadline of 30 September. I am grateful to all the local audit teams for completing the audit work on time, often in challenging circumstances. Auditors are now preparing their annual audit reports, which will be submitted to me and elected members by the end of October. Once I have received the audit reports, I will consider whether there are any issues in those reports which should be brought to the Accounts Commission's attention through a statutory report. The annual audit reports also form a central part of the evidence base for the Local Government Overview report.
5. Shetland Islands Council remains the only council in Scotland to have their accounts qualified. External auditors have now qualified the Shetland accounts for six years in a row, in relation to the consolidation of the Shetland Charitable Trust in the group accounts. At a meeting on 21st September, the Trustees rejected a proposal to change the make-up of the Board and they now intend to hold a referendum to let the people of Shetland decide how the Trust should be governed.
6. There has been a number of recent appointments to senior management positions in councils including:
 - West Dunbartonshire Council – Chief Executive
 - City of Edinburgh Council – Director of Governance (including finance)
 - Glasgow City Council – Director of Land and Environmental Services
 - Shetland Islands Council – Director of Infrastructure
 - South Lanarkshire Council – Executive Director – Finance and Corporate Resources, the council is also currently recruiting for a new Chief Executive, the current Chief Executive will retire on 31/12/11.

7. At Inverclyde Council an appeals panel meeting on 23rd September overturned the decision to dismiss the Corporate Director - Organisational Improvement and Resources. The officer will be taking up a different post at a lower grade.
8. We have been aware of issues surrounding statutory repairs in City of Edinburgh Council for some time. The issues were highlighted again in a recent BBC investigation broadcast on 20th September. The Council is scheduled to consider an update report in October. Auditors will report as part of the audit report to me and I will consider the issues.

Parliamentary news

9. In her Parliamentary statement on 15 September 2011 on the quality of care for older people, Cabinet Secretary for Health Nicola Sturgeon announced that for day-to-day business, Social Care and Social Work Improvement Scotland (SCSWIS) will now be called the Care Inspectorate. She also announced that all care homes in Scotland will now be subject to an unannounced inspection at least once a year.

Other issues

10. The Welsh Programme for Government, announced on 27th September, includes the Wales Audit Office Bill. Reports indicate that the WAO would become a body with a majority of non-executive members appointed by the normal public appointments procedure. The Auditor General would be accountable to the Welsh Government and no longer a Crown appointment.

Conclusion

11. The Commission is invited to consider and note this report.

**Fraser McKinlay
Controller of Audit
31 August 2011**

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

REPORT BY THE DIRECTOR OF BEST VALUE AND SCRUTINY IMPROVEMENT

**SCOTTISH GOVERNMENT CONSULTATIONS ON THE FUTURE OF POLICE AND FIRE
& RESCUE SERVICES IN SCOTLAND**

Purpose of report

1. This report provides an overview on the Scottish Government's proposals to establish a single police force and a single fire and rescue service in Scotland and invites the Accounts Commission to consider whether it wishes to respond to the Scottish Government's consultation on the future of these services.

The Scottish Government's February 2011 proposals for police and fire reform

2. In February 2011, the Scottish Government issued *A Consultation on the Future of Policing in Scotland* and *A Consultation on the Future of the Fire and Rescue Service in Scotland*. A central feature of both consultation documents was consideration of how structural reform might: improve service delivery and outcomes; strengthen accountability and engagement with communities; and, deliver efficiencies whilst protecting frontline services.
3. The police consultation paper drew heavily on the report from Phase 2 of the Sustainable Policing Project and sets out the challenges facing policing in Scotland at a time of significant reductions in available resources. The fire and rescue consultation paper drew heavily on the initial options appraisal report which was presented to the Ministerial Advisory Group (MAG).
4. The Commission considered these two consultation documents at its April meeting and subsequently submitted responses to both consultations. Copies of the Commission's consultation responses are attached at Appendix 1.

The Scottish Government's September 2011 proposals for police and fire reform

5. The Government's proposals for the next stage of reform of Police and Fire and Rescue are outlined in a consultation paper published on the 15th September¹. They are broadly similar for both police and fire. In summary:
 - Two new statutory bodies will be created, the Scottish Police Authority (SPA) and the Scottish Fire and Rescue Service (SFRS), each of which will have a governing board, a chief constable or chief officer and 32 delegated local commanders or local senior officers to liaise with individual councils. The Government is consulting on whether all members of the boards should be appointed through a formal public appointment process or if Ministers should appoint a number of serving councillors, nominated by Cosla.

¹ The full consultation paper can be found here:
<http://www.scotland.gov.uk/Resource/Doc/357525/0120778.pdf>

- The duties of each board will include:
 - preparation of a national strategic plan (which will need to take account of strategic objectives set by ministers)
 - approval of the associated delivery plan and budget which will be prepared by the chief constable or chief officer, and holding this individual account for its delivery
 - publishing an annual report and accounts
 - appointment of senior officers.
 - The responsibilities of the chief constable or chief officer of SFRS will include leading and managing the service, a duty to participate in community planning and appointment of 32 local commanders and local senior officers.
 - Individual local commanders and local senior officers will have responsibility for
 - developing a local policing plan or a local fire and rescue plan, which will need to be agreed with the council (and integrated into SOAs and other community planning plans)²
 - agreeing resources with the chief constable or chief officer to deliver that plan and publishing performance against it
 - being the lead officer for community planning in that area (on behalf of the chief constable or chief officer).
 - Each council will have the right to comment on the local policing and fire and rescue plans, will be expected to monitor performance against them, and will also have responsibilities for monitoring and scrutinising complaints.
6. Some additional arrangements are proposed for the police to take account of the current functions of Scottish Police Services Authority (SPSA) and the Scottish Crime and Drug Enforcement Agency (SCDEA), which will both be incorporated into the SPA. In particular the forensic services will be overseen directly by the SPA, rather than by the chief constable, to ensure continued independence of the crime scene to court forensic service currently provided.
 7. There are some formal partnerships currently based on existing police force areas, in particular Strategic Coordinating Groups which have responsibility for civil contingency planning and Camera Safety Partnerships which agree how resources from fixed penalty speeding fines should be used. The Government acknowledges these arrangements will need further consideration as its proposals for the SPA are further developed.
 8. The consultation document does not specify any time frame for implementation of these proposals. Nor does it describe what type of body is being proposed (e.g. a non-ministerial department or non-departmental public body).
 9. The proposed creation of a single police force for Scotland has potential implications for the ongoing programme of joint Best Value audit and inspections in this section. Audit Scotland is meeting with HMICS on 2 November to consider those implications and will bring forward proposals for consideration by the Commission after this meeting has taken place.
 10. The proposals are supported by outline business cases for each of the proposed reforms, which contain detailed estimates on the potential savings, costs involved during the transitional period and risks during implementation.

² There is no mention of whether boards of the national bodies will formally approve the local policing and fire and rescue plans.

Proposed arrangements for audit and inspection

11. The Government is proposing enhancing the current inspection arrangements for both services. However, there are some differences in how proposals for audit and inspection are described for the two services.

Police:

12. **Audit** – the Government’s proposals clearly state that audit responsibilities for the SPA and the service will transfer from the Accounts Commission to the Auditor General. Accounts for the new body will be presented to the Scottish Parliament.
13. **Inspection** – the Government states it is proposing to establish an external scrutiny body to drive continuous improvement and enhance public confidence. Presumably this will be HMICS, as later in the consultation document it states that inspection will continue to be undertaken by HMICS. It is proposing that once SPA is established, HMICS will be required to present its inspection reports to Parliament as well as to the SPA.
14. **Complaints** – the Government acknowledges the importance of an independent body to investigate complaints against the police and is consulting on whether this should be the Scottish Public Services Ombudsman (SPSO), the Police Complaints Commissioner for Scotland (PCCS) or if these duties should be undertaken by HMICS. The Crown Office will continue to have responsibility for investigating alleged criminal behaviour by police officers.

Fire and rescue:

15. **Audit and inspection** – the consultation document states that the SFRS accounts will be presented to the Scottish Parliament, but no mention is made of the audit being transferred to the Auditor General. In fact, the Government is proposing that the Scottish Fire and Rescue Advisory Unit (SFRAU) will be given an ‘external scrutiny and audit role’.³ The head of SFRAU, the Chief Inspector of Fire and Rescue Authorities (CIFRA), will be charged with the independent scrutiny of the new single fire and rescue service (a role to similar to HMICS, although there is no mention of establishing an independent body). The Government is proposing ‘a complementary scrutiny relationship between SFRAU, Audit Scotland, Scottish Fire and Rescue Service, Scottish Government and wider stakeholders to avoid duplication and promote joint working and co-operation’. There is little detail on how this might operate in practice.
16. **Complaints** – the Government is proposing that SPSO continues its current responsibility for handling complaints against the fire service, when these are not dealt with by the service itself.

Questions raised in the consultation paper

17. The Government asks a number of specific questions in relation to the formation of SPA and SFRS in its consultation on the proposed changes. These twenty-eight consultation questions are set out at Appendix 2.
18. In particular, in relation to the Accounts Commission’s interests, the Government is requesting views on the proposed roles and responsibilities for governance and accountability, the new funding and financial accountability arrangements and

³ The HM Inspectorate of Fire Services in Scotland was restructured in 2008, renamed SFRAU and given a professional advisory role rather than inspection. However, there were no legislative changes, so the head of SFRAU remains the Chief Inspector of Fire and Rescue Authorities (CIFRA).

proposals for inspection and audit for both services. The deadline for responses is 2 November, and the consultation states that it will not be possible to extend that deadline.

Conclusion

19. The Commission is invited to:

- (i) consider whether it wishes to respond to the consultation and, if so, to—
 - consider and agree the main issues it wishes to cover in any response; and
 - agree that any draft response will be circulated for agreement by correspondence.

- (ii) note that proposals for the ongoing programme of joint Best Value audit and inspections in police in light of the proposed creation of a single police force for Scotland will be brought to the Commission later in the year

Fraser McKinlay
Director of Best Value and Scrutiny Improvement
5 October 2011

Appendix 1: Accounts Commission responses to February 2011 Scottish Government Police and Fire reform consultation documents



Response to consultation on the future of the Fire and Rescue Service in Scotland

By the Accounts Commission
Prepared by Audit Scotland

May 2011

About us

Audit Scotland is a statutory body that carries out audits and investigations for the Accounts Commission and the Auditor General for Scotland.

The **Accounts Commission** is the public's independent watchdog which secures the audit of councils and joint boards and committees (including police and fire and rescue boards) and investigates whether these bodies are achieving the best possible value for money from their resources and adhering to the highest standards of governance and financial stewardship.

The Commission was established in 1975, operates independently of local authorities and of the Scottish Government, and meets and reports in public. It has a maximum of 12 members who are appointed by Scottish ministers following a public appointments process.

Audit Scotland helps the Accounts Commission and the Auditor General for Scotland to ensure public money in Scotland is used properly, efficiently and effectively. We do this by carrying out financial, Best Value and performance audits of various aspects of how public bodies work. We audit public bodies, with a total spend of more than £36 billion a year, and audit the majority of devolved public services in Scotland.

About this response

We welcome the invitation to contribute to the consultation on the future of fire and rescue in Scotland.

Through our work on behalf of the Accounts Commission and Auditor General for Scotland, Audit Scotland has an informed overview of the public sector in Scotland through. We have used this experience of the public sector and audit evidence gathered from our work to prepare this submission.

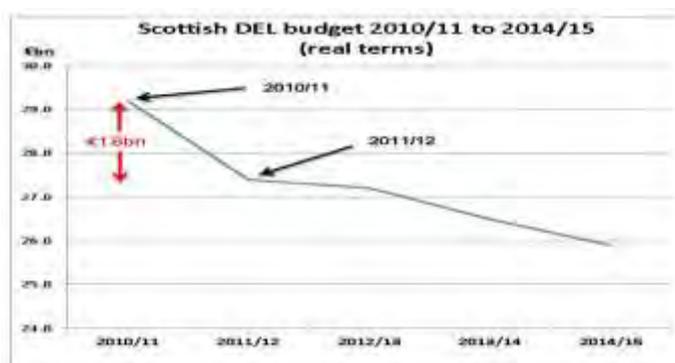
On behalf of the Accounts Commission, Audit Scotland is currently undertaking Best Value audits of all eight Fire and Rescue Services and authorities. This will be followed by the publication of a national overview report on Best Value in Fire and Rescue in early 2012. We anticipate that these pieces of work will highlight areas of strong performance, governance, and leadership which should be retained and built upon in any future fire and rescue arrangements in Scotland. The work is also likely to identify areas where further improvements are required.

Introduction

1. Until relatively recently the legislative framework within which Fire and Rescue Services in Scotland operated had remained largely unchanged since the Fire Services Act 1947. The 2002 Independent Review of the Fire Service¹ was critical of the lack of strategic direction offered to the fire service by successive governments, which prompted the Scottish Executive's 2002 policy paper *The Scottish Fire Service of the Future*. This document set out an expectation of 'clear performance improvements [within fire and rescue] aligned to achieving safer communities and efficiencies linked to the Best Value agenda'.
2. The subsequent Fire (Scotland) Act 2005 created a national framework within which locally delivered services, responsive to local communities, could be delivered. Issues of community safety and national resilience were important considerations at that time, and remain so today. The Act sought to establish clear and consistent objectives for the service throughout Scotland, but informed by local decisions about funding and priorities, based on consultation with those most affected. Maintaining that national/local balance at a time of potential structural reform will be important moving forward.
3. The debate about structural reform and performance priorities for fire and rescue comes at a time when the outlook for public sector finances is challenging². Delivering outcomes with less money while facing a number of cost pressures will not be easy. Public services, including fire and rescue, are experiencing significant cost pressures, which we have highlighted in a range of our reports in recent years.
4. The Scottish delegated budget is projected to decline significantly in real terms in future years ([Exhibit 1](#)). Increasing inflation may also impact on the spending power of the available budgets.

Exhibit 1

Scottish delegated budget 2010/11 – 2014/15



Source: Audit Scotland

¹ The future of the Fire Service: reducing risks, saving lives: the independent review of the fire service, December 2002

² Scotland's public finances: preparing for the future – November 2009

5. Scotland's fire and rescue service plays many roles and delivers a diverse range of services beyond the traditional fire-fighting role of attendance at fire incidents. Its focus on fire prevention and community safety, including partnership work across the public and private sector, is now central to its purpose. Fire and rescue's key role in major incidences and national resilience is now also firmly established. All of this work is underpinned by a focus on risk and the effective targeting of limited public resources.
6. Given this expanding and changing role it is therefore vital that the reform process builds on a clear, shared understanding of what the Scottish fire and rescue service is for, what it does, and what outcomes it is expected to deliver. Clarity of purpose, supported by strong governance and accountability arrangements, will continue to be central to the successful delivery of fire and rescue in the future, whichever structural option is adopted. The service reform agenda must be evidence-based, with clarity about the improvements that any change is intended to deliver.

Best Value in Fire and Rescue

7. *The Local Government in Scotland Act 2003* introduced new statutory duties relating to Best Value and Community Planning. Its provisions apply to local authorities, including fire and rescue authorities³, and require specifically that:
 - councils and fire and rescue authorities secure Best Value (defined as achieving continuous improvement in the performance of functions)
 - fire and rescue authorities and chief fire officers participate in the community planning process.
8. The 2003 Act is supported by more detailed statutory guidance on Best Value and Community Planning, and a series of advisory notes on specific topics such as elected member leadership. This guidance is designed to be descriptive rather than prescriptive, defining the goals that organisations should aim for but allowing them local discretion on the methods and routes they use.
9. The scope of Best Value and Community Planning is broad and the guidance and statute indicate that a successful fire and rescue service will:
 - work with its partners to develop a clear set of priorities that respond to the needs of the community in both the short and longer term
 - be organised to deliver these priorities
 - meet, and clearly demonstrate that it is meeting, the community's needs
 - operate in a way that drives continuous improvement in all its activities.

³ In this document, the term 'Fire and Rescue Authority' should be taken to include 'joint fire and rescue boards' as defined in section 2 of the Fire (Scotland) Act 2005

10. Our work across the public sector in Scotland indicates that effective organisations demonstrate a common set of characteristics. These are most evident in our annual audit reports, national performance studies and Best Value audit reports⁴. The characteristics below also draw from our Best Value toolkits⁵. These were developed to support the audit process, but also offer organisations a point of reference in terms of good management practice.
11. In order to deliver effective services, any organisational arrangements will need to be developed in a way which:
- ensures that there are clearly-articulated organisational objectives, roles and responsibilities, which are understood by service users and other stakeholders
 - takes a long-term view and maintain a focus on customer/ service user needs and the delivery of outcomes
 - allows for flexibility and the ability to balance national and local priorities
 - embeds good management practice in important areas, including: service planning, performance management, resource management and governance and accountability
 - demonstrates good value for public money.
12. Fire and rescue is an important local government service. Effective working between fire and rescue authorities and services is therefore central to delivering an efficient and effective fire and rescue service for local communities.

⁴ Available on the Audit Scotland website <http://www.audit-scotland.gov.uk/work/>

⁵ Available on the Audit Scotland website <http://www.audit-scotland.gov.uk/work/toolkits/>

Key issues

Improving services and the delivery of outcomes

A focus on achieving the best outcomes for communities and making the most efficient use of resources is essential for effective fire and rescue services. In order to achieve that greater clarity is needed on what constitutes successful outcomes from fire and rescue services in Scotland at both national and local level.

13. The Scottish Government's National Performance Framework (NPF) sets out its purpose, strategic objectives, and the national outcomes, indicators and targets which underpin this. Scottish fire and rescue has an important role to play in contributing to the following objectives 'we live our lives safe from crime, disorder and danger' (National Outcome 9), 'we have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others' (National Outcome 11), and 'our public services are high quality, continually improving, efficient and responsive to local people's needs' (National Outcome 15). The future model of fire and rescue services must therefore be designed in support of delivery of these objectives.
14. Our work across the public sector in Scotland indicates that there needs to be a greater emphasis on outcomes and the effect that targeted preventative interventions can have in influencing future demand and outcomes. We have found that spending decisions are not always based on evidence of 'what works' or on a full assessment of need. There is a lack of understanding about productivity in the public sector, making decision making and performance assessment difficult.
15. Any new fire and rescue service delivery arrangements must maintain a clear strategic focus on the medium and long term as the actions that we take now will affect the legacy that we leave for future generations. It is therefore important that the fire and rescue service, whatever its shape in future, has clear strategic objectives to ensure that it and the public know 'what success looks like' and whether it has been achieved.
16. The Fire and Rescue Framework for Scotland (2005) sets out priorities for the service, duties on Fire and Rescue Authorities (including building resilience), and broad performance expectations including the inclusion of targets for reducing deaths and injuries from fire within Integrated Risk Management Plans (IRMPs). However, at present there is no agreed national framework for measuring service performance and assessing outcomes from fire and rescue services in Scotland.
17. The lack of clarity about broader measures of success and lack of an agreed national framework for measuring service performance and assessing outcomes means that it is difficult to assess how effectively fire and rescue services in Scotland are contributing to key national outcomes and how effectively the resources currently deployed in this service are currently being used.

18. Developing an agreed national framework for measuring service performance and assessing outcomes from fire and rescue will not be straightforward given the complex range of services provided by fire and rescue services in Scotland. These cover preventative services, responsive services, resilience and major incidents, with a balance of local and national considerations. However, such a framework would provide the basis for clearer and more consistent assessments to be made of the how well fire and rescue services in Scotland are contributing to local and national outcomes and how effectively the resources deployed in this service are currently being used.
19. Given the steady increase in expenditure on Fire and Rescue services over recent years (a 33 per cent increase over the six years to 2008-09⁶) and the future challenge of delivering improved outcomes against a backdrop of real-term funding reductions the need for such a performance assessment framework becomes all the more pressing.

The importance of effective governance and accountability

Fire and rescue services need clear and effective arrangements for governance and accountability to support robust scrutiny and provide public assurance. Governance arrangements must be able to balance local and national accountability with clarity about how different elements of any governance arrangements relate to each other.

20. Clear accountability and strong scrutiny arrangements are critical to holding the public sector to account and encouraging continuous improvement. The boards of public bodies are central to the system of public accountability and to ensure that public bodies deliver the desired outcomes.
21. Where arrangements are complex there is a risk that the lines of accountability are not clear either to those with specific responsibilities or to the general public. For example, our work in fire and rescue has found variations in the levels of awareness that elected members had on their responsibilities as a member of a joint board and that the links between joint boards and the constituent councils can be ambiguous.
22. Governance arrangements must be able to balance local and national accountability with clarity about how different elements of any governance arrangements relate to each other. This will require clearly defined structures and responsibilities, good working relationships and effective supporting arrangements. Our work in councils⁷ has highlighted examples of where effective working relationships have had a positive impact in terms of setting priorities and delivering services.
23. The fire and rescue consultation document suggests that future accountability should be broadened and strengthened through improved systematic engagement with local councillors, constructive engagement with community councils, and dialogue with Community Planning Partnerships. It also

⁶ A Consultation on the Future of the Fire and Rescue Service in Scotland, The Scottish Government, February 2011

⁷ How councils work: Working Relationships – are you getting it right – August 2010.

suggests that Community Planning Partnerships might take on a consultative 'blue light' committee role covering fire, police and ambulances, with responsibility for scrutinising fire and rescue plans and performance in their area. Any future governance arrangements will need to be clear about the distinction between consultative activity and activity which is based on holding to account.

24. The document also suggests that a national accountability mechanism for Ministers and Parliament to hold leaders of the Scottish Fire and Rescue Service to account directly for performance of the whole system might be through the creation of a Parliamentary 'blue light' committee scrutinising fire, police and ambulance services.
25. Any future arrangements will need to clear linkages and direct lines of accountability between those charged with funding and setting the strategic direction for services and those responsible for service delivery.
26. A strong scrutiny function is an essential part of good governance. Fire and rescue board members need to be supported in their role and have the capacity and confidence to challenge senior officers on performance and the use of resources.
27. Our work across the public sector has identified that organisations need to ensure that board members and officers have a clear understanding of their respective roles and responsibilities and have access to, and take up, training opportunities to ensure they have the skills and knowledge required for their role.
28. Clear reporting of performance in public is integral to good governance and accountability. Public bodies are making progress in meeting their public performance reporting (PPR) obligations, but the approach to, and coverage of, PPR remains variable and there is scope for further improvement⁸.
29. Arrangements which help public bodies manage risk are essential for strategic and operational planning and to ensure effective service delivery. Our work across the public sector tells us that there is a wide variation in the way in which risks are managed in organisations. We have found effective arrangements in some public sector organisations, but also examples where there was an absence of basic tools to manage risk, up-to-date risk registers being an example. Risk management, including through the IRMP process, is central to effective delivery of fire and rescue services and it will be important that existing good practice in this area is retained moving forward.
30. Linked to the need for strong governance and accountability is the need for independent scrutiny. This is ever more important as budget constraints may result both in more areas of risk and more significant risks for public bodies. The role of independent external audit, in holding public bodies to account and reporting publicly on findings, is even more essential in this context. External scrutiny in

⁸ Local Government Act 1992: the Publication of Information (Standards of Performance) Direction - 2008

important in relation to maintaining high quality professional standards for the protection of citizens and service users. This is not a substitute, however, for strong internal governance and management arrangements in public bodies. Each of these aspects of governance has their place and a coordinated and proportionate approach needs to be applied.

Performance management, impact and value-for-money

Fire and rescue services must have good quality information on performance and its resources to assess the impact of the use of public money and support effective decision making

31. It is important that public bodies have high quality and connected performance information on service performance and quality, resources, costs and risk to allow them to make informed decisions and scrutinise performance. We have found that not all public bodies are doing this systematically and routinely and are not reporting performance information in this way to their boards or committees.
32. Performance management arrangements need to reflect the strategic priorities of the organisation at the top level, for example by focusing on outcomes as well as providing information to manage services at the operational level. The development of a national performance framework for fire and rescue referred to earlier would help support accountability and public scrutiny by providing information, which allows for comparisons to be made over time and between fire and rescue services in different parts of the country. Improvements are also needed in the quality of performance management arrangements at local level. Our 2007 report found that FRAs gathered a wide range of information on activities, inputs and outputs but this was not used in a structured way to manage performance.
33. Performance management arrangements need to cover both service performance - for example in terms of service quality and response times - and also the cost of service delivery. Both parts of this equation - quality and cost - are needed before an organisation can demonstrate that it is delivering value for money. This information is also vital in order to make informed decisions, control costs, improve efficiency and monitor performance.

A partnership approach to delivering services

Partnership working is vital to deliver responsive high quality fire and rescue services.

34. There are a number of key partnerships on fire and rescue matters, including the partnership between fire and rescue services and other stakeholders, for example through Community Safety Partnerships. Mutual support across borders for fire-related emergencies through the shared availability of fire crews and appliances is another important aspect of FRS partnership working, as is the establishment of clear protocols for major fire-related incidents, terrorist attacks or large environmental disasters.
35. Where there is a strong evidence based case to do so, we believe that the public sector should consider extending collaboration and joint working to deliver more efficient and effective services in the future. There are clear opportunities within fire and rescue services for greater standardisation of processes to improve efficiency. New approaches to delivering services need to be designed with the user in mind and should focus on delivering the highest quality of services within the available budgets.
36. In developing joint working arrangements, our work across the public sector has highlighted the importance of clearly identifying the benefits that partner organisations want to achieve by working together, and how these will be realised. Our 2007 report on FRAs found there was little systematic evaluation of community safety activities and local community safety partnerships, often within the same FRA, used different methods of evaluation.

Managing change and improvement

It is important that any new fire and rescue arrangements are implemented in a way that manages the risks associated with major change. Improvement activity should be managed in an integrated way.

37. If there is to be major re-organisation of the fire and rescue service in Scotland, it is important that it is evidence-based, with clarity about the improvements that change is intended to deliver and how it will be measured. It is vital that during the process of change continuity of service is maintained and service performance is not compromised. A clear risk management strategy would be required, as well as an in-depth understanding of the costs and benefits of transition.
38. Improvement activity has been a feature of public bodies for a number of years. Public sector organisations and/or accountable officers have a duty to secure continuous improvement. In challenging economic times, the need to manage improvement is even more important as organisations strive to deliver services more efficiently. Managing the strategic change of organisations where this involves the dissolution and combination of whole organisations is even more challenging.

39. It is also important that good cost and performance information about current service delivery is available to support the introduction of any new arrangements. Having in place a clear performance management framework from the outset will also help set expectations and assess whether change has been successful.
40. Our work also tells us that there is lots of improvement activity taking place across the public sector and that many organisations have ambitious and wide-ranging change agendas and display many of the elements of a continuous improvement culture. However, the improvement activity is often not prioritised or managed within an overarching corporate improvement plan, reducing the potential impact of the work. In fire and rescue, IRMP has played a useful role in providing a framework for organising improvement activity.

Conclusion

41. Fire and rescue services play an important contribution in making communities safe from fire as well as dealing with the consequences of fire and other emergencies. It is important that any reform, focused on improving outcomes and securing Best Value, builds on existing good practice and provides sufficient capacity for ongoing developments and improvement across the service.
42. Whatever the future shape of fire and rescue services in Scotland, it will be important that it is supported by a strong and independent external scrutiny regime, providing the public with assurance that services are performing well and that resources are being managed effectively.

Contact details

43. If you would like to contact us in relation to this response please contact:

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Response to consultation on the future of policing in Scotland

By the Accounts Commission, Auditor General for Scotland and Audit Scotland

May 2011

About us

Audit Scotland is a statutory body that carries out audits and investigations for the Auditor General for Scotland and the Accounts Commission.

The **Auditor General for Scotland** is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds. He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. He is independent and not subject to the control of any member of the Scottish Government or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Government and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- directorates of the Scottish Government
- government agencies, e.g. the Scottish Prison Service, Historic Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, e.g. Scottish Enterprise.

The **Accounts Commission** is the public's independent watchdog which, through the audit process, requires local government bodies in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission holds local authorities to account and helps them to improve by:

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

The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue boards).

The Commission was established in 1975, operates independently of local authorities and of the Scottish Government, and meets and reports in public. It has a maximum of 12 members who are appointed by Scottish ministers following a public appointments process.

Audit Scotland helps the Auditor General and the Accounts Commission to ensure public money in Scotland is used properly, efficiently and effectively. We do this by carrying out financial, Best Value and performance audits of various aspects of how public bodies work. We audit public bodies, with a total spend of more than £36 billion a year, and audit the majority of devolved public services in Scotland.

Together we aim to provide assurance to the people of Scotland that their money is spent appropriately and we help public sector organisations in Scotland to improve and perform better.

About this response

We welcome the invitation to contribute to the consultation on the future of policing in Scotland. We have prepared a joint submission on behalf of the Auditor General for Scotland, the Accounts Commission and Audit Scotland.

Collectively, we have an informed overview of the public sector in Scotland through our audit work. We have used this experience of the public sector and audit evidence gathered from our work to prepare this submission. Our audit work means that we are well positioned to comment on the characteristics which all public sector organisations should display, irrespective of the structures within which they operate. These characteristics include:

- a strategic direction which is informed by a good understanding of the operating environment and customer demands and needs, informed by effective community engagement arrangements
- a medium to long term strategic approach to planning and deploying resources towards agreed priorities
- clear and effective arrangements for governance and accountability to support strong scrutiny and provide public assurance
- good quality information on outcomes and performance and the use of resources to assess the impact of the use of public money and support effective decision making.

The Accounts Commission is responsible for the audit of police authorities, and we are currently half way through the programme of Best Value Audits of police services, delivered in partnership with Her Majesty's Inspector of Constabulary. The Auditor General has responsibility for the audit of non-local authority aspects of policing, such as the Scottish Police Services Authority. This response draws on a wide range of our audit work and other sources, and in particular the following reports:

- The Scottish Police Services Authority – October 2010
- Best Value Audit and Inspection reports of Police Boards and Forces carried out jointly with HMICS:

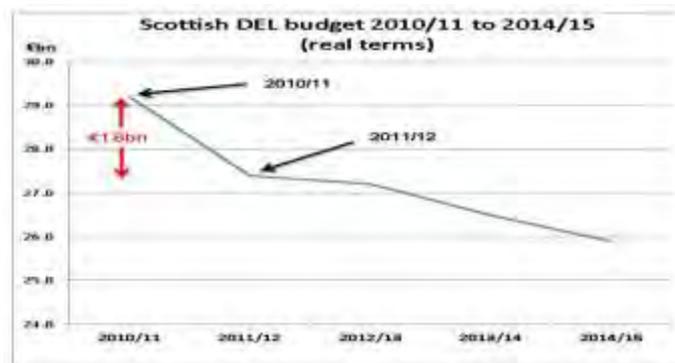
- o Tayside-December 2009
 - o Northern Constabulary- April 2010
 - o Grampian -February 2011
- Scotland's public finances: preparing for the future- November 2009
- The role of boards- September 2010

Introduction

1. The legislative framework within which the Police Service in Scotland operates remains largely based on the Police (Scotland) Act 1967. Since then, there have been many changes in Scottish society (including the creation of the Scottish Parliament), along with developments in the justice system, increasing expectations of communities and significant changes in public service delivery. It is therefore appropriate to review policing in Scotland to ensure that it is designed to meet the needs of Scotland in the 21st century.
2. The debate comes at a time when the outlook for public sector finances is challenging¹. Delivering outcomes with less money while facing a number of cost pressures will not be easy. Public services, including the police, are experiencing significant cost pressures, as we have highlighted in a range of our reports in recent years.
3. The Scottish delegated budget is expected to decline significantly in real terms in future years (Exhibit 1). Rising inflation may also affect the spending power of the available budgets. Taken together with increasing demand, rising expectations and shifting demographics, the ability of public services to maintain and improve outcomes for communities will be severely tested.

Exhibit 1

Scottish delegated budget 2010/11 – 2014/15



Source: Audit Scotland

4. The police service in Scotland plays many roles and delivers a diverse range of services. Operational policing and solving crime, including disrupting serious and organised crime, remain the core part of the policing role. But the police also play a key role in promoting community safety, dealing with anti-social behaviour and protecting vulnerable groups, crime prevention, preparing for and responding to major incidents and events, and counter terrorism. Working in partnership with others from across the public and private sector is an increasingly important element of all aspects of policing activity.

¹ Scotland's public finances: preparing for the future – November 2009

5. It is therefore vital that the reform process builds on a clear, shared understanding of what the police service is for, what it does and what outcomes it is expected to deliver, including the role of partners. Establishing clarity of purpose, with clear performance expectations at local and national level, and supported by strong governance and accountability arrangements, will continue to be central to the successful delivery of policing in future, whichever structural option is adopted.

Best Value in the police service

6. *The Local Government in Scotland Act 2003* introduced new statutory duties relating to Best Value and Community Planning. Its provisions apply to local authorities, including police authorities, and require specifically that:
 - councils and police authorities secure best value (defined as achieving continuous improvement in the performance of functions)
 - police authorities and chief constables participate in the community planning process.
7. In 2009 Audit Scotland, on behalf of the Accounts Commission, worked with colleagues in HMICS, to develop the audit of Best Value and Community Planning for police authorities and police forces. The audit covers a wide range of issues, and, building on the relevant legislation and guidance, indicates that a successful police authority will:
 - work in tandem with the chief constable to develop a clear set of priorities that respond to the needs of the community in both the short and longer term
 - be organised to support the delivery of these priorities
 - meet, and clearly demonstrate that it is meeting, the community's needs
 - operate in a way that drives continuous improvement in all its activities.
8. Similarly, a successful police force will:
 - work with the police authority/police authorities and partners to develop a clear set of priorities that respond to the needs of the community in both the short and longer term
 - be organised to deliver these priorities
 - meet, and clearly demonstrate that it is meeting, the community's needs
 - operate in a way that drives continuous improvement in all its activities.
9. Effective working between police authorities and forces is therefore central to delivering an effective and efficient police service for communities. Police forces in Scotland have long been closely linked to democratically accountable local authorities, with Chief Constables having responsibility for the delivery of policing operations and for the deployment of police officers. Scottish Ministers have overall responsibility for policing policy at the national level. Our audit work in police services in recent years suggests that there remains a lack of clarity about the respective roles and responsibilities of the parties in this tripartite structure.

10. Following the joint Best Value audit and inspection of Tayside Police and Tayside Joint Police Board with HMICS in 2009, the Accounts Commission recommended that the Scottish Government, in consultation with COSLA (Convention of Scottish Local Authorities) and ACPOS (Association of Chief Police Officers in Scotland), should consider the existing guidance and its interpretation to ensure that the specific responsibilities of boards and board members are expressed as clearly as possible. Addressing any uncertainties around roles and responsibilities should therefore be an important part of the reform agenda and clarification of the guidance would assist police authorities in achieving their statutory responsibilities for best value and community planning.

Improving services and the delivery of outcomes

A focus on achieving the best outcomes for communities and making the most efficient use of resources are essential for effective policing services.

11. The Scottish Government's National Performance Framework (NPF) sets out its purpose and strategic objectives, underpinned by national outcomes, indicators and targets. The police contribute to many of these outcomes, and in particular have a significant role to play in the achievement of the objectives, 'we live our lives safe from crime, disorder and danger' (National Outcome 9); 'we have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others' (National Outcome 11); and, 'our public services are high quality, continually improving, efficient and responsive to local people's needs' (National Outcome 15)'. The future of the service must therefore be designed to support the delivery of these objectives, alongside effective performance of its core purpose, and to ensure that the police continue to enjoy the consent and support of the public.
12. Our audit work across the public sector in Scotland indicates that there needs to be a greater emphasis on outcomes and the effect that targeted early interventions can have in influencing future demand and outcomes. We have found that spending decisions are not always based on evidence of 'what works' or on a full assessment of need. There is a lack of understanding about productivity in the public sector, making decision making and performance assessment difficult.
13. Any new policing arrangements must maintain a clear strategic focus on the medium and long term, as the actions we take now will affect the legacy that we leave for future generations. It is therefore important that the police service, whatever its shape in future, has clear strategic objectives to ensure that it and the public know 'what success looks like' and whether it has been achieved. The future shape of the police service should be considered in the context of wider public service reform, given the complex and cross cutting issues that public agencies, including the police, are dealing with.
14. The joint Best Value Audit and Inspections we have carried out with HMICS have highlighted the importance of outcome focussed policing plans that acknowledge the need to balance national

priorities with local community policing. The reports have also identified that measures to identify achievements and impact are not always fully developed.

The importance of effective governance and accountability

Policing services need clear and effective arrangements for governance and accountability to support strong scrutiny and provide public assurance. Governance arrangements must ensure proper democratic accountability alongside the responsibility of Chief Constables to deliver police operations effectively.

15. Clear accountability and strong scrutiny arrangements are critical to holding public bodies to account and encouraging continuous improvement. The boards of public bodies are central to the system of public accountability and to ensuring that they deliver the desired outcomes. Strong and effective governance and accountability is of particular importance for policing services, given their powers and responsibilities for public order.
16. Where arrangements are complex there is a risk that the lines of accountability are not clear either to those with specific responsibilities or to the public. For example, our audit work has found variations in the levels of understanding that elected members had in relation to their responsibilities as members of a joint police board and that the links between joint police boards and the constituent councils can be ambiguous. We have also found that there can be a potential conflict between a chief constable or police convenor's statutory responsibility for local policing and their role on the board of a national body, making decisions in the interests of Scotland as a whole².
17. Future governance arrangements for Scottish policing need to be sufficiently clear and robust to deal with this complicated landscape. It is vital that public confidence and support is maintained, whatever the governance arrangements for Scottish policing. The arrangements should ensure proper democratic accountability alongside the operational independence of Chief Constables. They will also need to provide clear local accountability, as well as clear lines of accountability to Scottish Ministers and the Scottish Parliament. This will require a shared understanding of structures and responsibilities, good working relationships and effective supporting arrangements.
18. Our audit work tells us that effective governance depends in part on police authority members having a clear understanding of their role and accessing training opportunities to ensure they have the skills and knowledge to support and challenge senior officers effectively.
19. Clear reporting of performance to the public is integral to good governance and accountability. Public bodies are making progress in meeting their public performance reporting (PPR) obligations, but the

² The Scottish Police Services Authority – October 2010

approach to, and coverage of, PPR remains variable and there is scope for further improvement³. This is also the case for police services where our joint BV work with HMICS has found that performance reporting needs to improve so that police boards and the public are in a better position to scrutinise performance and hold forces to account.

20. A strong scrutiny function is an essential part of good governance. Police Board members need to be supported in their role and have the capacity and confidence to challenge senior officers on performance and the use of resources.

Improving planning and delivery

Policing services need to have a clear strategic direction, supported by a medium to long-term approach to planning and deploying resources, and informed by a good understanding of the communities they serve.

21. Many public sector organisations are large and complex and they often have to balance competing priorities. It is therefore important that organisations clearly set out strategic priorities in a way that is easily understood by the public they serve, their workforce and their partners.
22. Our audit work tells us that effective police services have strategic priorities which are:
 - clear and communicated effectively both within the organisation and to the public;
 - sustainable, focus on the medium to long term and on outcomes;
 - informed by a good understanding of context and customer need.
23. Our audit work tells us that where police boards and police forces engage effectively with the community, the views of local people are captured in a structured manner and used to inform the force's strategic planning process. Any reorganisation of policing in Scotland should strengthen community engagement, to ensure that police services continue to reflect and meet the needs of the communities they serve.
24. The joint BV work we have carried out with HMICS has highlighted examples where clear strategic plans have been developed based on a good understanding of local need. We have also identified examples of well defined planning arrangements, with a mix of national and local priorities, which are visible in operational plans. However, we have also highlighted examples where strategic priorities are not linked to divisional and operational plans and where planning processes are not well integrated.

³ Local Government Act 1992: the Publication of Information (Standards of Performance) Direction - 2008

25. There is a continuing need for police authorities to work with police forces in taking a more strategic approach to managing resources. We found examples where the management of people, money and buildings was not joined up effectively. In another example, we found evidence of a sound approach to the strategic management of staff, but where operationally there was little evidence of the divisional tasking process being used to meet local policing needs.

Policing services must have good information on costs, quality and performance to assess the impact of the use of public money and support effective decision making

26. Performance management arrangements need to reflect the strategic priorities of the organisation at the top level, for example by focusing on outcomes as well as providing information to manage services at the operational level. The Scottish Policing Performance Framework helps to support accountability and public scrutiny by providing information that allows comparisons to be made over time and between forces.
27. Our audit work has found that performance management arrangements vary between forces and that the quality of performance reporting to joint police boards is mixed.
28. Performance management arrangements need to cover both service performance - for example in terms of service quality and response times - and the cost of service delivery. Both parts of this equation are needed before an organisation can demonstrate that it is delivering value for money. This information is also vital for police authorities to make informed decisions, control costs, improve efficiency and monitor performance.
29. The joint BV audit work with HMICS has found forces have a limited focus on analysing the costs of activities and recognise the need to improve in this area to inform difficult decisions about where resources will need to be directed, in order to sustain performance in priority areas.

Managing change and improvement

It is important that any new policing arrangements are implemented in a way that manages the risks associated with major change. Improvement activity should be managed in an integrated way.

30. If there is to be major re-organisation of the police service in Scotland, it is important that it is evidence-based, with clarity about the improvements that change is intended to deliver before decisions are made. It is vital that during the process of change, continuity of service is maintained and service performance is not compromised. A clear risk management strategy would be required, as well as an in-depth understanding of the costs and benefits of transition.
31. It is also important that good cost and performance information about current service delivery is available to support the introduction of any new arrangements. Having in place a clear performance management framework from the outset will help set expectations and assess whether change has

been successful. For example, we found that the early development of the Scottish Police Services Authority was affected by a lack of clarity on how it was to deliver its long-term benefits, and this was compounded by poor information about the services transferred⁴.

32. That same report came to a number of conclusions, which, though specific to that exercise, highlight important lessons to be aware of if the structure of Scottish policing is to change. We found that:
- SPSA's early development was affected by a lack of clarity on how it was to deliver its long-term benefits and by limited support from some key stakeholders.
 - A lack of robust information created difficulties in setting the initial budget and when transferring services from police forces.
 - SPSA's early performance was affected by leadership changes and poor customer engagement.
 - Many of the initial actions identified to establish SPSA were not followed through
 - There was a lack of agreement on some aspects of the new organisation and how it was to deliver the long-term benefits
 - SPSA's initial budget was based on incomplete information
 - The transfer of staff and assets was affected by poor information, a lack of co-operation and short timescales
 - SPSA's ability to operate effectively was affected by the difficulties it experienced when services were transferred
33. Our BV work in police has found that forces can demonstrate a commitment to improving services and are undertaking a great deal of improvement activity. However, the improvement activity is often not prioritised or managed within an overarching corporate improvement plan, reducing the potential impact of the work.

Conclusion

34. Police services play a critical role in making our communities safer, protecting the most vulnerable in society and dealing with crime and disorder. It is important that any reform process, focused on improving outcomes and securing Best Value, builds on existing good practice and provides sufficient capacity for on-going developments and improvement across the country.
35. Whatever the future shape of police services in Scotland, it will be important that it is supported by a strong and independent external scrutiny regime, providing the public with assurance that services are performing well and that resources are being managed effectively.

⁴ Scottish Police Services Authority – October 2010

Contact details

36. If you would like to contact us in relation to this response please contact:

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Appendix 2: Keeping Scotland Safe and Strong: A Consultation on Reforming Police and Fire and Rescue Services in Scotland September 2011 - CONSULTATION QUESTIONS

PART A - POLICE

Question 1: What are your views on how we might strengthen the proposed purpose? Should the purpose be set out in national guidance, or in some other way?

Question 2: What are your views on our plans to retain existing functions in a modern form or on our proposals to modernise the oath?

Question 3: What are your views on our proposals for integrating existing bodies into a single service or on how and when partnership arrangements should adapt to align with this new structure?



Question 4: What are your views on the composition of the Scottish Police Authority and the specific skills, experience and expertise required for it to perform its roles effectively?

Question 5: Do you think a number of appointments to the Authority should be reserved for serving councillors nominated by COSLA? Or that Ministers should simply ensure that the individuals appointed to the Authority include those with experience and knowledge of local government?

Question 6: What are your views on the roles and responsibilities for governance and accountability set out above?

Question 7: What are your views on the proposed new funding and financial accountability arrangements set out above?

Question 8: What are your views on our proposals for inspection and audit?

Question 9: What are your views on our proposals and options for handling complaints, criminal allegations, serious incidents and reviews of investigations?

Question 10: What are your views on our proposals for Independent Custody Visiting?

Question 11: What are your views regarding our proposals for officers and staff transferring to the new Scottish police service? Are there any other workforce issues we should be considering?

Question 12: Are there any other issues we should consider in creating the Scottish police service?

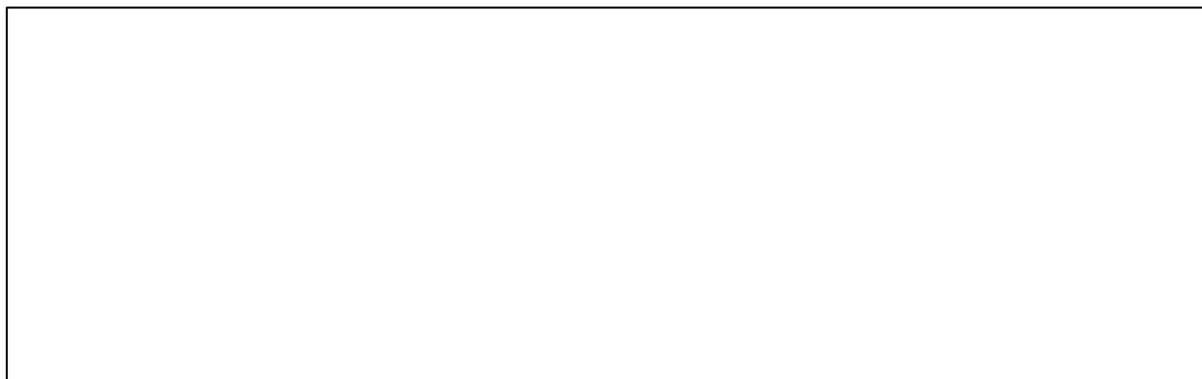
PART B – FIRE AND RESCUE

Question 13: What are your views on how we might strengthen the proposed purpose? Should the purpose be set out in the Fire Framework, or in some other way?

Question 14: What are your views on our plans to retain existing functions for the Scottish Fire and Rescue Service?

Question 15: What are your views on our proposals to transfer Scottish Government assets to the new body?

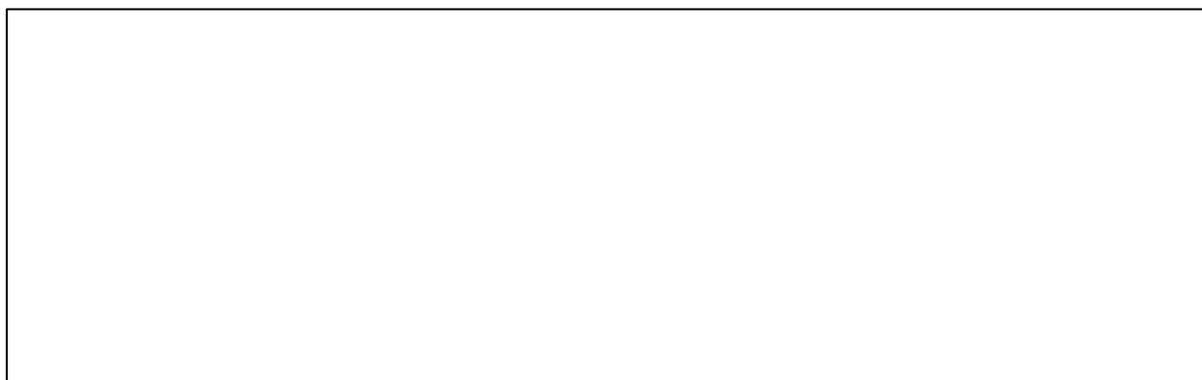
Question 16: What are your views on the composition of the Board of the Scottish Fire and Rescue Service and the specific skills, experience and expertise required for it to perform its roles effectively?



Question 17: Do you think a number of appointments to the Board should be reserved for serving councillors nominated by COSLA? Or that Ministers should simply ensure that the individuals appointed to the Board include those with experience and knowledge of local government?



Question 18: What are your views on the roles and responsibilities for governance and accountability set out above?



Question 19: What are your views on the proposed new funding and financial accountability arrangements set out above?

Question 20: What are your views on our proposals for inspection and audit?

Question 21: What are your views on our proposals for handling complaints?

Question 22: What are your views on the workforce proposals for staff transferring to the Scottish Fire and Rescue Service? Are there any other workforce issues we should be considering?

Question 23: Please highlight evidence where the existing provisions in relation to the employment of police constables causes significant difficulties preventing fire and rescue services delivering their statutory duties. How would you differentiate between the correct duties a special constable/fire officer should follow if they attend an incident where both a crime is being committed and an emergency situation requires urgent action?

Question 24: What are your views on the benefits and/or disadvantages regarding the obligations to promote fire safety at local, regional and national levels?

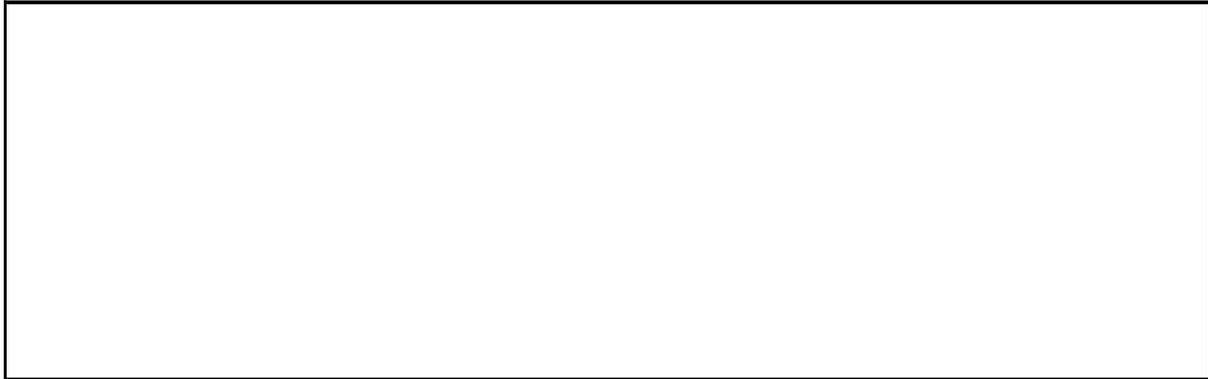
Question 25: What are your views on our proposals to:

- pass the Chief Inspector of Fire and Rescue Authorities enforcement role, under 61(9)(b) of the Fire (Scotland) Act 2005, to the Scottish fire and rescue service; and
- allow duty holders and the enforcing authority to independently refer a disputed matter to the Chief Inspector of Fire and Rescue Authorities under sections 67(1) of the Fire (Scotland) Act 2005. What safeguards, if any, should be put in place to ensure arbitration is only requested in appropriate cases?

Question 26: Are there any other issues we should consider in creating the Scottish Fire and Rescue Service?

Question 27: The partial EQIA can be found at <http://www.scotland.gov.uk/policereform> or <http://www.scotland.gov.uk/firereform>. Do you have any comments on the partial EQIA? Are there any other potential impacts to consider?

Question 28: The partial BRIA can be found at <http://www.scotland.gov.uk/police-reform> or <http://www.scotland.gov.uk/fire-reform>. Do you have any comments on the partial BRIA? Are there any other potential impacts to consider?



Question 28: The partial BRIA can be found at

ACCOUNTS COMMISSION

MEETING 8 SEPTEMBER 2011

REPORT BY SECRETARY AND BUSINESS MANAGER

REPORT OF THE CHRISTIE COMMISSION AND THE RESPONSE OF THE SCOTTISH GOVERNMENT

Purpose

1. The purpose of this paper is to provide the Commission with an overview of the findings of the Commission on the Future Delivery of Public Services (the Christie Commission) and the Scottish Government's recent response to the report.

Background

2. The Christie Commission report was published on 29 June 2011. The Scottish Government published its formal response on the same day as its Spending Review announcement, on 21 September 2011.

Christie Commission Report

Summary

3. The Scottish Government had launched the Commission following its November 2010 spending review, which had firm plans for 2011/12 only. The remit was to provide "recommendations about how public services must change to meet the medium and long term financial challenges and the expectations of the people of Scotland".
4. Dr Campbell Christie CBE, former General Secretary STUC, chaired the Commission. Its nine other members had experience including local government, the voluntary sector, the private sector, the media, academia and trade unions.
5. The Commission's report ran to 100 pages. In summary, it put emphasis on the role of public services to protect the vulnerable and disadvantaged and reduce inequalities. It found many shortcomings in the current public service system. It recommended that a comprehensive public service reform process must now be initiated to meet the scale of the challenges ahead. It said the Scottish Government must take the lead and must act quickly and decisively.
6. Christie identified four key principles that should underpin future reform:
 - Reforms must aim to empower individuals and communities receiving public services by involving them in the design and delivery of the services they use.
 - Public service providers must be required to work much more closely in partnership, to integrate service provision and thus improve the outcomes they achieve.
 - We must prioritise expenditure on public services which prevent negative outcomes from arising.
 - And our whole system of public services - public, third and private sectors - must become more efficient by reducing duplication and sharing services wherever possible.

Christie's recommendations for change

7. Christie's eight key recommendations highlighted in its key messages are shown in Exhibit 1.

Exhibit 1 - Christie report key recommendations

- Introducing a new set of statutory powers and duties, common to all public service bodies, focussed on improving outcomes. These new duties should include a presumption in favour of preventative action and tackling inequalities.
- Making provision in the proposed Community Empowerment and Renewal Bill to embed community participation in the design and delivery of services.
- Forging a new concordat between the Scottish Government and local government to develop joined-up services, backed by funding arrangements requiring integrated provision.
- Implementing new inter-agency training to reduce silo mentalities, drive forward service integration and build a common public service ethos.
- Devolving competence for job search and support to the Scottish Parliament to achieve the integration of service provision in the area of employability. (This is about devolving from Westminster to Holyrood some of the reserved responsibilities of the Department for Work and Pensions and Jobcentre Plus).
- Giving Audit Scotland a stronger remit to improve performance and save money across all public service organisations and merging the functions of the Auditor General and the Accounts Commission. (The implications of this for the scope and conduct of audit work are considered further at paragraphs 8 to 11 below).
- Applying commissioning and procurement standards consistently and transparently to achieve competitive neutrality between suppliers of public services.
- Reviewing specific public services in terms of the difference they make to people's lives, in line with the reform criteria we set out. (Christie's more detailed points (in Chapter 7 of the report) include the idea that the Scottish Government should lead a programme of outcomes-based reviews across service areas to improve performance and reduce costs; and that the Auditor General and the Accounts Commission should assess and verify projected cost savings. See paragraphs 8 to 11 below).

Specific issues for the Accounts Commission

8. Chapter 7 of the report is concerned with the types of reforms that Christie believes are required to drive up performance and reduce costs to improve the financial sustainability of Scotland's public services. This includes: piloting a single public authority model; better benchmarking between public bodies and annual reporting on outcomes; and action to promote shared services and better long-term strategic planning.
9. Chapter 7 makes three key recommendations that apply directly to the Accounts Commission, Auditor General and Audit Scotland:
 - a) It highlights that the Crerar review conclusion that well-designed external challenge can be a catalyst for improvement; and it says there must be robust scrutiny of performance, costs and outcomes. Specifically it recommends that Audit Scotland should be given a stronger and more proactive role in improving performance and reducing costs across all public service organisations.
 - b) Christie also recommends that the Scottish Government and local government seek to amalgamate the functions of the Auditor General and the Accounts Commission to support an integrated approach to oversight. Christie offers no specific reasoning or discussion about why this change is required.
 - c) In addition, while Christie rules out organisational change for its own sake, it says new and adapted organisational forms are likely to emerge if public bodies focus more strongly on pursuing outcomes. Linked to this Christie recommends that the

Scottish Government, local government and partners take forward a rolling programme of bottom-up, outcomes-based reviews across service areas to improve performance and reduce costs. This may include, for example: streamlining functions, exploring organisational mergers, sharing services, co-location and simplifying governance and accountability arrangements. It recommends that projected cost savings should be assessed and verified by the Auditor General and the Accounts Commission.

10. In addition to the recommendations that have direct implications for the Accounts Commission, other recommendations propose broader changes in the legal powers and duties of public bodies, which may affect the Commission's work indirectly:
 - Chapter 4 suggests that the proposed Community Empowerment and Renewal Bill should embed community participation in the design and delivery of services.
 - Chapter 5 recommends that the Scottish Government should introduce a new set of statutory powers and duties, common to all public service bodies, focussed on improving outcomes. This includes assessing the value of existing statutory duties which apply to individual public service organisations, in terms of outcomes.
11. While these recommendations are very broad, they may give rise to further questions about the statutory audit framework and the approach to auditing and reporting on matters such as community engagement, partnerships and the delivery of outcomes generally.¹

Scottish Government Response

Summary

12. On 21 September, the Cabinet Secretary for Finance, Employment & Sustainable Growth, John Swinney, made a Ministerial Statement on the Scottish Government's spending review and draft budget for 2012–13. As part of his statement, he announced that the Scottish Government was publishing its response to Christie, entitled „Renewing Scotland's Public Services – Priorities for Reform in Response to the Christie Commission”.
13. The response does not provide a direct read-across with all of Christie's key recommendations, although most are addressed, either directly or indirectly. There is, however, no direct reference to new statutory powers and duties for public bodies; a new concordat between Scottish and local government; government-led reviews; or changed responsibilities for Audit Scotland, the Auditor General and the Accounts Commission, all of which are proposed by Christie.
14. The document sets out four pillars of the Scottish Government's agenda:
 - a shift towards prevention;
 - greater integration of public services at a local level driven by better partnership, collaboration and effective local delivery;
 - enhanced workforce and leadership development; and
 - a sharp focus on improving performance, through greater transparency, innovation and use of digital technology.

Detail of response

15. For **prevention**, the Scottish Government refers to the need to support preventative spending to help deliver transition in public services away from dealing with „symptoms” to tackling „root causes” of inequality and disadvantage. It also cites a prime role for the third sector in such an approach.

¹ Christie refers to – though it does not specifically endorse – suggestions to extend the statutory duty of Best Value to all public bodies and to extend scrutiny to focus on the achievement by public bodies of measurable outcomes and on the effectiveness of their partnership working.

16. To this end, the Government is introducing three new „change funds“, covering older people’s services; early years and early intervention; and reducing reoffending. (The Scottish Spending Review document states that these funds provide a total of more than £500m over the spending review period, but the sources of this amount are not fully clear, nor where funds are new or continuation of existing programmes). There will also be a Scottish Future Fund based on five aspects of youth talent, rollout of superfast broadband, early intervention (Sure Start), energy efficient homes and future transport.
17. Other priorities include legislation on expansion of nursery education, support for early years services, and minimum alcohol pricing; cancer detection; development of a Regeneration Strategy; and continuing support for renewable generation schemes at a community level.
18. **Public service integration** is of particular interest to the Commission. The Government’s response makes a strong reference to „place-based“ partnership and service integration. Community Planning Partnerships and Single Outcome Agreements will remain central to the Government’s approach. A major ongoing theme is introducing an integrated system of adult health and social care, with a continuation of a substantial „change fund“ to this end. There is a similar commitment in relation to integrating children’s services, and to improving collaboration and integration in employability services and local economic development.
19. In particular, the response makes a commitment to developing with the Accounts Commission proposals identifying how external scrutiny can support the delivery of better outcomes at the level of community planning partnerships, through assessing performance and promoting effective practice. Dialogue between the Commission and Scottish Ministers continues to this end.
20. There is also a commitment to legislation to improve community participation in the design and delivery of public services. While it is currently unclear as to what this would look like in practice, it would likely have impact on how, and what aspects of, public services are scrutinised.
21. The response also points to better alignment of capital programmes. This could affect the future shape of capital funding in local government, and thus could have a likely influence on audit and inspection work.
22. **Workforce development** is underlined with themes of collaboration and shared capacity, with community planning partnerships being seen as principal vehicles to deliver progress. There are more specific commitments to workforce development in teaching, social services, criminal justice, alcohol and drug services, and the third sector.
23. **Performance improvement** is underlined by a commitment to an “open and rigorous performance culture” in public services, with greater clarity around the objectives of public organisations and establishing “clearer lines of accountability”. This is to be done through an „improvement framework“ incorporating improvement priorities and transparent measurement of progress and benchmarking. In particular, there will be an extension of the „Scotland Performs“ framework at national level and encouragement of the rest of the public sector to contribute.
24. Of particular note is the commitment to “build upon” scrutiny reform to achieve more proportionate, risk based and better coordinated external scrutiny. There is however no more detail of this beyond an acknowledgement of ongoing target savings of at least 20 per cent on the direct costs of scrutiny between 2011 and 2015.
25. There are specific commitments to reforming police and fire and rescue services and to the Children’s Hearing system; and to reducing Government management and running costs, and to further savings through public service reform and simplification. There are also commitments to further digitising of public services, and to take forward the recommendations in the McClelland Review of Public Sector ICT Infrastructure. The Government also commits to working with local authorities to improve Scotland’s roads, but it is as yet unclear as to what this would mean in practice.

Specific issues for the Accounts Commission

26. There may be implications for the work of the Commission in all four aspects of the Scottish Government's response, particularly relating to the nature and scope of scrutiny (as set out in paragraph 20 above).
27. There is no reference to Christie's specific recommendation to merge the functions of the Auditor General and the Accounts Commission. Indeed, there is no other mention of the Accounts Commission in the paper, except that relating to the scrutiny of community planning partnerships (discussed in paragraph 17 above).

Next steps

28. The Scottish Government has committed itself to a five-year public service reform programme, based on the four „pillars“ above. A Cabinet Sub-committee on Public Service Reform, chaired by the Cabinet Secretary for Finance, Employment and Sustainable Growth, has been established. This will be supported by a Public Service Reform Board comprising key executive leaders from across public services.
29. For its part, the Commission will continue to work with our scrutiny partners and Ministers in informing and responding as appropriate to the Scottish Government's agenda. In particular, work continues currently on proposals on the scrutiny of community planning partnerships. This is covered elsewhere on today's agenda.

Conclusion

30. The Commission is invited to consider and note this report.

Paul Reilly
Secretary and Business Manager
29 September 2011

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

REPORT BY THE SECRETARY AND BUSINESS MANAGER

SCOTTISH SPENDING REVIEW 2011 AND DRAFT BUDGET 2012-13

Purpose

1. The purpose of this paper is to provide the Commission with background briefing on the Scottish Government's Spending Review 2011 and draft budget 2012-13, and in particular some of the implications for local government.
2. The Commission is invited to note this report.

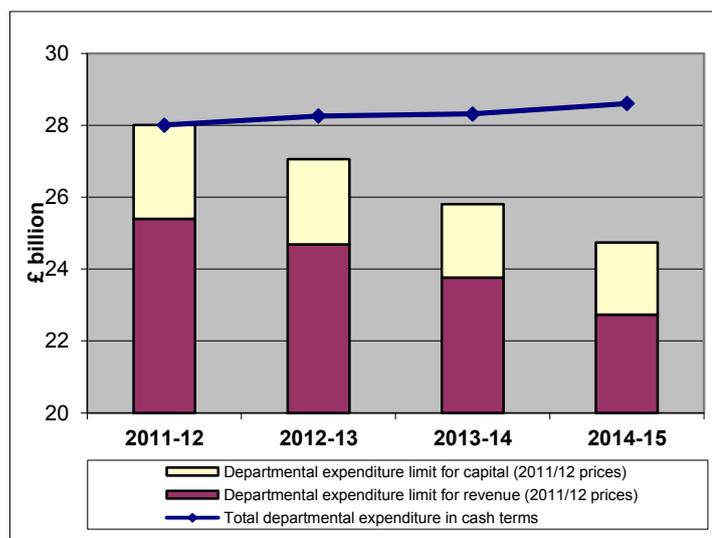
Background

3. The Scottish Spending Review 2011 and Draft Budget 2012-13 was published on 21 September 2011 and sets out the Scottish Government's spending plans for the three financial years 2012-15. The document updates the Scottish Government's plans for financial years 2012-15 presented in January's Illustrative Budget figures.

Overall Budget

4. Overall, Scottish Departmental Expenditure Limit (DEL)¹ is planned to increase by 0.9% (£252.5m) in 2012-13 in cash terms; this equates to a fall of 1.6% (£436.8m) in real terms.² Over the period of the Spending Review (2011-12 to 2014-15), DEL is planned to increase by 2.1% (£598.9m) in cash terms and fall by 5.5% (-£1,547.0m) in real terms. This is shown in Exhibit 1.

Exhibit 1: Change in Scottish Government budgets (real terms)



¹ DEL is the discretionary spending that the Scottish Government is able to spend and control.

² Real terms figures throughout this paper have been calculated using deflators of 2.5%, 2.7% and 2.7% for 2012-13, 2013-14 and 2014-15 respectively.

5. Exhibit 2 shows the breakdown of DEL by portfolio. The local government portfolio sees a real term fall of 11.3% (4.1% in cash terms) over the period of the Spending Review. (It is worth noting that the biggest budget reductions took place in 2010-11). The local government portfolio accounts of 31.4% of the DEL budget. When combined with Health, Wellbeing and Cities portfolio (41% of DEL), these two portfolio areas account for almost three-quarters of the total DEL budget.

Exhibit 2: Departmental Expenditure Limit (DEL) by portfolio in real terms (2011-12 prices)

Portfolio	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	Change 12-13 on 11-12	Change 14-15 on 11-12
Health, Wellbeing & Cities	11,363.3	11,305.3	11,273.0	11,177.9	-0.5%	-1.7%
Finance, Employment & Sustainable Growth	467.9	471.6	442.9	426.0	0.8%	-9.0%
Education & Lifelong Learning	2,501.7	2,482.0	2,440.5	2,417.5	-0.8%	-3.4%
Justice	1,264.3	1,311.3	1,230.0	1,150.6	3.7%	-9.0%
Rural Affairs & the Environment	540.6	518.0	485.9	475.0	-4.2%	-12.1%
Culture & External Affairs	245.6	232.0	220.9	204.8	-5.5%	-16.6%
Infrastructure and Capital Investment	2,126.1	2,170.7	2,185.2	2,208.7	2.1%	3.9%
Administration	236.0	209.5	192.5	179.0	-11.2%	-24.2%
Parliamentary Business & Government Strategy	8.2	6.3	6.0	5.5	-22.7%	-32.3%
Crown Office & Procurator Fiscal	108.2	105.5	102.7	100.5	-2.5%	-7.1%
Local Government ³	9,046.5	8,665.2	8,230.6	8,026.6	-4.2%	-11.3%
Scottish Parliament & Audit Scotland	95.9	93.2	90.7	88.3	-2.8%	-7.9%
Total	28,007.3	27,570.5	26,900.8	26,460.3	-1.6%	-5.5%

6. Over the full Spending Review period, Parliamentary Business and Government Strategy has the largest percentage decrease, falling by 32.3% in real terms (although this is already one of the smaller portfolios). Over the same period, the largest increase is for the Infrastructure and Capital Investment portfolio (covering mainly transport and housing, but not infrastructure and capital spend in other portfolios such as health, local government and justice), which sees a 12.3% increase in cash terms, equivalent to a 3.9% increase in real terms. It is the only portfolio to see a real terms budget increase over the full Spending Review period.
7. The headline figures for portfolios mask considerable variation across budget lines within portfolios. It is only at lower levels („Level 2”) that the significant „winners and losers” become more apparent. For example, for 2012-13, the largest increases in absolute terms are:

³ Local government figures here do not include non-domestic rate income (covered in paragraph 15) or £322m worth of spending which is held within other portfolio allocations, such as for police and fire pensions.

- Scottish Water, with an increase of £101.6m in its budget, which reflects the fact that in 2011-12, no funding was provided to Scottish Water, but the Scottish Government received income from Scottish Water through interest on loans.
- Motorways and trunk roads (increase of £81.8m in real terms, or 14.7%), largely due to expenditure related to the Forth Replacement Crossing.
- Student Awards Agency for Scotland (increase of £27.8m in real terms, or 5.4%), reflecting costs associated with the introduction of a minimum student income guarantee for students, the introduction of which will begin in 2012.
- Police Central Government (increase of £26.1m in real terms, or 12.4%), primarily due to the planned establishment of single services in police and fire, as well as commitments to additional police officers, the development of the Scottish Crime Campus and support for SPSA and SCDEA.

8. Conversely, the largest decreases are:

- Scottish Public Pensions Agency (reduction of £107.2m in real terms, or 3.3%), largely reflecting implementation of the public sector pensions reform agenda, which does not affect the DEL budget.
- Housing and Regeneration (reduction of £96.1m in real terms, or 24.7%), largely reflecting a reduction in the budget for Supporting Economic Growth / Housing Supply (the largest element of which is the Affordable Housing Investment Programme).
- Local Government (reduction of £72.2m in real terms, or 0.6%) – while one of the larger reductions in absolute terms, this represents a small reduction in the local government portfolio budget in percentage terms (and does not reflect allocations to local government from other portfolio areas).
- Other health (reduction of £69.3m in real terms, or 2.5%), which largely reflects a transfer of budgets to support the NHS in achieving the 18 week waiting times target.

National priorities

9. The 2007 Spending Review set out full details of the new national performance framework (NPF), fully integrated into the Spending Review, including what budgetary decisions were proposed to meet the Government's Purpose and each of its Strategic Objectives. The 2011 Spending Review takes a different approach. There is not the same level of integration between the NPF and the Spending Review. Although it refers to the Programme for Government and the Government Economic Strategy, it is not clear from the document how the NPF continues to inform budgetary decisions.
10. A major element of the Scottish Government's programme for public service reform is to shift towards preventative spending (this is covered in more detail in the report on today's agenda on the Christie Commission and the Scottish Government's response). The Draft Budget document refers to "three new funds", providing a total of more than £500m over the spending review period to support this agenda. However, it is not fully clear which budget lines contribute to this £500m, or where funds are new, or a continuation of existing programmes.

Efficiency

11. The Draft Budget makes reference to the achievements of the previous efficiency programmes but does not set a specific efficiency target for 2012-13. This represents a departure from previous budget documents, when in-year efficiency saving targets have been set. This suggests that the budget reductions set out in the Spending Review are no longer built on explicit efficiency savings, making it

difficult to tell the extent to which a reduction in the budget might result in a reduction in service. The Scottish Government has also announced that it does not intend to publish an efficiency outturn statement for 2011-12.

Implications for local government

12. The Accounts Commission report “An Overview of Local Government in Scotland 2011” will provide an overall perspective of what the Spending Review means for local authorities. This will be considered by the Commission later in the year.
13. As a proportion of Scottish Government total managed expenditure, local government portfolio monies will decline from 33.5% in 2011-12 to 32.3% in 2014-15. In real terms, local government portfolio monies will decline by 3.0% in 2012-13 and 2013-14, and by 0.5% in 2014-15.
14. Overall, the local government allocation including monies from other portfolios is planned to decrease by £70.3m in 2012-13, £35.8m in 2013-14 and to increase by £260.4m in 2014-15, in cash terms. In real terms, there are decreases of £350.2m, £328.4m and £44.9m respectively. Exhibit 3 shows how this support is made up (in real terms).

Exhibit 3: Local government spending in real terms (£m)

	2011-12 Draft Budget	2012-13 Draft Budget	2013-14 Plans	2014-15 Plans
General Resource Grants	7,754.8	7,558.6	7,196.5	6,795.5
Non-Domestic Rates & other AME ⁴ Grants	2,179.5	2,216.6	2,321.7	2,472.5
Support for Capital	520.9	549.3	491.4	702.7
Specific Resource Grants	599.9	557.3	542.6	528.4
Specific Capital Grants	170.9	0	0	0
Total Local Government Portfolio	11,226	10,881.8	10,552.2	10,499.1
Other Local Government	322.0	316.0	317.1	325.4
Total Support for Local Authorities	11,548.0	11,197.8	10,869.4	10,824.5
Of which:				
DEL Resource	8,354.7	8,115.9	7,739.1	7,323.9
DEL Capital	691.8	549.3	491.4	702.7
AME	2,179.5	2,216.6	2,321.7	2,472.5

15. In 2011-12, the capital allocation to local authorities is £691.8m. The specific capital grants to local authorities beyond this year have not yet been agreed by the Scottish Government and COSLA, but these will not be in addition to the „support for capital,, budget line in Exhibit 3. The local government capital allocations have been re-profiled, with £120m in 2012-13 and £100m in 2013-14 being taken out of the capital allocations. These monies are then added back into the local government capital allocation with £120m being added in 2014-15 and the remaining £100m in 2015-16. Accordingly the local government capital allocation, in cash terms, will decline from £691.8m in 2011-12 to £563m

⁴ AME is Annually Managed Expenditure. AME represents areas of spend which must be met due to commitment to spend or pay a charge, e.g. pensions commitments and Non-Domestic Rate Income.

(£549.3m in real terms) in 2012-13, £517.3m (£491.4m) in 2013-14, but then increase to £759.7m (£702.7m) in 2014-15.

16. The Scottish Government has signalled in its Review that it wishes to work more closely with local government in relation to borrowing and capital spend. It refers to working with local government to “see to what extent this can sensibly be used to maximise capital expenditure, which is critical to economic recovery.” It is unclear as to what this means in practice. But COSLA commented in a press release on the day of the Spending Review that the re-profiling of capital allocations would mean slippage in local capital plans in favour of national priorities.
17. The Draft Budget sets out a range of commitments which local government will be expected to deliver in return for the funding package set out in the Draft Budget. These commitments are:
 - To continue to freeze the council tax at 2007-08 levels in 2012-13 in return for a further £70m in Scottish Government revenue funding;
 - To pass on all Police Grant in full to Police Boards in order to contribute to maintaining the number of police officers at, at least, 17,234;
 - To maintain teacher numbers in line with pupil numbers; and
 - To secure places for all probationers who require one under the teacher induction scheme.
18. It is worth noting that COSLA was keen in noting that they do not see these as joint priorities.
19. The Draft Budget sets out a summary of local government expenditure plans for the current year, both for capital and revenue. In revenue, the largest decreases in planned expenditure between 2010-11 and 2011-12 occur in education (£180.5m), housing support services (£47.2m), planning and development services (£40.7m) and culture and related services (£27.3m). The largest increases in planned expenditure, in cash terms, are in the statutory repayment of debt (£138.1m) and social work (£15.3m). Overall, local government revenue expenditure is planned to decrease by £177.3m in 2011-12. This will be explored in more detail in the Local Government Overview Report 2011.
20. In terms of capital expenditure, education and roads and transport represent the largest proportion of planned capital expenditure totalling 50.2%. Overall, capital expenditure is planned to increase in 2011-12 by £74.1m. The largest increases are planned for education (£67.6m) and culture and related services (£40.6m). The largest decreases in planned capital expenditure are in non housing revenue account housing (£30.1m) and central services (£14.7m).
21. Over the period of the Spending Review, local government will become increasingly dependent on Non Domestic Rates (NDR) as opposed to grants, which makes funding potentially more volatile. Receipts from non-domestic rate income (NDRI) are forecast to increase significantly over the Spending Review period. The increase in NDRI has been attributed by the Scottish Government to a number of factors including:
 - Non-Domestic Rates poundage being linked to the September Retail Price Index;
 - Anticipated buoyancy in NDR income;
 - Savings anticipated from the reform of empty property relief;
 - Anticipated revenues from the „public health supplement,, announced in the draft budget statement; and

- Impact of appeals losses which lead to a reduction in assumed income in earlier years and growth in later years.

Next Steps

22. The budget will now be subject of consultation with the public and Parliamentary committees. The Finance Committee will then make a report which pulls together recommendations from the various subject committees' reports, and this is debated in Parliament in December. The final stage of the budget process starts with the laying of the Budget Bill in Parliament in January. The Budget Bill must be laid by 20 January each year, or the first day thereafter on which Parliament sits, and must complete all of its stages by 14 February.
23. For local government, the Parliament's Local Government and Regeneration Committee will begin scrutiny of the Scottish Government's draft budget in terms of the areas within its remit on 5 October 2011. The Committee will report to the Finance Committee by mid-November.
24. Following the publication of the Draft Budget however, the local government settlement undergoes its own parliamentary procedure in parallel with the formal budget process. This procedure is summarised below.
 - Nov / Dec: Local Government Finance Settlement Circular published. This Circular outlines the provisional total revenue and capital allocations to individual local authorities. The provisional total funding allocations form the basis of the annual consultation with COSLA and individual local authorities ahead of the Local Government Finance Order.
 - Jan / Feb: Local Government Finance Order laid in the Parliament and debated in the chamber.
 - Feb / Mar: Individual local authorities agree their budgets and decide whether to freeze their council tax.
 - Feb / Mar: Local Government Finance Amendment Order is laid before Parliament and debated in the Chamber. This Amendment Order contains the council tax freeze monies in the settlement, reflecting the decisions of local authorities regarding council tax.
25. In addition, subordinate legislation will be considered by this Committee regarding the Non-Domestic Rates poundage rate for the forthcoming financial year and any other non-domestic rates related issues, such as the proposed public health supplement.
26. For its part, the Commission will consider later this year its Local Government Overview Report 2011, with a view to its publication early in the New Year.

Conclusion

27. The Commission is invited to note this report.

Paul Reilly
Secretary & Business Manager
3 October 2011

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

REPORT BY THE SECRETARY AND BUSINESS MANAGER

SUPPORTING IMPROVEMENT AND ACCOUNTABILITY OF COMMUNITY PLANNING PARTNERSHIPS: UPDATE REPORT

Purpose

1. The purpose of this report is to update Commission members on progress made in taking forward the Scottish Government's request to the Accounts Commission to lead development work on preparing a case for how external audit and inspection may support the delivery of better outcomes by Community Planning Partnerships (CPPs).

Background

2. At our meeting with the Cabinet Secretary and his officials on the 19th July the Accounts Commission was asked to lead development work on preparing a case for how external audit and inspection may support the delivery of better outcomes by Community Planning Partnerships (CPPs). An end of August, a deadline was set for the submission of initial proposals from the Commission to the Scottish Government (SG).

Initial submission

3. A special Commission meeting on was held on the 17th August to discuss a draft paper which had been prepared by Audit Scotland on behalf of the Commission, drawing on early consultation with scrutiny partners.
4. That draft paper was updated to reflect the views of Commission members and submitted to the Cabinet Secretary for Finance, Employment and Sustainable Growth on the 30th August as a set of initial proposals for further refinement with our scrutiny partners. The paper provided initial thoughts on how changes to the current scrutiny arrangements may support improvements in the performance and accountability of CPPs. It identified choices for how this might be achieved and areas for further consideration.
5. The Commission considered at its meeting on the 8th September the initial proposals paper that had been submitted to the Scottish Government. This paper is attached at **Appendix 1**. The meeting also received verbal feedback on the outcome of the discussion of the initial proposals paper with scrutiny partners, COSLA, SOLACE and Scottish Government officials at the Strategic Scrutiny Group meeting held on the 7th September

Supplementary paper

6. At our meeting with the Cabinet Secretary and his officials on the 31st August he welcomed our initial submission and asked that we provide further details on:
 - how the proposed pilot CPP audit and inspection activity (might operate in practice
 - our views on what might be a realistic timetable for piloting and testing the options for change that we had identified

7. Those further details, together with proposed next steps, were submitted to the Cabinet Secretary on the 14th September. They are attached at **Appendix 2**.
8. The supplementary paper set out our proposal to work with our scrutiny partners to design, pilot and evaluate an approach to assessing the performance of CPPs. It included a draft timetable for this work (including engagement with stakeholders). It indicated that pilot work will consider CPP leadership and governance, management arrangements, service delivery and outcomes. It highlighted that an important feature of the pilot work will be the development of a set of characteristics of a high performing CPP with our scrutiny partners and other stakeholders which will be tested through the pilot work.

Scottish Government

9. In his statement to the Scottish Parliament on the Spending Review 2011, the Finance Secretary referred to the important role that external scrutiny can play in supporting public service reform. He highlighted the scope for scrutiny to assist local authorities and their Community Planning partner bodies to work together to deliver even better outcomes. He made specific reference to the fact that he has written to the Accounts Commission to ask them to work with others to explore how best scrutiny activity can promote effective practice in Community Planning Partnerships.
10. The Cabinet Secretary's letter to the Chair of the Commission, referred to in the Spending Review announcement, is attached at **Appendix 3**.
11. These CPP audit and inspection developments are also referenced in the Scottish Government's recently published response to the Christie Commission report (Renewing Scotland's Public Services. Priorities for reform in response to the Christie Commission). The section of the report which covers integrated local services highlights, as one of the Scottish Government's priorities, „developing with the Accounts Commission proposals identifying how external scrutiny can support the delivery of better outcomes at the level of Community Planning Partnerships, through assessing performance and promoting effective practice.“

Scrutiny Improvement: the future agenda

12. The Commission's proposals for taking forward these important developments were discussed with scrutiny partners and other key stakeholders at this workshop event held on the 22nd September.
13. This was a constructive discussion which indicated broad support for the Commission's proposed approach. Some concerns were raised about the proposed timetable which was considered to be too ambitious, not least because of the potential impact of next year's local government elections on the availability of key members and officers to participate in pilot audit activity. The need to align these developments with other streams of scrutiny improvement work, such as the Care Inspectorate's development of an integrated inspection framework for children's services was also highlighted as a key consideration in the development and pilot work.

Conclusion

14. The Commission is invited to note this update report.

Paul Reilly
Accounts Commission Secretary and Business Manager
5 October 2011



A paper by the Accounts Commission: 30 August 2011

***Supporting improvement and accountability
within Community Planning Partnerships (CPPs)***

Introduction

The Scottish Government (SG) has asked the Accounts Commission to lead the development work on preparing an outline case of how external audit and inspection might support the delivery of better outcomes by Community Planning Partnerships (CPPs).

The SG has asked that any proposals cover how external scrutiny might better assess the effectiveness of CPPs, including how effectively resources are being used locally (ideally linking relative spend to outcomes), how well the CPP is engaging with local communities and how well partners are working together to deliver improved outcomes.

The SG is particularly interested in how improvement within CPPs can be supported by external scrutiny. It asked that the paper be ready for the end of August 2011.

The Accounts Commission is pleased to lead this development and to contribute to the improvement of public service performance. We regard the ambition of holding CPPs to account for the achievement of outcomes very significant even if this has to be achieved in stages. This should include the audit and scrutiny of performance and costs.

As this paper indicates there are matters that need addressing. Some are more difficult to resolve than others but, given the will to work together for a common end, none are insurmountable individually or collectively.

There is already, we believe, a firm foundation for the scrutiny of CPPs in the form of the group of scrutiny partners that has co-operated closely to achieve the co-ordination of local authority scrutiny as well as a significant reduction in corporate scrutiny work.

Summary

The scope for improvement in partnership working across the public sector to deliver better outcomes has been a regular finding of Best Value audits and other inspection activity over recent years and has been a theme in performance audit reports prepared for us and the Auditor General by Audit Scotland.

We have identified a series of choices for improving the scrutiny of CPPs which can be presented as a spectrum ranging from a relatively narrow systems-based audit of SOAs through to a full audit of CPP performance that would be similar to the local government BV audit in coverage; but the scope would cover all CPP statutory partners, with a number of variations in between (Exhibit 2).

While these varying approaches to the scope of the CPP audit have been presented as choices they can also be considered as stages that accumulate from the least demanding to the most. We believe that the extension to holding CPPs to account should start with „the possible“ and move across the spectrum in stages to whatever is considered to be the final desirable stage, taking account of the lessons learnt from our proposed pilot work. There are risks in moving too quickly along the spectrum associated with deliverability, resourcing, added value and sustainability.

Improvements in Community Planning Partnership performance and accountability will depend on a number of related conditions being established:

- CPPs ensuring better capture and reporting of performance and cost data and improving their strategic planning, performance management and engagement arrangements.
- the Scottish Government setting clearer performance expectations of CPPs, including:
 - developing a clear governance and accountability framework for CPPs which takes account of the local democratic accountability in local government and the accountable officer arrangements in other areas of government
 - clarifying how it sees the Single Outcome Agreement (SOA) planning and performance management process aligning with existing public sector accountability frameworks
 - adopting a more partnership-focused approach to holding the NHS and NDPBs/agencies to account for their delivery of local outcomes.
- Audit and inspection bodies re-focusing existing regimes, where appropriate and possible, to provide a clearer focus on the extent to which individual public bodies are making an effective contribution to CPP activity.

The current gaps in CPP performance and cost data are likely to limit the ability to make effective performance and cost comparisons among CPPs. These comparisons are important in strengthening the holding to account of CPPs for their performance.

Clearly the Scottish Government will need to consider suitable arrangements for reporting to the Scottish Parliament on the performance and use of resources of CPPs. The holding to account of public bodies other than local authorities may require to be reviewed where those bodies come within the ambit of CPPs.

We are keen to work with scrutiny partners to undertake pilot work which will allow us to establish a route-map for better aligning CPP audit and inspection activity with the new models of partnership working that are being established as public bodies respond to the financial challenges that they face. This pilot work could be undertaken with existing resources. However, any wider extension of the model would have resource implications and would affect our current range of work. Pilot work would allow us to test with scrutiny partners the resource implications and practical challenges of CPP auditing.

A critical success factor for the options for change set out in this paper is effective engagement across government and the securing of support among public bodies for any new CPP accountability arrangements.

We have already begun the process of engaging with scrutiny partners, SOLACE and COSLA and are keen to work with the Scottish Government on broader engagement with other interested parties prior to any pilot work being introduced.

Scope

1. This paper provides initial thoughts on how changes could be made to the current external scrutiny regime to support improvements in the accountability and performance of CPPs. It sets out the scope of a potential framework, and lists the main challenges that need to be addressed. It also sets out a road map and choices for improving the holding to account and supporting improvement of CPPs. While non-statutory partners (e.g. the third sector and the private sector) have an important part to play in contributing to local outcomes, we assume for the purposes of this document that the bodies which would fall „within scope“ of any new arrangements would be the main public sector statutory partners that constitute existing CPPs under the 2003 Act. When further developing our proposals we will adopt a proportionate approach that recognises the relative contribution that different sectors are likely to

make to CPP activity.

2. Given that the SG has indicated it is keen to understand how it might better support improvement within current CPP arrangements we have focused mainly on what new arrangements could be introduced under existing legislation¹, with no changes made to the statutory powers and duties that apply to public service bodies. The SG's request to us to undertake this work indicates an open-mindedness about the case for structural change, and thus the paper also identifies a number of issues under the current arrangements that act as barriers to improved accountability of CPPs. The main barriers are the differing governance and accountability arrangements for individual partners and the absence of a formal accountability framework for Single Outcome Agreements (SOAs) and CPP performance. This means that there are limited performance incentives and sanctions that apply to CPPs.
3. These outline proposals are based on initial exploratory discussions with scrutiny partners and the Auditor General for Scotland. Our proposals will be discussed more fully with our scrutiny partners at our strategic scrutiny group meeting on 7 September and as a substantive agenda item at the Strategic Scrutiny Improvement event we have planned for 22 September.

Current arrangements for reporting on outcomes and related scrutiny

The current arrangements for CPP reporting on outcomes

4. Arrangements are in place for partnerships to report performance against agreed outcomes. Central to these are the Community Planning and Single Outcome Agreement processes.
5. Community Planning is the process through which councils, other public sector bodies and the business and voluntary sectors work together with local communities to plan and deliver better services and improve the lives of people who live in Scotland. All councils have established a CPP to lead and manage this process. Community planning was given a statutory basis by the Local Government in Scotland Act 2003 (the Act), which placed a duty on:
 - **Councils** - to initiate, facilitate and maintain community planning.
 - **NHS boards, the police, the fire and rescue services, and the enterprise network** (Scottish Enterprise and Highlands and Islands Enterprise (HIE)) - to participate in community planning. This duty was later extended to **Regional Transport Partnerships**.
 - **Scottish ministers** (through the Scottish Government and its agencies) - to promote and encourage community planning.^{2,3}
6. At present, councils are the only public bodies which are statutorily held to account for the exercise of their community planning functions through the Best Value audit process.
7. As part of the concordat agreement between the Scottish Government and COSLA each council was required to develop a Single Outcome Agreement (SOA) which outlines the strategic priorities, expressed as local outcomes, for the council area. SOAs should set out how local outcomes will help support the Scottish Government's 15 national outcomes, while taking account of local priorities. This established SOAs as the main framework for aligning public sector activity towards agreed priorities at a local level.
8. The first SOAs, covering the financial year 2008/09, were agreements between the Scottish Government and councils. From 2009/10 onwards, CPPs were required to be fully involved in developing and agreeing the SOAs. This move reinforced CPPs as the main vehicle for delivering

¹ The Local Government (Scotland) Act 1973 as amended by the Local Government, etc. (Scotland) Act 1994, The Public Finance and Accountability (Scotland) Act 2000, The Ethical Standards in Public Life, etc. (Scotland) Act 2000, and the Local Government in Scotland Act 2003

² Local Government in Scotland Act, 2003

³ Transport (Scotland) Act, 2005.

outcomes for communities. Annual SOA performance reports are submitted to the Scottish Government, but there is no formal performance accountability arrangement in place between the Scottish Government and local government in relation to SOAs.

9. Another important element of partnership performance reporting is the Scottish Government's National Performance Framework which was introduced in 2007 to track progress towards its overarching purpose *„to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth'*. The Framework sets out 45 national indicators and performance targets for the public sector to work towards.
10. The Scottish Government has been establishing arrangements for maintaining oversight of CPPs through its location director arrangements. These involve nominated senior civil servants acting as „link" officials with each CPP, providing support and challenge to the partnership to help it address local issues and feeding back any matters of concern to colleagues in government. The Scottish Government recognises that there is scope to better clarify the purpose of this role and strengthen the consistency of its application across government. Any changes in this area would have implications for future CPP performance monitoring.
11. Most outcome indicators at CPP level are influenced by „core" service performance either by individual public bodies, or by those bodies working in tandem. For this reason, maintaining an overview of the extent to which individual public bodies are delivering high quality services, making effective use of their resources and achieving value for money (VFM) remains important, alongside forming judgements on the effectiveness of CPPs and other partnerships.
12. However, there are significant methodological challenges when seeking to attribute performance outcomes to individual public bodies working in partnership with others.
13. Many outcomes are long-term in nature, spanning generations. For example, health inequalities, some aspects of community development/addressing worklessness, etc. Strategic outcomes are also susceptible to change when councils experience significant movements in political control/direction. This can make it difficult for performance comparisons to be made over time.
14. Consequently, shorter-term measures which relate to process and outputs are also needed to provide assurance that services are well managed, perform well and make best use of public resources. For that reason, alongside the choices set out in this paper, we will continue to assess the risks that the current financial context places on the delivery of individual public services, and use that assessment to inform our Best Value and performance audit programmes.

Related partnership audit and inspection activity

15. Partnership working and the delivery of local outcomes is currently subject to a range of audit and inspection regimes:
 - the extent to which local authorities are meeting their statutory Community Planning duties under the Local Government in Scotland Act 2003 is considered as part of the Best Value audit process
 - local government shared risk assessments (SRAs) consider councils' risks against their main local outcome objectives
 - the joint Best Value audit and inspections of police undertaken by Audit Scotland and Her Majesty's Inspectorate of Constabulary for Scotland consider within their scope partnership working and the delivery of local policing outcomes
 - HMIE's Services for Children Unit (now part of SCSWIS) has undertaken two cycles of child protection inspections (joint inspections of services to protect children)
 - partnership working is considered as part of the annual audit process in both local government and the NHS and commented on in the annual overview reports of those sectors.
16. In addition, Audit Scotland has prepared several joint reports on partnership issues, the most recent of which was the 2011 report on Community Health Partnerships, and SWIA (now SCSWIS) led a

number of multi-agency inspections of services for older people and services for people who misuse substances. SWIA's criminal justice social work inspections also covered local partnership working.

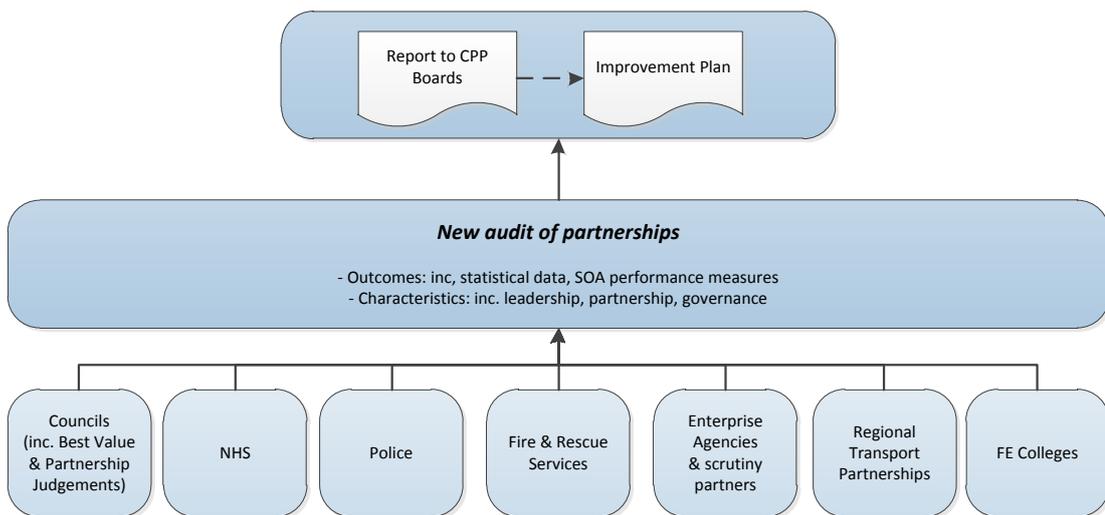
17. Taken together they have provided a wide range of independent scrutiny of partnership performance, and have led to improvements in service performance. For example, the first cycle of HMIE's child protection inspections made a valuable contribution to improved performance in this high-risk and sensitive service.
18. However, these regimes have all had a limited focus on cost relative to outcomes because of the limited cost data available within public bodies. Further, the focus of external audit and inspection work on partnership working has tended to be on aspects of partnership working or specific partnerships (e.g. criminal justice, child protection, community health) rather than on the local CPP as a collective entity. This is an important area of interest to the Scottish Government and local government.

Possible new models of CPP reporting and scrutiny

19. A possible new model of reporting and scrutiny to consider the performance of the CPP as a whole is represented by Exhibit 1, below.

Exhibit 1

The linkages between local audit work and the SOA audit process



Source: Audit Scotland

20. This model raises four particular questions:

- What are the gaps in CPP performance management and reporting?

- What criteria will be adopted in order to report and scrutinise performance?
- To whom will the auditors/inspectors report?
- What needs to be resolved to allow the process to operate?

21. These questions are discussed further below.

What are the gaps in CPP performance management and reporting?

22. Best Value audit and the shared risk assessment process regularly highlight the need for improvements in local partnership working. Audit Scotland's review of CPPs in 2006 found that there had been some progress with community planning since its introduction on a statutory basis in 2003, but highlighted a number of matters for improvement, including the need to strengthen monitoring and reporting performance. Audit Scotland's report on the role of CPPs in economic development, which will be published later this year, is likely to highlight continuing difficulties in terms of demonstrating effects and outcomes from partnership working. It is also likely to highlight the differing governance and accountability arrangements for individual partners and the absence of a formal accountability framework for CPP performance.

23. The main gaps in existing arrangements include:

a) Governance gaps

- there is currently no formal accountability framework for holding CPPs as collective entities to account for their performance (e.g. councils, the NHS, the enterprise network). These bodies are each held to account individually for their own performance.
- there is a lack of a set of common duties and powers which apply to all public service bodies, focussed on improving outcomes and performance expectations⁴.

b) Information gaps

- there are important gaps in the data available to, and publicly reported by, many CPPs about performance and cost that contribute to the local delivery of outcomes
- there is a lack of consistency across CPPs in target setting, performance measurement and public performance reporting which makes an assessment of performance over time, and between partnerships, more difficult
- there is almost no coverage of the collective expenditure by CPP partners against local performance priorities which could be used to link spend to outcomes.

c) Scrutiny gaps

- the absence of a formal accountability framework for CPPs means that there is no independent scrutiny of the local performance of Community Planning Partnerships as collective entities. Instead, the performance of public bodies and the achievement or otherwise of local outcomes is generally reported on a single-agency basis, but with notable exceptions such as SCSWIS Child Protection inspections which are multi-agency in focus⁵.
- a number of important outcome areas (e.g. cultural services, the environment, economic development) are not subject to any comprehensive external scrutiny regime.

⁴ This is a key recommendation arising from the Christie Commission on the Future Delivery of Public Services

⁵ Specific legislation was passed by the Scottish Parliament to facilitate this particular model of working. The Joint Inspection of Children's Services and Inspection of Social Work Services (Scotland) Act

24. The need for better planning and performance management within partnerships is now recognised by key stakeholders such as COSLA, SOLACE, the Improvement Service, the Scottish Government and others. A range of developments is already in place which aims to help improve practice in this area. These include:
- the IS/SOLACE cost and performance benchmarking project
 - the IS project on improving local outcome indicators
 - the SG outcome-based budgeting pilot projects
 - a project supported by the SG to help partnerships identify the contribution that individual partners are making towards local partnership working (known as logic-modelling).
25. These developments have the potential to support better performance management and public performance reporting by CPPs which should contribute to improved accountability and better use of resources.

What criteria will be adopted in order to report and scrutinise performance?

26. The main choices for improving the scrutiny of CPPs can be presented as a spectrum ranging from a relatively narrow systems-based audit of SOAs through to a full audit of CPP performance that would be similar to the local government BV audit, covering all CPP partners that have statutory responsibilities for community planning, with a number of variations in between (Exhibit 2).

Exhibit 2

The spectrum of options for change



Source: Audit Scotland

27. While these varying approaches to the scope of the CPP audit have been presented as choices they can also be considered as stages that accumulate from the least demanding to the most. We believe that the extension to holding CPPs to account should start with „the possible“ and move across the spectrum in stages to whatever is adopted as the final desirable stage, taking account of the lessons learnt from our proposed pilot work. There are potential risks in moving too quickly along the spectrum associated with deliverability, resourcing, added value and sustainability.
28. The further the move along the spectrum, the greater the likely audit and inspection requirements, and the greater the perceived „burden“ there would be on those bodies that are subject to the new audit and inspection regime. Careful consideration needs to be given to this aspect of any new arrangements given that they will need to be proportionate and risk-based, and demonstrate a clear link between the

resources deployed and the value added, above and beyond existing audit and inspection work. Piloting new arrangements would allow these important issues to be tested with our scrutiny partners.

29. Whichever choice is adopted, in order for there to be effective scrutiny, a clearer and more consistent set of performance expectations of CPPs is needed so that valid comparisons can be made between different CPPs. These should draw on the principles of Best Value relating to the demonstration of continuous improvement.
30. Within this spectrum of choices further options are available on the scope of audit and inspection work and the level of assurance that they might offer. These range from:
 - Judgements on the accuracy and reliability of reported performance
 - Judgements on the comprehensiveness of public performance reporting
 - Judgements on relative performance (including the views of local citizens)
 - Judgements on the pace of change of improvement
 - Judgements on the effectiveness of local governance arrangements
 - Judgements on collective leadership.
31. It is assumed for the purposes of this paper that any new arrangements will build on and complement existing partnership planning and performance management arrangements. As local Single Outcome Agreements are the main vehicle for setting targets, measuring performance and reporting improvements at local level, it is suggested that they be used as the initial source for forming audit and inspection judgements on local partnership performance. The focus of the work is likely to be on (i) the performance information which the CPP produces on those activities and costs that have an effect on outcomes and (ii) the effectiveness CPP's performance management.
32. We have also assumed that any new arrangements will draw on the evidence bases available from existing audit and inspection regimes of individual public bodies. However, we would expect this work to adopt a stronger focus on the extent to which individual public bodies are making an effective contribution to, and being supportive of, improved outcomes through the community planning process. Some additional audit and inspection work is likely to be required to draw together audit and inspection judgements and ensure that an adequate evidence base is available for reasonable judgements to be reached on the performance of the CPP. This is likely to carry with it resource implications for the audit and inspection work which would need testing through pilot work.
33. Alongside the various options for change set out in this paper scrutiny bodies will continue to undertake national cross-cutting audit and inspection work which focuses on the effectiveness of partnership working in addressing policies and services. How this work can be best targeted and co-ordinated will be discussed with scrutiny colleagues at the workshop on 22 September. The outcomes of those discussions will then be incorporated into a further refinement of this paper.

A systems-based SOA audit

34. A narrow option would be for Audit Scotland, working in partnership with inspection bodies, to undertake an audit of performance of the CPP (as distinct from the constituents of the CPP) against Single Outcome Agreement objectives.
35. This choice would:
 - Build on existing audit arrangements, and be practical and deliverable
 - Be data driven
 - Reinforce the need for effective arrangements within CPPs for planning, performance management and public performance reporting (PPR)
 - Be proportionate.
36. Using the SOA as the starting point for performance and outcome judgements would reinforce the centrality of this document as the local strategic partnership delivery plan for the area. SOAs do not

cover all aspects of local partnership working, much of which is at sub-strategic partnership level, but they provide a starting point for judgements to be made about the delivery of local strategic outcomes.

37. The variability of quality of both individual SOAs and the public performance reporting that flows from them is a difficulty that has been rehearsed repeatedly. For these new arrangements to be effective the SG would need to set out clearer expectations of the content of SOAs (for example, coverage of issues such as use of resources, citizen satisfaction, etc.) and public bodies would need to improve the quality and consistency of local performance management and public performance reporting.
38. The known weaknesses in the quality and consistency of SOA performance reporting, in particular in existing performance and cost data, and in gaps in data about citizen and user satisfaction, might confound performance comparisons and limit the ability of any SOA audit regime to report comprehensively on CPP performance. More positively, any new independent scrutiny regime that reports publicly on these gaps and weaknesses in existing arrangements would probably act as a spur to improved data capture and public performance reporting in these areas.

A broader SOA/ CPP audit (including governance)

39. It may be difficult to form clear judgements on SOA performance without commenting on local partnership leadership and governance, particularly where data indicates poor performance or a slow pace of change and improvement. For that reason, a broader SOA/ CPP audit (including governance) is included as one of the choices available.

A strategic CPP audit with targeted thematic activity

40. A potential trigger for further risk-based and targeted work would be where any local audit work identified significant deficiencies in the CPP's performance management of activities and costs which affects the delivery of local outcomes. This choice is set out towards the right hand side of the diagram in Exhibit 2. Where appropriate, this work could be undertaken jointly with appropriate service inspectorates. The feasibility of this option will be discussed with scrutiny colleagues at the workshop on 22 September.

A full CPP partnership audit

41. A full partnership audit model would be challenging in terms of resources and logistics with scrutiny partners at a time of reducing scrutiny resources. Implementing this choice would not be feasible without a clear single accountability framework for CPPs. This may require legislative change to establish partnerships as „entities“ or for the SG to set out a common set of duties in line with the Christie recommendations. It may also require a review of the accountable officer framework.
42. It is currently difficult to quantify fully the likely resource needs of any new arrangements. We propose, therefore, that there should be pilot work on any new model before any final decisions for change are determined. Pilot work would also allow us to develop a clearer understanding of the practicality of any change.

To whom will the auditors/inspectors report?

43. We assume that no changes are currently planned to the status of CPPs to create separate legal „partnership“ entities for audit and inspection purposes. Existing legislation provides for individual CPPs to seek ministerial approval for incorporation as formal partnership bodies.
44. Any local audit report about the CPP could be addressed to the CPP Board which would be expected to consider the report at a public meeting and agree a joint improvement plan arising from the audit findings. In formal governance terms we would expect each constituent body also to consider those aspects of the improvement plan that relate to its area of responsibility. Any local audit report would be made publicly available through the Accounts Commission/Audit Scotland website.

45. We will also work with our scrutiny partners and other interested parties to develop arrangements to ensure that areas of good practice are effectively communicated to CPPs to support improvement in partnership working across the sector. Our recent suite of products on „How Councils Work“, which are aimed at improving council performance, may provide a useful model in this regard.
46. The outputs of this work and the actions taken by the CPP in response to any improvement recommendations would be used to feed into the shared risk assessment process.
47. In circumstances where significant weaknesses were identified in local partnership performance attributable to one or more of the statutory partners, current reporting powers could be used to bring these matters to the attention of the Accounts Commission and/or Public Audit Committee respectively. Given the anticipated involvement of service inspectorates in these new arrangements, consideration will need to be given as to how their accountability to Ministers is reflected in the reporting process.
48. Clearly, should any changes be made to the formal accountability arrangements for CPPs by the Scottish Government, these would need to be reflected in any future audit and inspection reporting model.

What needs to be resolved to allow the process to operate?

49. Whatever choice is adopted a number of issues require further consideration to ensure that the process is effective and successful:

Community Planning Partnerships

- Better capture and reporting of performance and cost information.
- Improvements in performance management and monitoring within the public bodies that constitute CPPs.
- More consistent engagement among partners in CPP activity.

Government

- The development of a clear governance and accountability framework for CPPs which takes account of the local democratic accountability in local government and the accountable officer arrangements in other areas of government.
- The introduction of clearer guidance from the Scottish Government on their SOA planning and performance reporting expectations, particularly in relation to cost, community engagement, and the views of citizens and service users.
- Effective engagement across government and the securing of support among local and central government bodies for any new CPP accountability arrangements.
- The development of strengthened focus within Scottish Government on partnership performance as part of existing accountability arrangements within central government bodies. This should involve identifying areas of shared accountability across sectors and aligning performance measurement and reporting within government.
- Consideration of how resource allocation and alignment might contribute to the incentivisation of improved CPP performance.
- Clarification of the role that location directors might play in contributing to any future accountability framework for CPPs.

- Determination by the Scottish Parliament in consultation with the Scottish Government of what role it may play within any new CPP accountability arrangements and the extent of any such role.

Audit and inspection bodies

- Re-focusing of existing audit and inspection regimes, where appropriate and possible, to provide a clearer focus on the extent to which individual public bodies are making an effective contribution to CPP activity.
- Commitment from scrutiny partners to continue to work together in the spirit of the existing scrutiny co-ordination and reduction to deliver a proportionate approach to holding CPPs to account.
- Discussions with government on how any new arrangements may be developed alongside other expectations from government about inspection and regulatory activity, at a time of reductions in budgets.
- Effective piloting of any new arrangements to provide assurance that high quality, credible audit and inspection work which adds value can be delivered within available resources.
- Further discussion with the SG and other interested parties of the lessons learnt from evaluation of the pilot activity prior to any decisions being made on longer-term changes to the audit and inspection of CPPs.



***Supporting improvement and accountability
of Community Planning Partnerships (CPPs)***

A supplementary paper by the Accounts Commission: 14 September 2011

Introduction

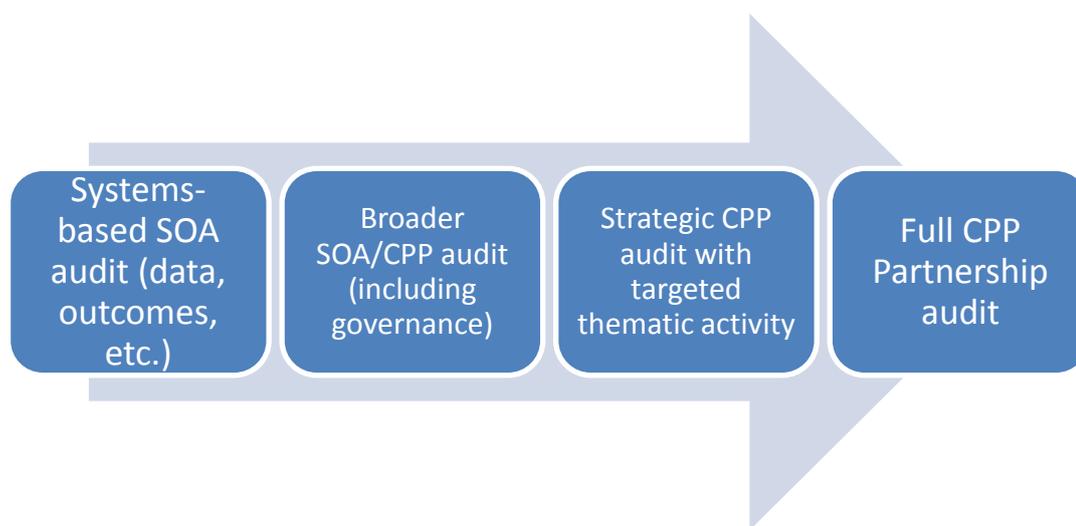
50. The Scottish Government (SG) has asked the Accounts Commission to lead the development work on preparing a case for how external audit and inspection may support the delivery of better outcomes by Community Planning Partnerships (CPPs).
51. We made initial proposals to the Cabinet Secretary for Finance, Employment and Sustainable Growth as set out in our August 2011 paper.
52. At our meeting with the Cabinet Secretary and his officials on the 31st August he asked that we provide further details on:
- how the proposed pilot CPP audit and inspection activity (might operate in practice
 - our views on what might be a realistic timetable for piloting and testing the options for change that we had identified
53. Those further details are set out in this paper, together with proposed next steps.
54. The paper sets out our proposal to work with our scrutiny partners to design, pilot and evaluate an approach to assessing the performance of CPPs. It includes a draft timetable for this work (including engagement with stakeholders). Pilot work will consider CPP leadership and governance, management arrangements, service delivery and outcomes. We will seek to move as far as possible along the spectrum of options for change as existing resources will allow. An important feature of the pilot work will be the development of a set of characteristics of a high performing CPP with our scrutiny partners and other stakeholders. This will establish criteria for the measurement of CPP performance which will be tested through the pilot work.
55. We have a clear focus on improvement in the reporting of CPPs of outcomes and other relevant performance information and our subsequent analysis of this, by holding to account and by other means.

The spectrum of options for change

56. The main choices for improving the scrutiny of CPPs were presented as a spectrum in our earlier paper. This spectrum ranged from a relatively narrow systems-based audit of SOAs through to a full audit of CPP performance that would be similar to the local government BV audit, covering all CPP partners that have statutory responsibilities for community planning, with a number of variations in between (Exhibit 1).

Exhibit 1

The spectrum of options for change



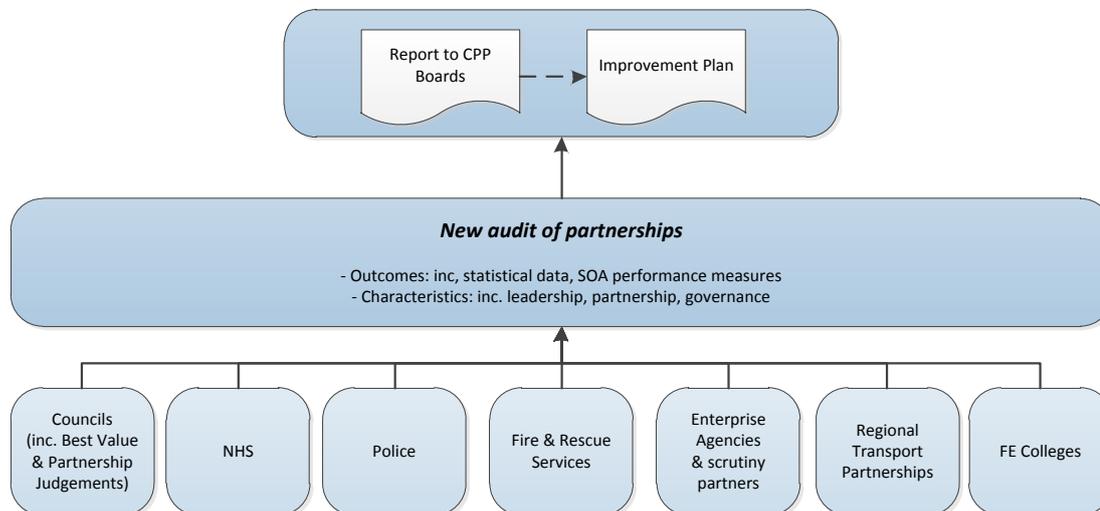
57. As we made clear in that earlier paper, these varying approaches can also be considered as stages that accumulate from the least demanding to the most. We should start with „the possible“ and move as quickly as practicable across the spectrum in stages to whatever is adopted as the final desirable stage, taking account of the lessons learnt from our proposed pilot work. The potential risks in moving too rapidly along the spectrum concern deliverability, resourcing, added value and sustainability. This is a view shared by our scrutiny partners.
58. There is a clear preference amongst our scrutiny partners for any systems-based SOA audit work to be complemented by risk-based thematic scrutiny activity focused on specific client groups or outcome areas, with that thematic work being targeted in areas where it will add value by supporting improved performance. This should be targeted in areas where we and our partners can add value by supporting improved performance and better outcomes. There is a collective willingness to work together in the design and pilot phase to move as far as possible along the spectrum as existing resources will allow.
59. It is important to stress that scrutiny bodies will continue to undertake audit and inspection work of the constituent bodies that form part of the CPP as this will provide an important building block of the evidence that is needed to form judgements on the effectiveness and impact of CPPs at local level.
60. We also recognise the risk that any new scrutiny work may create a perceived new „burden“ on those bodies that are subject to it. We will therefore need to ensure that the pilot activity is proportionate and risk-based, and demonstrates value added, above and beyond existing audit and inspection work.

How might we manage the pilot CPP scrutiny work?

61. A possible new model of reporting and scrutiny to consider the performance of the CPP was shown in our earlier paper and is repeated in Exhibit 2 below.

Exhibit 2

The linkages between local audit work and the SOA audit process



62. The pilot work will aim to secure added value from existing scrutiny data. This means adopting a clearer focus on the contribution of individual bodies to local community planning activity and to directing resources towards agreed local strategic outcomes. For example, the CPP pilot work, among other sources, will draw on:

- Best Value audit evidence on the quality and effectiveness of local community planning arrangements
- Child Protection inspection evidence on the quality and effectiveness of local joint working; to assess how well children at risk in Scotland have their needs identified, assessed and acted upon so as to keep them safe from neglect or abuse.
- Local service inspection reports (education, social work, police and fire and rescue performance) on the quality and effectiveness of local services

63. As with all other local government scrutiny activity there will be a strong focus on proportionality and risk within the CPP pilot work. An important output from the pilot work will be the development of a risk assessment model that can be applied to future CPP scrutiny activity. This risk assessment model is likely to draw heavily on the systems-based SOA audit work that we are proposing to include in the pilot.

64. Self evaluation needs to be embedded within any new approach. The maturity of self evaluation within CPPs is currently very mixed. We will consider whether there is scope for adapting Education Scotland's validated and assisted self-evaluation (VASE) approach to CPPs as part of the pilot work. This could provide a useful vehicle for building capacity and supporting improvement in this area.

65. Clearly we will need to have effective engagement with CPP partners at every stage of the design and piloting process in order to secure engagement and ownership for the work.

Illustrative questions we might we seek to answer through the pilot work?

66. Initial illustrative questions and lines of enquiry that may be used in the CPP pilot are set out in Exhibit 3. We will refine and further develop these with our scrutiny partners and test them through the pilot work. The pilot work may identify that it is not possible to answer all of these questions at this time.

Exhibit 3

Draft CPP audit and inspection questions and potential lines of enquiry

Audit and inspection questions	Lines of enquiry
<i>How well are local outcomes and improvements being delivered?</i>	<p>These will need to be individually tailored for each CPP, based on locally agreed priority outcomes, as set out in the SOA or Community Plan. Through analysing local SOA and other data the work would be targeted around thematic policy outcome area(s) where audit and inspection will add value by supporting improved performance and better outcomes.</p> <p>The locally tailored lines of enquiry would be framed around strategic theme(s) contained within the CPP. For example:</p> <ul style="list-style-type: none"> • How safe is the area? • How healthy and well-supported are people? • How well is adult social care meeting peoples" needs and choices? • How good is the well-being of children and young people? • How strong is the local economy? • What are the employment prospects of local people? • How well is housing need being met? • How well is the CPP supporting sustainability?
<i>How well are local services performing and contributing to effective outcomes?</i>	<ul style="list-style-type: none"> • How well integrated is local service planning and Community Planning? • How aligned are SOA and Community Planning outcomes with service improvement goals and targets? • How well are local services performing, based on local and national performance comparisons?⁶
<i>How well is the CPP engaging with local communities and delivering services and outcomes that meet their needs?</i>	<ul style="list-style-type: none"> • How well are community needs and aspirations reflected in the SOA or Community Plan? • Is appropriate information on the needs of communities systematically collected and shared throughout the CPP? • How well does the CPP engage with local communities, including vulnerable and marginalised groups? • How well is community engagement co-ordinated across partners and how effectively is it used to inform decision-making? • How satisfied are local citizens with their area and locally provided services? • How effectively is the CPP tackling inequality, disadvantage and discrimination?
<i>How well is the CPP operating and making best use of resources?</i>	<ul style="list-style-type: none"> • Is there an agreed vision for the area, and are clear measures against which progress can be measured set out in the SOA or Community Plan? • Does the CPP promote and demonstrate the principles of good governance? • Does the CPP have the leadership, capacity and capability to deliver future improvements? • Are relationships within the CPP effective? • How well is the CPP engaging with the private sector and third sector? • Does the CPP produce and use reliable data and information to support decision-making and manage performance? • Does the CPP have a sound understanding of its performance and costs which allow it to plan effectively to deliver more efficient and effective use of resources? • Does the CPP manage resources effectively to help deliver its strategic priorities? • Is the CPPs performance and financial reporting timely, reliable and does it meet the needs of internal users and other stakeholders?

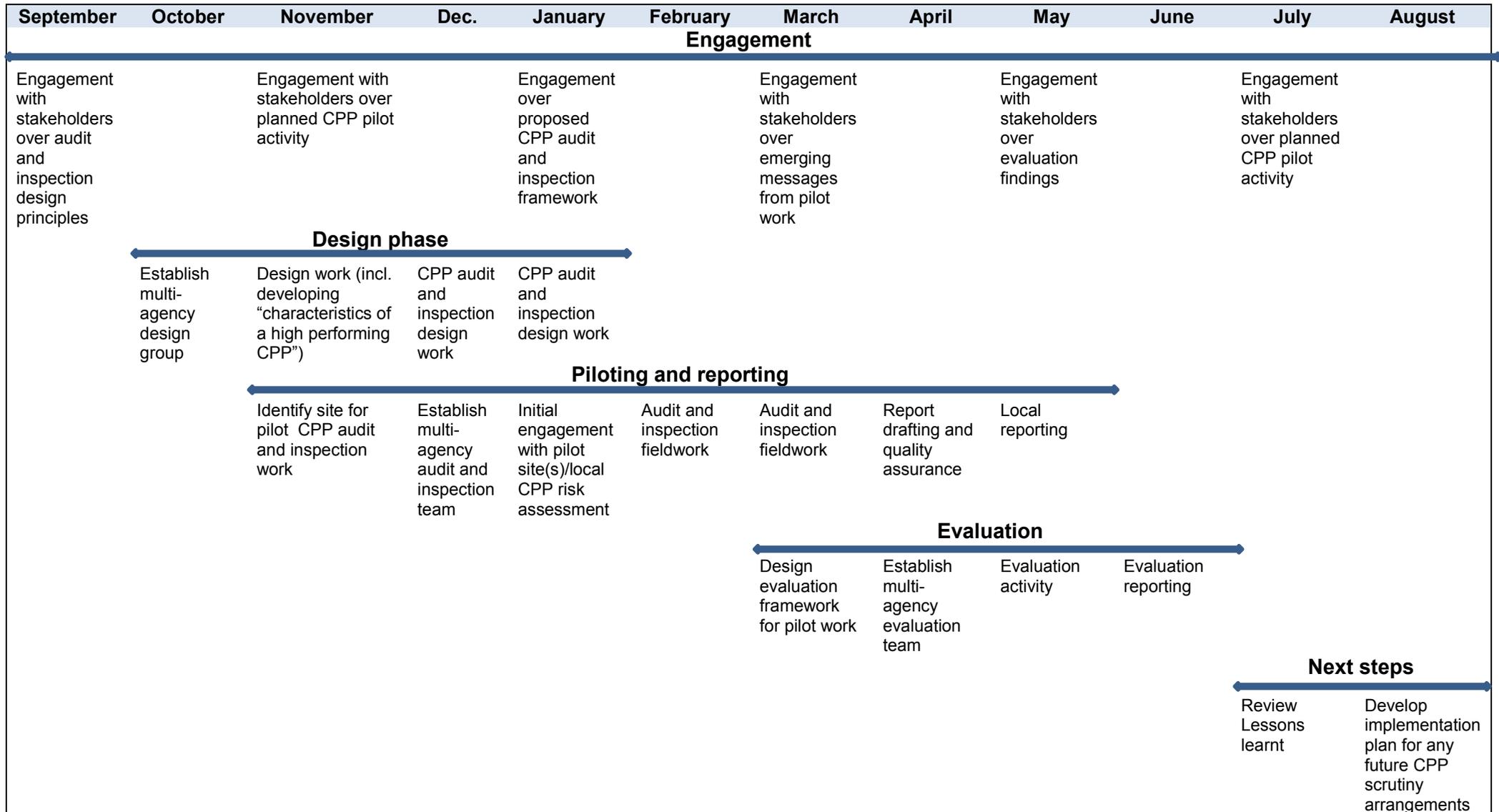
⁶ Where possible performance comparisons will be made among CPP areas where similar SOA indicators and measures have been selected, as well as an assessment of the progress made against locally agreed targets

Indicative timetable for CPP pilot work

67. Exhibit 4 (see following page) sets out an illustrative timetable for CPP pilot work. We believe it provides for an appropriate period of time for effective engagement with stakeholders to ensure commitment to, and ownership of, the proposed pilot approach.
68. The proposed timetable also provides for effective integrated design work with our scrutiny partners to ensure that the pilot work is aligned with other new scrutiny developments, such as SCSWIS's development of a strategic inspection framework for children's services.

Exhibit 4

Draft timetable for CPP audit and inspection pilot work: 2011/12



Initial feedback from our scrutiny partners on options for change

69. This supplementary paper reflects the discussions with our scrutiny partners at the strategic scrutiny group meeting on the 7 September on the initial paper of the end August.
70. Those discussions indicated general support amongst our scrutiny partners and the local government representatives present at the meeting for the proposed approach for piloting and testing the options for change set out in our earlier paper. There was a clear preference for any systems-based SOA audit work to be complemented by risk-based thematic scrutiny activity focused on specific client groups or outcome areas, with that thematic work being targeted in areas where it will add value by supporting improved performance.
71. Our pilot work will assess how possible it is to form judgements on outcomes, service delivery, and the effect on communities. This will be based on our existing audit and inspection arrangements, augmented by targeted additional work.
72. Self evaluation is an important vehicle for building capacity and supporting improvement. There is a clear need for self evaluation to be embedded within any new approach (although the maturity of self evaluation within CPPs is currently very mixed). We will include consideration of this in our pilot work, including assessing the scope for adapting Education Scotland's validated and assisted self-evaluation (VASE) approach to CPPs...
73. There is also a need to align the development work with related scrutiny requests by the SG, such as the request to Social Care and Social Work Improvement Scotland (SCWIS) to develop a strategic inspection framework for children's services.
74. We will also want to ensure that the CPP audit and inspection approach reflects the public service reform agenda which is likely to flow from the spending review.
75. These are all matters that we will consider carefully as we take forward our design and pilot work.

Next steps

76. This supplementary paper sets out our views on what may be a realistic timetable for piloting and testing the options for change that we had identified. We shall continue to discuss these developing proposals with our scrutiny partners and other stakeholders to confirm their support for them and the timetable to which we intend to work.
77. An important feature of the pilot work will be the development of a set of characteristics of a high performing CPP with our scrutiny partners and other stakeholders. This important work will establish criteria for the measurement of CPP performance which will be tested through the pilot work.
78. We will then develop a more detailed design and delivery plan for taking this work forward in partnership with them, including joint evaluation work prior to agreeing any implementation plan for longer-term CPP scrutiny arrangements.
79. It is also very important that the issues that require further consideration by CPPs, government, and audit and inspection agencies identified in our earlier paper are addressed to allow the CPP pilot process to be effective

Conclusion

80. The Commission is invited to note this report.

Appendix 3: Letter from John Swinney dated 21 September.

Cabinet Secretary for Finance, Employment and Sustainable Growth
John Swinney MSP

T: 0845 774 1741
E: scottish.ministers@scotland.gsi.gov.uk



Professor John Bellie
Chairman
Accounts Commission for Scotland
110 George Street
EDINBURGH
EH2 4LH

21 September 2011

Thank you very much for your letter of 14 September, enclosing a copy of your supplementary paper on supporting improvement and accountability of Community Planning Partnerships (CPPs).

I have greatly appreciated the efforts of the Accounts Commission to lead work on reforming external scrutiny in recent years, working with other inspectorates and regulators to reduce the overall burden of scrutiny on Scotland's councils and to increase its impact through a proportionate and risk-based approach to prioritising areas of activity. I am keen that we can build on this progress to consider how external scrutiny can support the delivery of better outcomes at the level of Community Planning Partnerships. When we met in July, I asked if the Commission could develop further thinking on this matter. I am grateful to the Commission for agreeing to take this work forward and for developing proposals which set out how this might be done, including in your latest supplementary paper.

I attach great importance to this work. This week I announce the Government's Spending Review for the forthcoming 3 years. This is a very difficult spending round for all of Scotland's public services, as a result of the tightest financial settlement we have received in a generation. In this challenging climate, it is more important than ever that we can obtain assurance that limited public resources are being used efficiently, managed well and are most effectively delivering outcomes for local citizens across Scotland.

Our agenda is clear. There is now a clear consensus that the future of our public services requires a focus on outcomes, on place and on disrespecting organisational boundaries. We have stated that our public service reform agenda will be built on four pillars: a decisive shift towards prevention; a greater focus on place to drive better partnership working and local delivery; investment in people who deliver services through enhanced workforce development and effective leadership, and a more transparent and performance-orientated public service culture which improves standards of service. There is a strong correlation

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between these themes and challenges which the Commission has set for local government through your *Overview of Local Government in Scotland* reports.

The Commission's proposals set out a strong platform for this work. I am now asking the Commission, building on this platform, to take the lead in work to test the role that external scrutiny can play in assessing the performance of CPPs and in promoting effective practice. I am interested in particular in the effectiveness of partnership working, including the correlation of spend to outcomes and how the needs and resources of local communities are engaged. I have asked my officials to work closely with Audit Scotland staff in supporting this activity.

We also discussed at our meeting in July what work the Commission is doing to promote continuous improvement by local authorities. This work remains very important and I look forward to discussing progress with you again in due course.



JOHN SWINNEY

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

REPORT BY SECRETARY & BUSINESS MANAGER

ACCOUNTS COMMISSION MEETINGS 2012

Purpose

1. The purpose of this report is to propose a schedule of meeting dates for the Commission for 2012. The Commission is invited to consider for approval the proposed schedule.

Proposed schedule

2. The proposed schedule – setting out dates of meetings of the Commission, the Performance Audit Committee and the Financial Audit and Assurance Committee - is attached at the Appendix.
3. This has already been circulated to Commission members for views and comment. The only significant query that was raised is whether to have a meeting in either July or August 2012.

Conclusion

4. The Commission is invited to consider for approval the proposed schedule.

Paul Reilly
Secretary and Business Manager
30 September 2011

APPENDIX

**ACCOUNTS COMMISSION
DRAFT MEETING DATES FOR 2012**

January 19	Accounts Commission
February 2	PA Committee
February 9	FAA Committee
February 16	Accounts Commission
March 15	Accounts Commission
March 29	PA Committee
April 19	Accounts Commission
May 10	FAA Committee
May 17	Accounts Commission
June 7	PA Committee
June 14	Accounts Commission
July 19	Accounts Commission
September 6	PA Committee
September 13	Accounts Commission
September 20	FAA Committee
October 18	Accounts Commission
November 1	PA Committee
November 15	Accounts Commission
November 29	FAA Committee
December 13	Accounts Commission

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

REPORT BY ASSISTANT AUDITOR GENERAL

APPOINTMENT AS AUDITORS OF LOCAL AUTHORITY CHARITIES

1. Introduction

- 1.1 The purpose of this paper is to ask the Commission to approve appointments of Audit Scotland staff as auditors of certain local authority charities.

2. Background

- 2.1 Under section 106 of the Local Government (Scotland) Act 1973 the accounting and auditing provisions of the Act apply in full to any charity where the trustees are all members of one or more local authorities. In practice these requirements have been deemed to be met if the local authority includes a summary of its charities income, expenditure, assets and liabilities within its overall accounts.
- 2.2 The Charities Accounts (Scotland) Regulations 2006 require all charities with income in excess of £500,000 per year or assets of more than £2.8 million to be subject to a full audit. There has been a long running informal agreement between The Office of the Scottish Charity Regulator (OSCR) and local authorities as to how they would move to full compliance with the Regulations over a period of years. In the short term however OSCR has made it clear that they want to see full compliance with the accounting and auditing Regulations for all large charities. This requires a separate set of accounts prepared in compliance with the Charities SORP and a full audit.

3. Audit appointments

- 3.1 Under the Regulations auditors must be eligible for appointment under the Companies Act 1989, or be the Auditor General for Scotland or be appointed by the Accounts Commission.
- 3.2 For local authorities audited by firms there is no problem as the firm will be eligible to audit companies and can therefore accept a request to audit one of these charities. However where the auditor is a member of staff of Audit Scotland they will need to be appointed by the Commission.
- 3.3 Whilst to date only one local authority has asked its Audit Scotland appointed auditor to undertake the audit of one of these large charities others may do so either this year or in the future. Rather than returning to the Commission on every occasion that a local authority requests its Audit Scotland auditor to undertake an audit under the Charity Accounts Regulations we are seeking the Commission's generic approval of appointments for this type of audit as set out in the recommendation below.

4 Recommendation

- 4.1 The Commission is recommended to approve the appointment of those members of staff of Audit Scotland appointed by the Commission to be the auditor of a local authority in Scotland or to assist that auditor by signing the audit report on the financial statements to be the auditor under paragraph 10 of the Charities Accounts (Scotland) Regulations 2006 of any Charity connected to that authority by virtue of section 106 of the Local Government (Scotland) Act 1973. The approval is recommended to apply to audits for the 2010/11 financial year and subsequent years.

Russell Frith
Assistant Auditor General
5 October 2011

ACCOUNTS COMMISSION

MEETING 13 OCTOBER 2011

COVER NOTE BY SECRETARY & BUSINESS MANAGER

STIRLING COUNCIL – BEST VALUE AUDIT REPORT

Purpose

1. The purpose of this report is to introduce the Best Value audit report on Stirling Council. The Commission is invited to consider the report and decide how it wishes to proceed.

The report

2. The report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
3. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.
4. After the Commission has considered and agreed its action on the report, a summary report will be prepared for publication alongside the report. This will be prepared in the style preferred by the Commission when it reviewed options as part of the evaluation of the Best Value 2 pathfinder audits. The summary report will be circulated to Commission members prior to publication.

Procedure

5. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them –
 - (a) Direct the Controller of Audit to carry out further investigations;
 - (b) Hold a hearing;
 - (c) State its findings.
6. Members of the audit team will be present at the Commission's meeting and will be available to answer questions.

Conclusion

7. The Commission is invited to –
 - consider the Best Value audit report by the Controller of Audit on Stirling Council; and
 - decide how it wishes to proceed.

Paul Reilly
Secretary and Business Manager
30 September 2011

Stirling Council

Audit of Best Value and Community Planning

DRAFT

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

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Commission findings

Insert subheading

Part 1. The Audit of Best Value

Best Value

1. The statutory duty of Best Value in local government was introduced in the Local Government in Scotland Act 2003. In response, the Accounts Commission consulted on, and implemented, the audit of Best Value and Community Planning. The first round of Best Value audit reports have been published on all 32 councils in Scotland.
2. This next phase of the Best Value audit is carried out and reported under the same legislative framework, but the approach has moved on significantly from the 32 baseline audits. In particular, the audits are:
 - More proportionate and risk-based, reflecting more closely the particular issues faced by individual councils and their partners.
 - Founded on a shared risk assessment process, conducted with colleagues from other local government inspectorates particularly Education Scotland, the Care Inspectorate ¹ and the Scottish Housing Regulator (SHR).
 - More focused on impact and outcomes, and the difference the council and its partners are making for local communities.
 - Designed to provide a more rounded view of partnership working in a local area, and the difference it is making.

Stirling Council Best Value audit scope

3. Best value is an important part of the wider scrutiny arrangements in councils in Scotland. Audit Scotland works closely with other local government inspectorates, undertaking a shared risk assessment process for all 32 local authorities, to support the delivery of targeted, risk-based scrutiny. This process results in each council receiving an Assurance and Improvement Plan (AIP) each year which sets out the scrutiny activity that the council can expect to take place over a rolling three year period. The first AIPs, which were published in July 2010, covered the period from April 2010 – March 2013, the most current AIPs were published in May 2011 and cover the period April 2011 to March 2014.
4. The 2010/13 Stirling Council AIP identifies the need for a Best Value audit as a part of the required response to local scrutiny risks. This was largely in response to areas of uncertainty over the council's corporate arrangements, and some aspects of its service delivery, including the economy and environmental services. The 2011/14 AIP update noted that self-evaluation had improved in the council and that the number of areas of uncertainty had reduced. As such the 2011/14 AIP recognised that the scope of this Best Value audit would be narrower than

¹ The Care Inspectorate is the independent scrutiny and improvement body for care and children's services.

previously anticipated. The audit focused on specific aspects within three main areas of assessment:

- outcomes for communities
 - service provision
 - the council's corporate arrangements.
5. The audit scope included the two broad outcome themes of the economy and the environment from the council's strategic priorities. The audit aimed to give the council an independent external perspective on how it works with partners and manages the delivery of these outcomes, including how the partnership monitors and reports progress.
 6. The economy features prominently in the council's strategic plan and the Single Outcome Agreement (SOA), and is an area of risk for all councils in the current economic climate. The council's work in supporting the economy remained an area of uncertainty in the updated 2011/12 AIP.
 7. The environment and sustainability were identified as areas of uncertainty in the 2010/11 AIP, and had been identified as areas of 'no significant concern' in the 2011/12 AIP. However, the Best Value audit included environment and sustainability within its scope to look more closely at the performance of services including roads, waste management, and planning; and to allow a fuller examination of how partnership working is applied in practice.
 8. Significant areas within the council's corporate activities remained areas of uncertainty under the 2011/12 AIP. These areas are fundamental to Best Value and were given a strong focus in the audit. The corporate assessment considered how the council uses resources to deliver its priorities. This includes: how it achieves improvements and efficiencies; how well it works with its partners; performance management and scrutiny; and how well it fulfils its equal opportunities and sustainability duties.
 9. There are a number of areas we did not focus on during the audit as other inspection work has recently taken place or is scheduled. This was to minimise any overlap or duplication of scrutiny activity. This report includes the conclusions from such inspection work where appropriate. Recent or planned inspection work and performance judgements which we have drawn on as part of the scoping and reporting of the Best Value audit includes:
 - Stirling provides a high quality education service. HMIE has noted that attainment levels are being maintained and a number of improvement initiatives are underway. As a result these areas were not a focus for the Best Value audit.
 - During 2010/11 the Social Work Inspection Agency (SWIA)² carried out an inspection of social work services in prisons which included services provided at Cornton Vale. SWIA also conducted a follow-up social work inspection in September 2010 following a performance inspection in 2009. This noted improved leadership and progress against

² From 1 April 2011, the new body, the Care Inspectorate, replaced SWIA, under the terms of the Public Services Reform (Scotland) Act 2010.

the recommendations for vulnerable client groups. In 2012/13 the Care Inspectorate plan to carry out an Initial Scrutiny Level Assessment (ISLA).

- A joint inspection of services to protect children and young people was carried out by Her Majesty's Inspectorate of Education (HMIE) (now Education Scotland) and the Care Commission in March 2010. This identified areas of concern and evaluated a number of areas of practice as weak. The follow-through child protection inspection published in August 2011 noted that the council had taken effective action against all the improvement areas.
- The SHR inspection of the council's housing management function rated its housing management and asset management and response repairs service as „C“ or Fair grades in March 2010. The 2011/12 – 2013/14 AIP identified further planned inspection work including a SHR review of progress made since the 2010 inspection, and a review of the council's self assessment of progress towards the 2012 homelessness target.

About this audit report

10. The first Best Value report on Stirling Council was published in March 2005. The Accounts Commission found that, at that time, the council performed well against the Best Value and Community Planning criteria and had a clear vision for the area. Areas for improvement included scrutiny, resource management; and performance reporting. The report also identified the need for the council to sustain improvement.
11. We carried out the Best Value audit in Stirling between February 2011 and August 2011. The scoping work started in February 2011 the team undertook its main on-site activity at the council, in April 2011.
12. We gratefully acknowledge the co-operation and assistance provided to the audit team by the Chief Executive Bob Jack, the Leader of the Council, Councillor Graham Houston, the council's partners that were interviewed as part of the audit, and all other elected members and staff involved.

Part 2. Overall conclusions

13. The council has set a clear vision for the area that recognises the local context. Political leadership is strong and elected members work well together across parties. The council's governance and scrutiny arrangements are effective and support cross-party working. The chief executive and Corporate Management Team (CMT) provide strong leadership of the council's improvement activity including the change programme.
14. The council has actively promoted partnership working across the Forth Valley area in areas including child protection, asset management, and its shared service initiative with Clackmannanshire Council. However it must strengthen the community planning arrangements within the Stirling area itself if it is to better demonstrate improved outcomes. It has a plan in place to improve the governance and performance management of the Community Planning Partnership (CPP), but this has not yet been fully implemented.
15. The council has made good progress against the improvement areas identified at the time of the initial Best Value audit in 2005. It has put in place effective scrutiny arrangements, and has improved performance management and public reporting. The council recognises that it needs to develop its performance management framework further to cover its strategic objectives and local outcome priorities. It has also improved its budget planning process and this now takes a longer-term perspective and has strong involvement from elected members. Workforce planning practice has improved in specific areas but is not well developed across the organisation. The council's resource management practice has improved in areas including asset management and procurement, and the council continues to develop a more strategic approach in these areas.
16. The council has implemented some significant service improvements since the first Best Value audit including: its schools estate programme to improve schools and education facilities, constructing park and ride facilities, regeneration in Raploch, its community safety initiatives, and improving leisure provision. It is also making good progress in reshaping services for older people to give more emphasis to care at home. The Care Inspectorate noted in the August 2011 joint interim follow-through child protection inspection that the council is taking effective action against all of the agreed areas of improvement. The council has invested in its roads maintenance activity and roads condition has improved slightly compared to the national average, but overall condition remains poor. The SHR evaluated the council's housing management service as fair in 2010. The council has an action plan in place for its housing service and SHR will provide updates of progress in 2011/12.
17. Following a change of political administration in 2008 a full review of the council's management structure was initiated. This was completed in 2009 following the appointment of the current chief executive. It has also made progress with a significant change programme to realise efficiencies and has reached a major shared services agreement with Clackmannanshire Council to jointly manage education and social work services between these councils.

18. The council has effective corporate working arrangements with the chief executive, assistant chief executives, and heads of service working collaboratively to deliver council-wide issues such as efficiencies, performance management and improvement. The council is self-aware and has a strong focus on improvement. It is aware that it needs to continue to promote this corporate working throughout the organisation. It is engaging with service managers and applying its leadership development programme more widely as part of this.

Performance assessment

19. The Best Value audit provides two overall judgements on council performance. One assesses how well the council is performing and the other covers the council's prospects for improvement. Descriptions for each judgement can be found at Appendix 1.
20. The council's overall performance is good:
- Satisfaction with council services is good and improving and the council engages well with service users. Many services are performing well and improving, including education, adult learning, waste recycling and sports and leisure provision. The council performs less well in relation to the condition of local roads and waste management costs. Some important areas require further improvement, including child protection services where the council is now making effective progress with the improvement actions identified through the critical 2010 joint inspection.
 - The council is not currently able to clearly demonstrate its progress in delivering the local outcome priorities for Stirling. However available information indicates that resident satisfaction is good and improving, and outcomes are generally good and improving in the areas of education, overall levels of health, and the quality of the environment. The council does not clearly demonstrate the impact of its activities in sustaining rural areas and addressing economic disparity.
 - The council has made good progress against the improvement areas arising from the 2005 Best Value audit. Performance management has improved since the initial Best Value audit, but the council needs to improve the way it monitors and reports its progress against its local outcome priorities. It has also improved its workforce planning, procurement and asset management arrangements, and must now continue to apply this more consistently across the organisation.
21. The council has good prospects for future improvement:
- The council has strong corporate and political leadership and elected members work well together across political parties. Scrutiny and the governance arrangements in the council are effective. The current council management structure has been in place since late 2009. The council has more work to embed the corporate culture throughout the organisation.
 - The council actively engages in partnership working at a number of levels, including the wider Forth Valley area, and its agreement with Clackmannanshire Council to jointly manage education and social work services. The council has identified the need to improve the management and reporting arrangements for its community planning

arrangements for the Stirling area. It should also continue to work with its partners to review and simplify partnership working arrangements to ensure the best use of the resources deployed.

- The council underwent a significant restructure in 2009, and efficiencies are a focus of its on-going change management programme. The council is making good initial progress with its budget workstreams to achieve efficiency savings, and as of May 2011 it reported that approximately 80 per cent of the £6.9 million efficiency savings to be delivered through these workstreams for 2011/12 were on track. There is strong involvement in, and commitment to, change from the senior managers. The change programme is communicated to staff, but there is not a consistent understanding of change across the organisation as a whole. The council is committed to self-evaluation and has identified a number of improvements through the Public Service Improvement Framework (PSIF) and is now applying this more widely across council services.
- The council has improved its budget planning process, and elected members are effectively involved in setting the council's priorities and budget planning. The council is aware of the improvements that it needs to make and has good management arrangements in place to deliver the change agenda. The council has improved its performance management arrangements for services, but has more work to improve the way it demonstrates progress against outcomes, and value for money.

Areas for improvement

22. The main areas for improvement for the council identified through this audit are to:
 - Strengthen its arrangements for partnership working including streamlining its partnership arrangements, and improving the management and reporting arrangements for the Stirling CPP. The council should also demonstrate the impact of its activities in areas important to its vision of addressing economic inequalities, and supporting rural communities.
 - Continue to develop performance management throughout the organisation to include reporting against outcomes, and service quality and value for money indicators.
 - Develop a more strategic approach to people management, asset management and procurement, building on the progress already made in these areas.
 - Strengthen the leadership and direction of the council's approach to equalities and better demonstrate the impact of its activities in this area.
 - Develop stronger corporate working throughout the organisation below CMT level. Consult regularly with staff to monitor the impact of the change programme and other improvement activity and take action as required.
23. The council will need to consider how these are prioritised in view of its on-going improvement programme which includes improvement actions resulting from service inspections, and its PSIF activity.

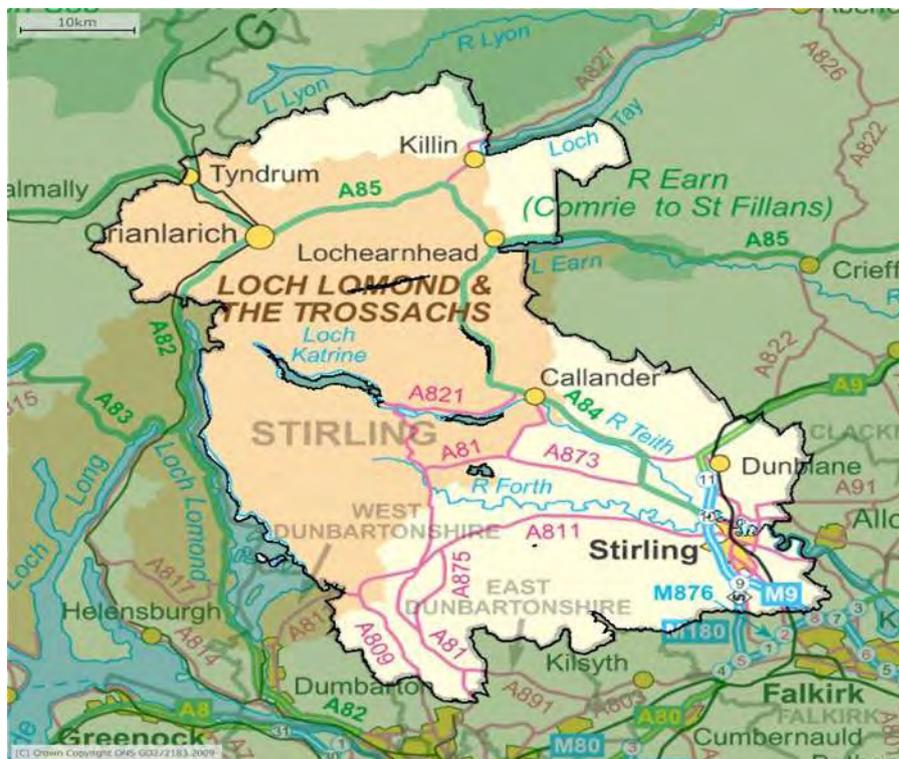
Part 3. Local context

Stirling

24. The Stirling Council area covers some 2,187 square km. It is the ninth largest council in Scotland by land area, and with a population of 88,740 (2009), it is the 11th least densely populated. It is largely rural and includes an area of the Loch Lomond and the Trossachs National Park. Stirling shares borders with seven other local authorities: Perth and Kinross; Argyll and Bute; West Dunbartonshire; East Dunbartonshire; North Lanarkshire; Falkirk and Clackmannanshire. Stirling is a relatively affluent area that has low crime, good levels of resident satisfaction and its residents have generally good health. Educational attainment is better than the national average.
25. The population projections for Stirling mirror the national average for Scotland with an estimated increase of 6.8 per cent between 2008 and 2033. It will, though, have an increasingly older population with the number of people of pensionable age predicted to increase by almost one third in this period.
26. Over 60 per cent of the population reside in the city of Stirling, and the towns of Dunblane, Bannockburn and Bridge of Allan. There are nine other towns with populations over 1,000 with the remaining population living in around 30 smaller rural settlements. The area has an outstanding natural environment and includes part of the Loch Lomond and the Trossachs National Park (Exhibit 1). The largely rural nature of Stirling brings challenges for the council and its partners in delivering services across dispersed rural communities.

Exhibit 1

The Stirling Council area



Source: Nomis, official labour market statistics (to be updated)

27. Unemployment levels, crime rates and health and well being in the area compare well with the Scottish averages. The area has lower levels of deprivation than the Scottish average, with some five per cent (4,688) of Stirling's population living in areas rated as the most deprived 15 per cent of Scotland. The health and wellbeing profile³ for Stirling shows that it is significantly better than the Scottish average in 37 of the 59 measures covering health and life expectancy, mental health, social care, housing, education, the economy, and crime. In schools, qualifications attainment is above the national average and improving.
28. The region is centrally located in Scotland with good road and rail links between Stirling city and Glasgow, Edinburgh, Dundee, Inverness and Aberdeen. Transport to rural areas is more limited and in Stirling car ownership is higher than the national average, while the condition of Stirling's roads is worse than the national average.
29. The unemployment claimant count in Stirling remains lower than the Scottish average at 4.4 per cent compared to just over five per cent nationally (as at May 2011), but has increased at a higher rate than the national average in recent years. Wages are above the national average. Stirling's economy is reliant on the public and service sector which includes the

³ Scottish Public Health Observatory (ScotPHO) which provides public health intelligence and information to the public health community

education, health, and financial services and has relatively fewer people employed in construction and manufacturing. Public services, including education and health, account for approximately one third of jobs, and any reductions in employment in these areas will therefore have an impact on employment in the area.

The council

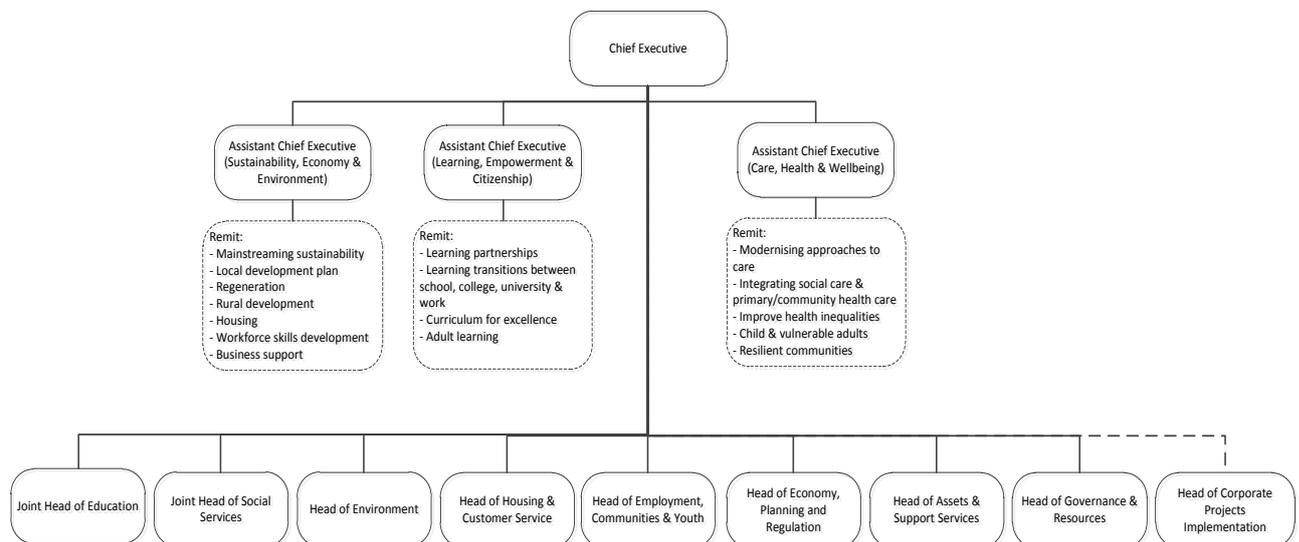
30. Stirling has 22 elected members and comprises seven multi-member wards. The political make-up is, eight Labour, seven Scottish National Party (SNP), four Conservative and three Liberal Democrat members. The council has a close political balance, and the SNP form a minority administration following a council vote in March 2008. As such the current SNP leadership replaced the Labour-Liberal Democrat administration that was formed following the May 2007 council elections.
31. The council's priorities have been agreed by all parties and have a strong focus on the economy as a means to improve general wellbeing in the area. The council does not operate area committees but has seven regional community planning forums linked to community councils.
32. The council's political arrangements include:
 - an Executive Committee, responsible for the strategic leadership of the council
 - a Governance and Audit Committee, to ensure sound internal controls and to oversee how the councils manages its resources
 - a Service Delivery and Performance Committee, to scrutinise the decisions of the Executive, and to oversee the council's services
 - Strategic Forums to facilitate cross-party working and make recommendations to council
 - panels and boards, to deliver statutory functions such as the Licensing Board.
33. The executive of the council is chaired by the leader and comprises nine members including the portfolio holders from the leading administration political grouping, and three opposition group leaders. The two scrutiny committees (Service Delivery and Performance and the Governance and Audit Committee) are chaired by opposition members and have a majority of opposition members on them.
34. The council leadership initiated a significant restructuring of the council following their appointment in 2008. This was implemented by late 2009 under the direction of the chief executive. This was designed to strengthen the council's strategic and corporate management. It replaced a directorate structure with a senior leadership team of the chief executive and three assistant chief executives, supported by eleven Heads of Service. In August 2011 the council agreed to refine the structure further, reducing the number of heads of service to eight (Exhibit 2).
35. The operational management of the council is the responsibility of the senior leadership team and the heads of service. The heads of service have full management responsibility for service delivery, customer focus, continuous improvement and efficiency. They are directly

accountable to the chief executive who is supported in the management of their performance by the assistant chief executives.

36. The assistant chief executives are each accountable to the chief executive for strategy and corporate performance in wider themed areas of: Care, Health and Well-being; Learning, Empowerment and Citizenship; and Sustainability, Economy and Environment. The assistant chief executives have specific strategic remits and shared responsibility for overall corporate improvement. They do not have executive management responsibility for service functions, but have a role in policy development, strategic planning and mentoring the “link” heads of service for their particular thematic area. This includes guiding and challenging the heads of service on their contributions to the council's objectives, and improving working between service departments. The absence of direct management responsibility for services gives the assistant chief executives greater capacity for this strategic role.

Exhibit 2

The council's management structure



Source: Stirling Council

37. As at 31 December 2010, the council employed 3,600 full time equivalent staff. The estimated net expenditure of the council for 2010/11 is £206.4 million, equating to £2,326 expenditure per head of population, slightly below the average for Scotland of £2,403. The average level of council tax is slightly above the Scottish average, with band D for 2010/11 at £1,209 compared to a national average of £1,138.

Part 4. Is the council working effectively with its partners to improve Stirling?

The council and its partners have set a clear vision for Stirling which reflects the needs of the local area. The council works with partners through a range of forums, and actively promotes partnership working across the wider Forth Valley area. It has made good initial progress in agreeing a shared services agreement with Clackmannanshire Council. The council recognises that it must review and simplify its partnership working arrangements. The management and reporting arrangements for the CPP for the Stirling council area are not well developed. The council is putting measures in place to strengthen the performance management arrangements of the CPP including reporting against action plans for the community planning groups.

Are they focused on the challenges for Stirling?

38. The council and its partners demonstrate that they understand the context in which they operate. The SOA 2008-2011 provides a clear account of the local social, economic and environmental context. It recognises the good quality of life, good levels of health and education, and also the social and economic disparity between the most and least affluent areas. The council's strategic plan links well with the SOA and the documents share the same priorities (Exhibit 3).

Exhibit 3

Stirling's strategic priorities 2008-2011

- Making Stirling a place with a vibrant economy that is open for business.
- Making Stirling a place with jobs and opportunities for all.
- Making Stirling a place where lifelong learning is valued and encouraged.
- Making Stirling a place where improved wellbeing adds life to years, not just years to life.
- Making Stirling a place with safe, strong and resilient communities.
- Making Stirling a place with a high quality environment.

Source: *Stirling Single Outcome Agreement 2008-11*

39. Both the SOA and the strategic plan set out a wide range of actions and targets to measure progress against the strategic priorities. These would benefit from being further refined to give a clearer picture of progress. The council's annual "Stirling Performs" report gives an overview

of the council's progress against its strategic plan, but does not report consistently across all of the actions and targets.

40. The council and its partners formally reported progress against the 2008/09 SOA, but they have not reported on the progress made against the 2009/10 SOA. Elected members considered a draft performance report at a council meeting in October 2010, but asked for a simpler, more user friendly report to be produced. At the time of writing this has not been done and Stirling remains the only partnership not to have published an SOA performance report for 2009/10.
41. From 2010 the council has managed its priority actions for heads of service and the senior leadership team through its senior management objectives (SMO). The SMO include service and improvement priorities as well as objectives from the SOA and the council's strategic plan. The SMO are reported to council, and are an important part of the performance review and appraisal process for senior managers.
42. Elected members agreed updated strategic priorities for the council in March 2011 and work is on-going to revise the strategic plan, service plans, and performance reporting frameworks around these. The objectives for senior management have been revised, and workshops with elected members were held over the summer of 2011 to consider how the strategic objectives will be delivered.

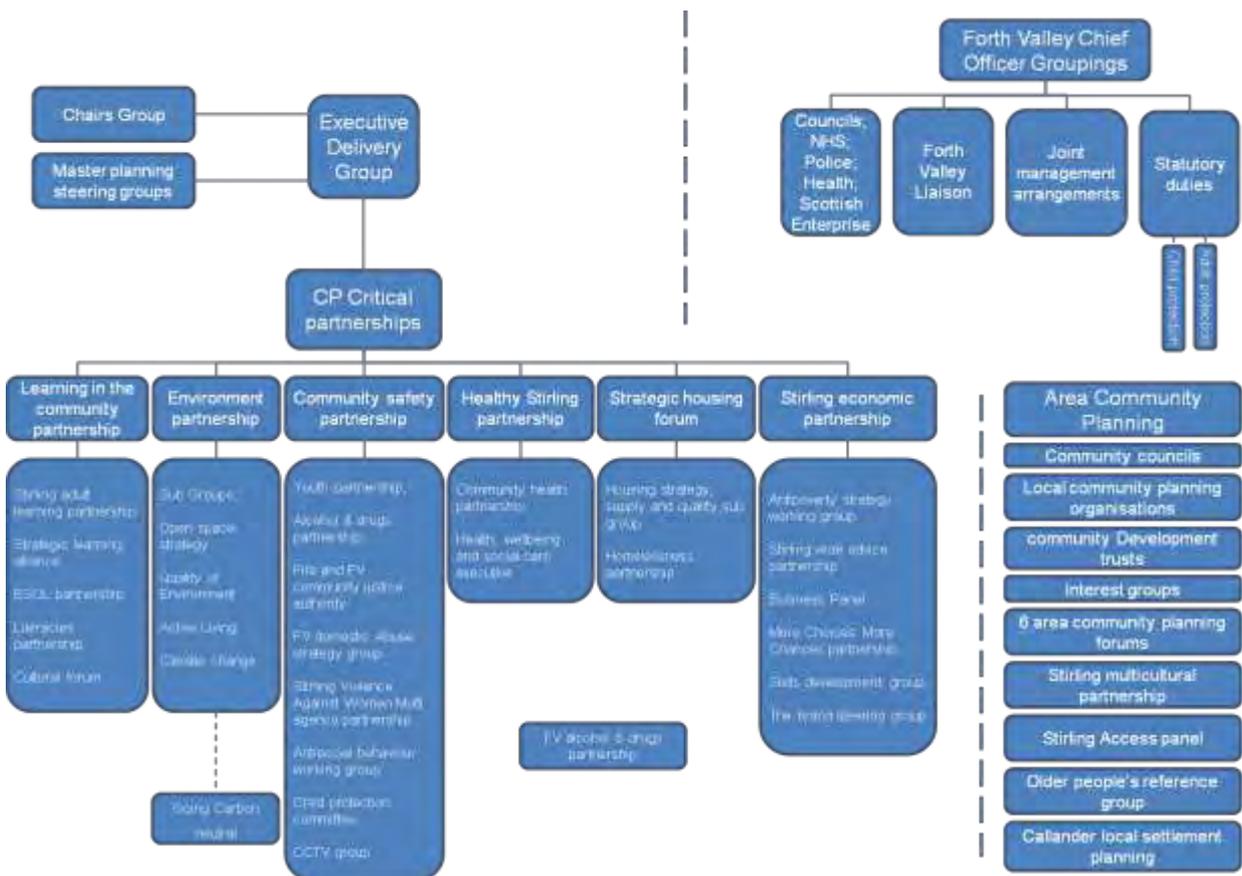
How effective is partnership working?

43. The chief executive and senior officers actively work with partners through a range of bodies. These include partnership groups that operate over the wider Forth Valley area and the community planning partnership for the Stirling council area itself. The main partnership working arrangements include:
 - A series of Forth Valley-wide chief officer groups that involve chief executives and senior management from key public bodies in the area, including Clackmannanshire, Falkirk and Stirling Councils, Forth Valley NHS, Central Scotland Police Force, and Central Scotland Fire and Rescue Service. This includes joint measures for overseeing child protection activity.
 - The CPP for Stirling, which brings together key partners in the Stirling area including Stirling Council, Forth Valley NHS, Central Scotland Police Force, Central Scotland Fire and Rescue Service, Forth Valley College, Stirling University, Scottish Enterprise, Tayside and Central Scotland Transport Partnership and a third sector representative body.
 - Loch Lomond and the Trossachs National Park Authority (LL&TNPA), a non-departmental public body, led by a board with 25 Members, six of which are nominated by the local authorities of Argyll & Bute, Stirling, West Dunbartonshire and Perth & Kinross, two of whom come from Stirling Council.
 - The community health partnership involving NHS Forth Valley and Stirling Council.

- The Strategic Learning Alliance, involving Forth Valley College, Stirling University, Stirling Council, and Skills Development Scotland.
44. Partnership working through the Forth Valley chief officer groups has helped to strengthen joint working between the council, health, the third sector and the police. However the council's partnership working arrangements for Stirling and the Forth Valley area are complex (Exhibit 4). The council recognises that this complexity can lead to duplication and a lack of clarity over the roles of the various bodies. In March 2010 the council recommended that it review the remits of cross-organisational working groups. The council scheduled this review to be completed by June 2011, but the work remains on-going. The council and its partners should ensure that they complete this work to ensure that partnership working arrangements are clearly understood and make the most effective of the resources deployed.

Exhibit 4

Overview of Stirling Council's partnership working arrangements for Stirling and the Forth Valley area



Source: Audit Scotland

45. The council has reached a shared service agreement in the major areas of education and social care with Clackmannanshire Council (Exhibit 5). The councils aim to work in partnership to share expertise, integrate the services and realise efficiencies.

Exhibit 5

Stirling Council and Clackmannanshire Council shared service agreement

In December 2010 Stirling Council and Clackmannanshire Council reached a shared service agreement in the major service areas of education and social care. This aims to integrate these service areas between the councils, to share good practice and to realise efficiencies.

Heads of joint service were appointed for education and social care in March 2011 to work across both councils. The joint service reports separately to the appropriate committee in each council. The councils aim to have joint management structures for both services in place by autumn 2011. Effective management arrangements are in place to oversee this process and involve elected members. A programme board was set up in January 2011 comprising the two chief executives and senior managers with expertise in education, social care, finance and human resources. The programme board reports monthly to a steering group of elected members, and also reports individually to each council. The councils have identified the potential to share further services such as personnel and IT functions as part of this arrangement.

Source: Audit Scotland

46. The councils are developing a delivery plan to integrate their services. This will involve on-going service redesign to seek efficiencies and other service benefits, though it is too early to comment on the impact of these measures. On-going scrutiny and inspection work in these areas will evaluate the quality of services provided through the new arrangements.
47. The CPP for the Stirling council area includes a wide representation from across local public sector organisations. It comprises an executive delivery group (EDG) to oversee the partnership, and five community planning groups to deliver outcomes in areas of community safety, the economy, learning, health, and the environment.
48. The EDG is chaired by the elected member portfolio holder for community planning. It comprises the council's Chief Executive, Stirling CPP officer, and representatives from, Central Scotland Police, Central Scotland Fire & Rescue, Forth Valley College, Loch Lomond and the Trossachs National Park, NHS Forth Valley, Scottish Enterprise, Scottish Government, Stirling University, Stirlingshire Voluntary Enterprises, and Tayside and Central Scotland Transport Partnership.
49. The CPP has a central role in delivering the SOA, but it does not provide regular reports to demonstrate its progress. The council's own review of the CPP in March 2010 identified the need to: improve performance management to include clearer objectives, action plans and regular reporting; strengthen third sector representation; and to put in place clearer processes for allocating funding.
50. In March 2011 the council reported that it had strengthened the CPP representation from the third and private sectors, and had updated the CPP operational guidelines to clarify the duties of the partners and improve consistency between the community planning groups. However, progress in the following areas has been slow and is on-going:

- implementing SOA progress updates in the council's public performance reports and to committee
- developing resourced action plans for the CPP groups and within the council's service planning processes
- reviewing the remits of the CPP to ensure better links with other joint working groups.

Part 5. What have the council and its partners achieved?

There are good and improving outcomes in education, resident satisfaction and community safety, the quality of the environment, and overall levels of health and well-being. The council and its partners do not clearly demonstrate the impact of the work being done to sustain rural areas and tackle economic disparity.

The council provides good and improving services in supporting educational attainment, adult learning, waste recycling and disposal, and sports and leisure provision. Performance has been more mixed in social care services and housing and the council is progressing improvement plans in these areas.

51. The following sections give an update on the progress the council and its partners have reported on their main strategic objectives. The audit has focused on outcomes relating to the economy and the environment. This was to examine the economy in more depth as one of the council's main priorities, and also as a means to examine partnership working more closely. The audit also examined the contribution made by the council's services to these strategic objectives. For example, it looked more closely at roads and waste management as part of the environment outcome.

Supporting the local economy

52. The council and its partners have set out a clear vision for the economy as a driver for improved outcomes for Stirling. The economy is prominent in the Strategic Plan and the SOA under the strategic priorities of 'making Stirling a place with a vibrant economy that is open for business' and 'making Stirling a place with jobs and opportunities for all.' In March 2011 elected members reconfirmed their commitment to supporting the local economy in the updated council priorities.
53. The Stirling Economic Partnership, a community planning group established in 2007, has a key role in delivering the economic priorities for Stirling. It is chaired by a representative from Stirling University and has a wide membership including Forth Valley College, Going Carbon Neutral Stirling, Job Centre Plus, Raploch Urban Regeneration Company, Scottish Enterprise, Skills Development Scotland, TACTRAN, Volunteer Stirling, and representatives from the council and the private sector. The elected member portfolio holder for the economy, tourism and finance also attends the group.
54. The economic partnership engages effectively with the various economic partners. It launched the „Open for Business“ economic strategy in November 2009 which set out a vision to support the economy through business development, access to jobs, and targeted support for vulnerable groups or those living in poverty.

55. The Stirling Economic Partnership's action plans to deliver the strategy are not long established, having been approved in November 2010. The action plans set out activities under the broad themes of employment skills, business growth and networking, and developing infrastructure. The plans do not set clear targets or milestones, and, while a series of outcome indicators are identified, they are not yet reported against. The council and its partners do not identify the costs of the economic partnership, or of delivering the strategy and its associated action plans.
56. The council and its partners have not yet demonstrated a significant impact from their economic development activity. The partnership monitors progress on the activity it has committed to, but this isn't reported systematically on its impact to the council or the public. Forming an overall assessment on performance in this outcome area is therefore difficult. However based on the information available, the council and its partners have made mixed progress against their economic objectives:
- Business satisfaction is increasing with 65 per cent of businesses rating Stirling as a „good or very good“ place to do business in 2009.
 - There is an improving trend in the number of school leavers in positive and sustained destinations such as further education, employment or training at 88 per cent in 2009/10.
 - The claimant count unemployment rate in Stirling is low at 4.4 per cent compared to 5.1 per cent in Scotland (at March 2011) but is increasing more quickly than the national average.
 - Income deprivation is increasing, and the numbers of children living in households that are dependent on benefits is increasing, and at 32 per cent in 2009/10, is well above the council's target of 25 per cent.
57. The Stirling Economic Partnership has made progress in undertaking research and scoping studies, and in building relationships and networks in the business community. Its work to support employability includes working with Forth-Valley College to develop new degree courses in creative industries. Infrastructure projects are largely at the planning stages, including master plans for a river side business site and an inner city food and drink development. The partnership is also working with suppliers to widen broadband coverage in rural areas.
58. Despite signs of economic decline, business confidence is relatively high and improving. The council has had some success in building links with the business community (Exhibit 6). The Stirling Business Panel has effectively engaged local businesses and facilitated networking between businesses.

Exhibit 6

The council set up the Stirling Business Panel to support business networking, host trade fairs and access the views of the business community. The panel has attracted over 660 members. A 2009 survey undertaken by the Panel indicated an improving trend in business confidence with over 65 per cent of businesses rating both rural and urban Stirling as quite or very good for business. The survey also highlighted issues such as availability of business space and access to funding. Actions taken as a result of the survey include a series of well attended trade fairs in response to demand for networking events, appointing the Chair of Stirling Business Panel to the Stirling Economic Partnership to better represent business interests; and continuing consultation from council services with the Stirling Business Panel on issues such as parking, the local development plan and the control of unauthorised advertising in the Stirling Council area.

Stirling Council's Economic Support & Tourism service produce an informative business magazine called Stirling Eye. This is aimed to support businesses with advice and information such as local start-ups and business awards, business statistics, and features such as access to funding and preparing business cases. This was first published in 2007 is distributed free to 3,000 local businesses. Stirling Eye is issued three times a year.

Source: Audit Scotland

59. The council has identified economic inequality and supporting rural business as important issues in the Stirling area. It has targeted work to support rural businesses, increase business accommodation, improve transportation, and to promote, tourism and events. However the council has not reported the overall impact of the activities in this area.
60. The council has however reported progress against its local transport strategy. In May 2011 it reported that the council and its partners had made good progress across the majority of indicators, including improved road safety, reduced congestion, and increased use of bus and rail. The review also identified areas for further improvement, including encouraging greater use of public transport and walking and cycling to schools.
61. Non-householder planning applications give an indication of the growth of industry in the area and processing applications efficiently and effectively helps to sustain economic growth. The time to process applications is just one aspect of planning performance. In relation to this indicator, the council's performance in dealing with all planning applications is improving and compares well with other councils. However it is not meeting its own target for dealing with non-householder applications, and in 2009/10 56 per cent of non-householder planning applications were dealt with within two months compared to a target of 80 per cent. The council implemented its electronic planning system in 2010 and it expects this to improve its performance.
62. The council operates a joint trading standards service with Clackmannanshire Council. It is sustaining good performance in dealing with business advice requests, consumer complaints, and in carrying out inspecting food hygiene inspections of food retailers and outlets. It has

also reviewed its debt advice services in partnership with all local advice providers including the Citizen's Advice Bureaux to improve the coordination and planning of this activity.

Jobs and opportunities for all

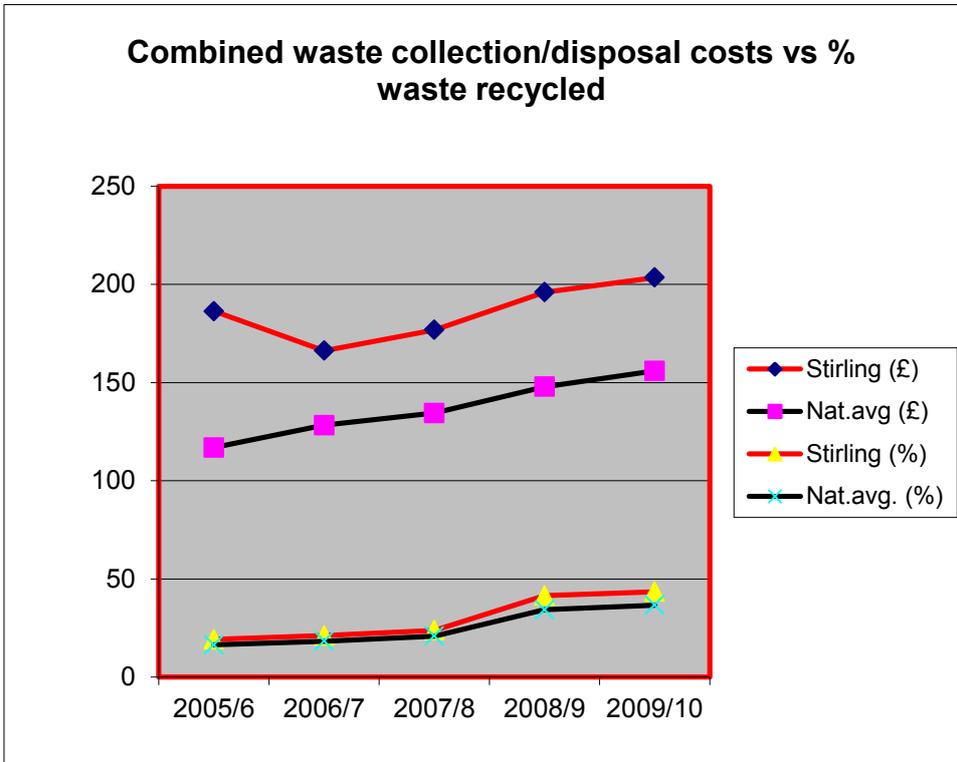
63. The council's aim of 'jobs and opportunities for all' includes supporting employment skills and regenerating Stirling's more disadvantaged communities.
64. Stirling's working age population is more highly qualified than the Scottish average with 40 per cent holding the equivalent of SVQ level 4 or above. Despite this, businesses have identified shortages of qualified staff as an issue. In 2009/10 some 86 per cent of the council's employability clients (129 people) achieved positive outcomes through training, employment, education or voluntary activity, ahead of the council's target of 72 per cent. However the council's youth service reported that 34 per cent of its clients in 2009/10 moved into training, employment or further education, falling short of its target of 48 per cent.
65. Two communities in Stirling, Raploch and Cultenhove, lie within the most deprived five per cent of communities in Scotland. The council and its partners are carrying out regeneration work in these areas.
66. The most extensive regeneration activities are taking place in Raploch, through the Raploch Urban Regeneration Company (RURC), a company established by Stirling Council. RURC is providing a comprehensive regeneration programme in partnership with the community, public sector agencies, and the private sector. This is putting in place new education, social and community facilities and aims to improve the quality of life and the economic prospects for the people of Raploch. Progress to date includes:
 - A ten year house building programme began in January 2008 to build 900 houses including 250 for social rent.
 - The RURC has used community benefit clauses in its contracts to provide employment skills training and opportunities. It let an infrastructure development contract that required contractors to create 25 apprenticeship places per year over a ten year period. The council is considering making wider use of this practice.
 - The RURC recycled 95 per cent of materials following the demolition of four schools. The project was recognised as Best Practice in Sustainability by Waste Recycling Action Programme (WRAP), and was also awarded Exemplar status by the Scottish Government under the Scottish Sustainable Communities Initiative.
67. The first phase of regeneration work including housing and play areas has been completed in Cultenhove and Cornton, largely through demolition and rebuild. Both of these developments achieved a Secure by Design Award, which recognises the use of effective crime prevention and security standards.

Making Stirling a place with a high quality environment

68. The SOA includes the aim to improve the quality of the physical environment. The council and its partners are making good progress in this area, particularly in improving the local environment through reducing waste going to landfill and in improving the cleanliness of the area. There is mixed performance on meeting its air quality targets.
69. The 2011 residents' survey indicates that residents have a more negative impression of the roads and pavement condition. Roads condition was an area noted for improvement in the 2005 Best Value audit of Stirling Council, with the council ranking in the bottom quartile of Scottish councils for roads condition.
70. The council has reported that it is sustaining the roads condition compared to a slight overall decline in roads condition nationally following the harsh winter in 2010. In 2009/10 the percentage of Stirling's road network that should be considered for maintenance treatment is 44.5 per cent for compared to the Scottish average of 36 per cent. This shows a slight improvement on the previous year, and available data for 2010/11 shows continued improvement. However roads condition remains significantly below Stirling's target to meet the Scottish average, and the council remains in the bottom quarter of Scottish councils for this indicator. The council recognises that it may need to further increase its investment if it is to meet its target in this area. It will re-evaluate this position after the 2011 road condition survey, including any need for additional revenue and capital expenditure.
71. The council's waste recycling service performs well. The percentage of household waste recycled or composted was 43.5 per cent in 2009/10, above the council's target of 42 per cent. The council's performance has improved steadily and it has ranked in the top quarter of Scottish councils every year since 2004. The most recent data for 2010/11 indicates that the council is sustaining this good performance and is well placed to meet its target of 50 per cent by 2013. The 2011 residents' survey indicates that residents have a positive impression of the recycling and waste service, despite a slight decline in the percentage of waste collection routes completed on the correct day owing to the severe winter weather in 2010.
72. Although the service performs well in terms of the percentage of waste recycled, its costs are significantly above the national average (Exhibit 7). In 2009/10 Stirling's waste collection service was the most expensive in Scotland, with costs at £118 per household compared to the Scottish average of £66. Its waste disposal costs, at £85 per household are below the national average of £89 per household, but are also increasing. The council generates income from its waste management activity but it has not reported the impact of this on the overall costs of the service. The council needs to strengthen its focus on value for money in this area. Its enhanced food waste recycling service and its income generation activities contribute to its high gross expenditure. The council has identified the scope for further efficiencies in its waste management service.
73. The overall cleanliness index for roads, parks and other open spaces is above its target score of 72, scoring 74 in 2009/10. This is an improvement on the rating of 67 in 2007/08.

Exhibit 7

Waste management performance and costs



Source:

74. The council is developing an open space strategy along with its local development plan. The open space strategy will enable the council to manage its natural assets more strategically in the longer term. It has made good use of public consultation in developing the strategy including its master planning approach for public parks.

Sustainable development

75. Best Value requires local authorities to consider sustainability including the social, economic and environmental impacts of their activities and decisions. The council shows a strong commitment to sustainability through its activities and its work with partners. The council produces a range of reports on its progress against its climate change and carbon reduction commitments. However it does not report clearly on its overall progress against its aim to make Stirling more sustainable. Available information indicates that while the council has made good progress in meeting its waste landfill reduction targets, it is not meeting its carbon emissions targets.

76. The council has an assistant chief executive with specific responsibility for the related themes of the economy, environment and sustainability and it has designated elected members as the portfolio holder and opposition portfolio holders in these areas. The sustainability, economy and environment strategic forum provides a systematic means for members to explore issues and make connections across these related areas. The forum has been used to help develop

the council's approach to climate change, and also to consider wider social issues such as sustaining communities, and tackling poverty.

77. The Environmental Community Planning Group, one of the community planning partnership groups, has objectives to improve the local environment, including the local response to climate change. The group is chaired by Scottish Natural Heritage and includes representatives from Central Scotland Police Force, Going Carbon Neutral Stirling, Historic Scotland, LL&TNPA, and Scottish Environmental Protection Agency, as well as council officers in environmental and other related services.
78. The third sector organisation, Going Carbon Neutral Stirling (GCNS), has a partnership with council and reports to the Environmental Community Planning Group. GCNS aims to raise awareness and encourage action in Stirling's communities, businesses, and the council and its partner agencies. This includes promoting energy saving measures for public buildings including schools, churches and libraries.
79. In June 2009, Stirling Council adopted a target to reduce carbon emissions by 20 per cent by March 2013 compared to its 2006/07 baseline. In 2009/10 emissions from waste, energy use in buildings, streetlights, and transport were only two per cent lower than the baseline year, and had increased slightly on 2008/09. The council attributes this mainly to the growth in its buildings estate resulting from the schools estate programme. There is a significant risk that the emissions reduction target will not be met. The council is currently participating in the Carbon Trust's Carbon Management Revisited programme. This will review baseline and project data for accuracy, identify potential reduction areas not yet exploited, and assist in producing a revised and updated Carbon Management Plan in 2011.

Making Stirling a place where lifelong learning is valued and encouraged

80. This strategic priority aims to promote learning for all ages, give access for all to high performing schools and nurseries, to raise standards for low achieving children and young people, and to improve vocational training opportunities.
81. The council performs well against the majority of its lifelong learning commitments. Educational attainment of pupils is better than the national average and is on or above target in most areas. In 2008/09 the proportion of school leavers achieving qualifications in English and mathematics is high and improving at 93 per cent. The same indicator for looked after children, at 50 per cent, is well below the council's 75 per cent target, but is improving on previous years.
82. During 2009/10 HMIE inspected 10 of Stirling's schools including eight primary schools and two secondary schools. The results of this were largely positive, particularly in primary schools. In the council's own quality assessments, 90 per cent of schools were evaluated as good or better against three core quality indicators used in school inspections. This exceeds its target of 80 per cent, but has declined from 96 per cent in 2008/09. In 2009/10 the proportion of Stirling's school leavers moving into further or higher education, employment or training is improving, and at 88 per cent, is slightly below the target of 90 per cent.

83. The council's 2009/10 annual report against its strategic plan indicates good progress in improving outcomes for children and young people. It outlines activity to improve performance in all schools and nurseries with a focus on the performance of the lowest attaining 20 per cent of young people. This includes morning welcome clubs for primary school children and lunchtime clubs. The council has taken steps to support pupils with additional support needs in their own communities, and has increased the entitlement of pre-school provision for all three and four year olds.
84. The council has renewed its secondary school estate, including the new Raploch community campus. It provides an enhanced level of sports, arts and cultural opportunities for all children. This includes its musical inclusion programme and the use of the Peak leisure centre in the city of Stirling.
85. The council's services to support adult learners perform well. In 2009/10 it exceeded its targets to provide training in literacy and numeracy, and in English for Speakers of Other Languages. The library service makes an important contribution to lifelong learning. The council's unaudited figures for 2010/11 indicate an increase in book lending following a decline in 2009/10.

Making Stirling a place where improved well-being adds life to years, not just years to life

86. The council's local outcomes to improve well-being include: improved care and support for those in need, reduced health inequalities, and more opportunities for people to lead healthier lifestyles.
87. Available health and wellbeing indicators for 2011 indicate that life expectancy, healthy life expectancy, and the rate of early deaths from disease in Stirling are better than the national average. This is also reflected in the lower numbers of hospital admissions. Indicators of women's and children's health, including child obesity, low birth weight and teenage pregnancies are in line with the national averages. Stirling has lower levels of smoking, higher participation in physical activities, and lower incidences of alcohol and drug related conditions than the Scottish average. Mental health indicators including depression, psychiatric hospitalisation and deaths from suicide are lower than the Scottish average.
88. The 2009/10 SOA indicators show mixed performance against the council and its partners' health and well-being objectives, this includes:
 - an improving trend and good performance in reducing delays of over 6 weeks when discharging patients from hospitals, with only one delay reported for 2009/10.
 - the percentage of individuals aged 65 or over with high and long term levels of care needs who are cared for at home is improving, though at 26 per cent is below the 2009/10 target of 30 per cent
 - in 2009/10, all adult care homes achieved „adequate“ grades or above, all recognised carers were offered an assessment of need

89. Areas where the indicators show declining performance include: the quality ratings of area child protection arrangements; the percentage of individuals receiving personal care; the percentage of individuals with critical care needs receiving care within six weeks, which at 68 per cent for 2008/09 is significantly below the target of 100 per cent; and in reducing teenage pregnancies.
90. SWIA reported on Stirling Council's social work service in July 2009. It found the services were delivering good outcomes for some service users, but noted significant areas for improvement across a range of client groups.
91. A follow-up inspection in November 2010 noted that some progress had been made against all of the recommendations. This included a shift in the balance of care toward care at home through its "re-ablement" model of care. The inspection also noted that leadership and financial planning had improved, but progress with performance management and some other service aspects had been slower. The Care Inspectorate is continuing to monitor progress through quarterly meetings with service managers.
92. In June 2010 HMIE published a joint inspection report on of the services to protect children and young people in the Stirling council area The report identified significant areas of weakness including measures to keep children safe, the response to immediate concerns, and self-evaluation and performance improvement. It rated measures to ensure that children are listened to and respected as good, and that the measures to meet children's needs and reduce long term harm were fair.
93. The Care Inspectorate August 2011 follow-through inspection of services to protect children and young people provided positive assurance of progress since the 2010 inspection. The report found that chief officers had taken effective action against all areas of improvement, including leadership, partnership working and teamwork. It stated that chief officers recognised the considerable work still to be done, and demonstrated a strong commitment to carry this out.

Safe strong and resilient communities

94. This local outcome area concerns improved life chances for Stirling's children, young people and families at risk, and making communities safer and more resilient. This theme is closely related to the strategic plan's aim to make Stirling a place where improved well-being adds life to years, not years to life. The section above on well-being outlines the findings by inspectorates concerning child protection and other care services.
95. The 2009/10 SOA information indicates that the council and its partners are making good overall performance against this outcome. The level of anti-social behaviour complaints has fallen by nine per cent on the previous year; vandalism cases has decreased by 14 per cent; and crimes of violence have decreased by nearly 17 per cent; and the levels of death or serious injury in road accidents has reduced. There has been an increase in the number of problem drug users and an increase in the rates of domestic abuse incidents. The council's 2011 residents' survey indicated high levels of satisfaction with their local area and the wider Stirling area.

96. The council and its partners report activities to encourage well being and healthy lifestyles. These include opening the Peak leisure facility in April 2009, the Forthbank Sports Village, and the work of the Active Stirling team to increase participation in physical activities. In 2009/10 there has been a significant improvement in the number of attendance at pools and other indoor sports and leisure facilities. The council has also promoted cultural activities including a book festival, a mobile library, promoting its archiving service, and reading groups for primary school age children.
97. The council is meeting its 2010/11 target of 30 per cent target of houses meeting the Scottish Housing Quality Standard, and in 2009/10 customer satisfaction with housing repairs was high, at 98 per cent, and improving.
98. Between 2008/09 and 2009/10 the percentage of homeless applicants who have been housed into permanent accommodation fell from 48.3 per cent to 38.4 per cent, below the council's target of 45 per cent. However the most recent data available for 2010/11 shows an improvement at 49.6 per cent. The percentage maintaining their tenancy for 12 months also declined in this period from 85.2 per cent to 81.4 per cent. The council reports that the economic downturn has impacted on the sustainability of tenancies, and the most recent data for 2010/11 shows a slight improvement at 83.7 per cent.
99. The SHR inspection of the council's housing management function rated housing management and asset management and response repairs service as Fair in March 2010. The inspection identified weaknesses including the housing management ICT system, the allocations policy, performance management, and the quality of its equalities information. The SHR will consider the council's improvement plan as part of its 2012/13 inspection programme, including its homelessness service.

Part 6. Is the council managing its resources effectively?

The council's management of its resources has improved since the first Best Value audit report in 2005, and has been given a stronger impetus through its efficiency programme. It has a good budget planning process which involves elected members and takes a medium term financial perspective. It has good processes to develop leadership skills and communicate with staff, but must develop and apply its employee appraisal and workforce planning approach fully across the organisation. It has put in place more strategic arrangements for the management of assets and procurement, but needs to apply this more consistently across the council. The council has effective performance management arrangements which support good scrutiny from elected members. It needs to strengthen the leadership and direction given to equalities and better demonstrate the impact of its activity in this area.

Managing finances

- 100.** The council has good arrangements in place to plan its budget. It has an open and considered budget setting process that includes cross-party input from councillors. It has a structured approach to budget planning and analysis including:
- a Treasury Team comprising the Leader, Depute Leader and Group Secretary as a key part of the revised financial management and planning arrangements
 - a financial review group comprising officers and councillors
 - a medium term financial planning and management framework
 - a base budget review to identify priorities, including the council's capital programme.
- 101.** The council has set a savings target of the order of £30 million over the 2010/14 three year period. Members considered a range of options and set a budget for 2011/12 which included savings in excess of those required to meet its budget gap. By doing so, the council was able to make some headway with the savings still required in years two and three of its medium term financial planning period. The council has identified a £10 million savings target for 2011/12 including £6.9 million through efficiencies as part of its budget work stream projects.
- 102.** The council has maintained a consistent level of reserves since 2007/08, and uncommitted reserves (not earmarked for specific purposes) were slightly above target levels of 2 - 2.5 per cent (£4.5 - 5.5 million) of revenue budget at 31st March 2011. External debt levels and treasury management performance in the council complied with the 2010/11 prudential indicators as approved by the council in February 2010.

103. The council agreed an efficiency programme in January 2010 to support its 2011-2014 budget planning exercise. This includes work streams to identify efficiencies through employment costs, asset management and procurement, and also in service areas including education and social care. The efficiency programme has helped the council to develop a stronger focus on how it plans its finances over the longer term, and to improve its resource management practice.
104. The council's Finance Review Group developed the 2011/14 budget in tandem with the efficiency programme. The group involves members from all parties, and the CMT reports regularly to the group.
105. The council has made good initial progress in identifying efficiencies through its budget work streams projects which set a target of £6.9 million savings for 2011/12. It has reported that £5.5 million, or almost 80 per cent of the planned savings are on track to be delivered, £1.3 million require further work to ensure delivery and £0.1 million of savings are not yet secured. The council has identified an additional £1 million in management efficiency savings through this efficiency programme.
106. The council undertook a strategic review of its capital programme as part of its 2010 budget. This process allowed members to identify priority projects including upgrading primary schools and community centres.
107. The council's 2009/10 external audit report identified a number of risks in the way the council manages its interests in external organisations such as arms-length companies to deliver property services. The council has since made good progress to improve governance and accountability of its arms length companies. It has reviewed the role of the companies in relation to the council's strategic priorities, including winding-up companies that are no longer operational; a reporting timetable has been agreed for company financial and performance reporting to relevant committees; a seminar for members was held to clarify roles and responsibilities; and the council's financial commitment to companies and risk exposure is kept under review.

Managing people

108. The council's performance in people management is mixed: its performance in leadership development, employee communications and managing absence is good; it needs to apply performance appraisal and workforce planning more consistently across the organisation.
109. The council has improved the way it plans its workforce to meet future demands and address skills gaps. Its review of care services for older people included a detailed assessment of demographic changes to inform its commissioning strategy. The council has identified the need to build on this progress and develop similar workforce planning approaches across all services.
110. The council's efficiency programme includes a 'costs of employment' work stream to look at potential workforce efficiencies, for example through further voluntary severance, and examining employment terms and conditions.

111. The council's 2010 voluntary severance exercise resulted in 213 employees leaving the organisation. The council carried out impact assessments as part of this, and also looked at service re-design options to reduce the impact of the exercise. However our audit work found that staff groups and trade union representatives had concerns over work pressures following the voluntary severance programme. The council should therefore ensure that it is aware of the on-going impact of the reduction on its workforce and services and take appropriate measures. The council has not carried out an employee survey since 2008. A further survey would help the council to understand any issues arising from the voluntary severance programme. The CMT is aware of this issue and is considering a range of approaches to better engage with staff.
112. The council has been slow to introduce its appraisal, or performance review and development (PRD) process for employees, and the process is ongoing. Education and social care services have an existing appraisal process in place. The majority of managers have been trained in the PRD process which includes a standard agenda covering performance, risks and personal objectives. However the scheme is only in place for managers, and has not yet been adopted across the organisation.
113. The council is committed to developing the leadership skills of its managers. Senior managers have received leadership development training through the council's Strategic Leadership Development Programme and the programme is now being applied more widely to managers across the organisation. As the largest group of line managers, 153 team leader/supervisors are currently participating in workshops that include self-awareness, leading teams and coaching for performance improvement.
114. The council has taken measures to reduce employee absence, but it is not achieving its challenging targets. An absence management policy is in place and is applied by service managers across the organisation. Absence levels are reported to regularly to committee as part of the Stirling Performs report. In 2009/10 the council's absence figures for teachers at 6.4 working days lost through absence were better than the national average of 7.5 days, and the council ranked as the sixth best performing council in Scotland on this measure. It also performs slightly better than the national average for sickness absence for non-teaching employees, at 11.2 days compared to an average of 11.6 days in 2009/10, but is falling short of its target of 9.84 days per employee. The most recent figures for 2010/11 show some improvement in the council for both of these indicators.
115. Communication across the council works well and it has a range of communications tools in place to keep staff informed. Our staff focus group held as part of this audit indicated that staff generally perceive communications as good, particularly within services. Internal communications have improved through the staff newsletter „Working Together“ and the chief executive makes good use of the intranet to communicate with employees. Services use a range of informal communication methods and meetings to keep employees informed.
116. Senior managers have regular meetings with trades unions which allow open debate and communication. The council's leadership development programme and a series of 'common purpose days' have been used to communicate the council's vision, values, and priorities.

Asset management

- 117.** The council is taking a more strategic approach to the way it manages its property assets, but does not yet apply this across all of its assets. It has a schools estates management plan, and a housing 30 year plan in place, its roads asset plan and open space strategy are nearing completion. The council's efficiency programme has helped to improve the council's focus on asset management through the asset utilisation work stream. This provides a basis for the council to identify efficiencies and prioritise its asset needs, including its office accommodation.
- 118.** The efficiency programme has improved the council's understanding of its asset base and needs over the longer term. The council is undertaking a major review of its central offices to re-locate its current HQ. It has identified potential savings of the order of £0.5 million against its three-year £1 million efficiency target. This includes a 'work styles' review to identify new ways of working, including mobile working, to allow employees to access council systems remotely. Such measures will help the council to reduce its office space requirements.
- 119.** The council is also working with its partners in the Forth Valley area to identify the potential for shared assets. It is preparing a Forth Valley Asset Management Strategy jointly with the Forth Valley councils, the NHS, police, fire, university and colleges.
- 120.** The council is taking measures to make its property estate more energy efficient. Energy efficiency is a factor in the design process, and energy usage is being monitored more closely in its main buildings through the use of "smart" meters. However, the council's carbon emissions have increased slightly in 2009/10 owing to an increase in its property estate following the construction of a major new leisure centre. The council will need to continue to rationalise its property assets and improve its energy efficiency if it is to meet its carbon reduction and energy efficiency targets.

Procurement

- 121.** The council has improved its procurement practice from a relatively basic level of practice. In common with many councils, it achieved a 'conformance' rating in a procurement capability assessment carried out in January 2011. This is part of a government initiative to improve public sector procurement. Conformance is the second lowest of four ratings of: non-conformance, conformance, improving performance, and superior performance. This is an improvement on its previous rating of non-conformance, but indicates that there is scope for further improvement in the council's procurement practices.
- 122.** The council has had a procurement strategy and plan in place since 2006 to set out its corporate procurement approach and training has been provided to all staff involved in buying goods and services. The council's procurement strategy is reviewed regularly and has been updated in 2010/11 to include clearer targets and actions, for example to combine contracts more effectively across the organisation. It is too early to report progress against these measures.

- 123. The council has ear-marked budget savings of £1.25 million for 2011/12 through improved procurement. However it has identified a risk that some £480,000 of this may not be fully achieved in the current year. The procurement working group expects to find further savings related to social care and other efficiency work streams. The council will need to continue to monitor its progress in this area if it is to realise its savings targets.
- 124. The council is aware of the impact of its procurement activity on the local economy, and takes steps to support local businesses. It provides good information on its procurement and tendering process on its website. This helps contractors who are less experienced in tendering to understand how to submit tenders.

Performance management

- 125. Performance management in the council is effective and has improved significantly since the 2005 Best Value audit. However the council still has further work to improve the way it reports against its strategic priorities, including the SOA outcomes. The council systematically reports service performance, improvement activity and risks to CMT and to committee. This includes monthly 'Stirling Performs' reports of 50 key performance indicators, and quarterly and annual performance updates. Performance reporting has helped to strengthen scrutiny by elected members and has improved the public reporting.
- 126. The council is making good progress with its new electronic performance management system. It procured the system as part of a joint procurement exercise between Fife Council, Stirling Council and Clackmannanshire Council over the summer of 2010.
- 127. From November 2010 the system has been used to present the Stirling Performs reports to committee. This works well and the council makes inter-active use of the system by projecting the performance data on a screen to aid scrutiny and debate during the committee meetings. The council reports by exception on 'hot spots' to highlight areas that are under-performing. This helps to focus attention on areas where there is a risk to performance. Elected members have been trained to use the system and can access current performance information and 'drill down' into specific areas to scrutinise performance. The performance reports are also available on the council's website, contributing to the council's public performance reporting.
- 128. The indicators have a focus on services and other customer-related activity, but could be further developed to better reflect customer satisfaction and other measures of service quality. For example the council reports the attendance at sports centres, and the number of hours of home care provided, but does not indicate customer satisfaction in these areas.
- 129. The council has plans in place to further develop its performance management arrangements around the updated strategic objectives agreed in March 2011. This includes improving reporting and monitoring of the SOA outcome priorities, and linking this more closely to service plans. The council has also identified the need for to improve the way it learns from good practice both within the organisation and externally.

Consulting and engaging

130. It is important that councils listen to and involve residents in how they deliver services. This includes both direct consultation and also through the role of councillors as local representatives. Stirling has good participation rates in elections, including the local council elections. The constituency vote turnout for the 2007 Scottish Parliament and Local Government elections was 62 per cent in Stirling, compared to 52 per cent across Scotland. The Scottish Parliament 2011 election attracted a 58 per cent turnout in Stirling compared to approximately 50 per cent nationally.
131. The council provides good information to the public in a variety of accessible ways; including its Stirling Focus magazine and its website. It seeks feedback on its public performance reporting through its residents' survey. This shows that over 63 per cent of residents feel they are very well informed about the council.
132. The council makes good use of its website in providing information, reporting service requests, and in making payments for services. The website is informative and provides links to recent performance information, but some areas are not kept updated, including information on community planning. Its performance reporting for services is balanced and highlights both services that are performing well and "hot spot" reports showing areas for improvement.
133. The council needs to improve the way it reports its progress against its local outcome priorities. The council and its partners have not reported formally on their progress against the 2009/10 SOA. However the council has reported its own progress against the SOA objectives through its 2009/10 annual Strategic Plan 'Stirling Performs' report.
134. The council consults effectively with local residents. This includes its consultation over the local development plan and open space strategy, its flood prevention measures, and in developing master plans for parks and communities. The council conducts a residents' survey every two to three years, using the Stirling Sounding Board which comprises 1,300 people. The council ensures the board has a cross section of representatives taking into account factors such as age, gender, working status, type of housing, and urban rural residence.
135. The most recent residents' survey from June 2011 attracted approximately 700 responses from the sounding board (a 54 per cent return) and indicated high and improving levels of satisfaction. Sixty-five per cent of respondents were either fairly satisfied or very satisfied with council services. Resident satisfaction with their local area as a place to live is high with 93 per cent of respondents being satisfied, including 53 per cent who were very satisfied and 40 per cent who were satisfied. When asked about the wider Stirling area, 85 per cent were satisfied, including 32 per cent who were very satisfied and 53 per cent who were satisfied.
136. The council has a strong focus on customer services, including gathering feedback from service users. One of the assistant chief executives has customer service as a corporate improvement priority, and, the head of customer service and improvement monitors customer service performance on a monthly basis. Customer satisfaction reports indicate good and improving satisfaction, and this is mirrored in the 2011 residents' survey.

137. The council uses area forums to consult with local communities across the region as part of its local community planning arrangements. These are attended by service managers and councillors and are a means for local communities to influence the way the council delivers its services locally. The council also uses these forums to communicate locally, for example the chief executive has used the forums to provide updates on the councils efficiency programme.

Equal opportunities

138. The council needs to strengthen the direction and leadership given to equalities, and better demonstrate the impact of its actions to address inequality or promote diversity. Senior managers recognise the need to further develop the councils approach to equalities and to embed this across the council.
139. The Public Sector Equality Duty which came into effect in April 2011 requires public authorities to pay due regard to the need to eliminate discrimination; advance equality; and foster good relations across a range of “protected characteristics” of age; disability; gender reassignment; pregnancy and maternity; race; religion and belief; sex and sexual orientation. The duty encourages public authorities to “mainstream” equality into their core business so it is not a marginal activity but a key component of what they do.
140. The council has equality schemes in place for race, gender and disability. Stirling Council is still in the process of developing a single equalities scheme to apply across protected characteristic groups. The council recognises that a single scheme will improve and simplify reporting and monitoring. This is important if it is to better demonstrate outcomes against the statutory equalities duties.
141. The council needs to improve the way it reports on how it is meeting the Public Sector Equality Duty. It provides annual reviews of its statutory equality schemes, but these focus too much on activity, such as delivering equalities training, and do not report the wider impact of this work.
142. An equality impact assessment (EQIA) is a tool that helps public authorities to identify any adverse impact of their policies and activities on particular protected groups, and to take actions to mitigate this. The council has made progress in making EQIAs a core part of its policy development process. The council has good EQIA guidance and has introduced e-learning to support this. The guidance is well designed and includes questions that are probing enough to get the person responsible for the policy or function to think about the impact on protected groups. However the guidance is not yet consistently applied in practice and some of the EQIAs would benefit from better supporting evidence, for example research and user and stakeholder surveys. The EQIA process was introduced over 2008/09, and the council is in the process of reviewing its overall impact.
143. The council’s Diversity Advisory Group was established in 2009 to raise the profile of diversity and equalities across the council. The council is reviewing the remit of this group including the need for it to better link with external groups and community planning for example. The council also provides on-line training in equal opportunities and diversity as part of its induction

process and more in depth training is provided to senior managers and to customer-facing staff.

Part 7. Prospects for future improvement

The council has made good progress against the main improvement areas identified in the first Best Value audit in 2005. Leadership from elected members is strong and cross-party working is effective. The chief executive and CMT provide strong leadership and there is a strong corporate culture among the senior management team. The council's efficiency programme is a major focus and it has made good initial progress with this.

The council needs to continue to develop its corporate working below CMT level. This is important if it is to identify and implement further efficiencies across its services. In doing so it must ensure that it understands the impact on services and its own workforce.

Is the council aware of where it needs to make improvements and is it committed to change?

144. In the first Best Value audit in 2005 the Accounts Commission noted that the council performed strongly on the statutory Best Value criteria and that it recognised the need for further improvement. The Accounts Commission noted particular areas for improvement in its scrutiny arrangements, including the role of elected members and the need to target poor performing areas such as roads maintenance. The audit noted further areas for improvement in performance management and public reporting; delivering its workforce strategy, and sustaining service performance.
145. The council has made good progress against the improvement areas identified in the first Best Value audit report published in 2005. The council's 2006/07 external audit report noted that it had put in place an ambitious improvement plan and had made good progress in the majority of improvement areas. By 2008 the council had in place much improved scrutiny and governance arrangements through the Governance and Audit Committee and the Service Delivery and Performance Committee. It had also made progress in improving performance management, and public performance reporting. Further work was required to develop people management and asset management. Overall, services had sustained their performance and improved in line with other councils.
146. The council's organisational restructure resulted in a reduction of 116 posts including 66 management posts by April 2010, without the need for compulsory redundancies. The restructure was a major focus for the council at this time, and some improvement areas within the council remain on-going as a result, such as workforce planning. However the council has continued to make progress across the best value improvement areas, for example on performance management and service improvements which included follow-up work identified by inspections.
147. The council leadership has a strong focus on improvement. The chief executive challenges the heads of service, over service performance, improvements and progress against their

senior managers" objectives at monthly one-to-one meetings. The assistant chief executives support improvement across the organisation and hold specific corporate remits in areas including customer services, performance management and sustainability.

148. Elected members are actively involved in change and the Service Delivery and Performance Committee has carried out a number of scrutiny reviews. These have included a review of older people's services, customer services, and winter maintenance. This review activity has led to improvement actions being taken forward within services and strengthens elected members understanding of council services. The strategic forums also help elected members and officers to explore themes and issues in depth.
149. Although the CMT and senior management are strongly involved in the efficiency programme, staff throughout the organisation are less closely involved. Some staff felt the pace of change can be too fast. The council should therefore ensure that it monitors the impact of change its employees.
150. The council has made effective use of the PSIF self evaluation process in 2010/11. It has identified a number of corporate improvement areas including strategic planning, customer services, and information management. These have been included in the senior manager objectives. Improvement areas included the way the council undertakes its strategic planning. The council has since reviewed its strategic priorities in the context of the SOA, and work is on-going to develop the supporting service planning and performance management arrangements. In February 2011 the council agreed to apply the PSIF to all of its services over a three year period.

The council's change programme

151. The council undertakes a range of improvement activity and manages this well as part of a co-ordinated programme. Its improvement activity includes: actions resulting from external scrutiny including inspectorate findings and the first Best Value audit; areas highlighted through its performance reports; the residents' survey; and scrutiny panel reviews undertaken by elected members.
152. The change programme is a particular strand of this activity which aims to achieve the efficiency savings required to meet the council's budget commitments in the 2011-2014 period. This includes six main "budget work streams" in the service areas of education and social work, and in corporate areas including procurement, asset management and employment costs.
153. The council manages and monitors the improvement activity effectively. Its change and improvement agenda is set out in its Annual Improvement Statement (AIS). This states the priorities for improvement including external audit and inspections, performance reporting mechanisms, internal scrutiny reviews and actions not yet completed. The AIS is reported to the CMT and to committee. The 2010/11 AIS includes the following areas for improvement:

Council wide priorities including:

- Change and efficiency programme, staff absence, performance management framework, corporate asset management plan, organisational development and HR strategies.

Service specific priorities including:

- Implementing education, social work and housing inspection actions including the HMIE Inspection of Child Protection; undertaking scrutiny reviews of care services for older people, and of disruption in children's schools; improving the planning applications process; and developing the council's road management plan.

154. Progress on the improvement programme is reported to CMT, and the Executive. The council has made good initial progress in identifying efficiency savings including voluntary severance and the schools asset management programme. It faces a challenge in identifying further savings if it is to meet targets in years two and three. Exhibit 8 shows the council's May quarterly update summary of progress against its change agenda

Exhibit 8

This quarter's work on the Change Programme and the budget work streams in particular were aimed at the council budget setting meeting in February. Key achievements include:

- The education work-stream identified savings options totalling £2.9 million rather than the previous £2.4 million.
- The revised estimate for the asset work-stream has increased from £393,000 to £500,000.
- A proposal on the review of transport coordination has been produced.
- 213 voluntary severance requests have now been approved and accepted, amounting to savings of £3.65 million in a full year.
- In February 2011 Members set a budget for 2011/12 with savings totalling £8.9 million. Management team are now considering the potential for savings for future years in particular 2012/13, and are reviewing the progress for the whole Change Programme.

Source: Stirling Council

Does the council have the leadership capacity and capability to deliver improvements?

155. Political governance in the council is effective and its political leadership places a strong emphasis on collaborative working. The political management arrangements allow all parties to participate in decision making, scrutiny, and policy forming forums. These include the leaders group, financial review group, and strategic forums.
156. Strategic forums were instigated by the council leadership in 2010. They provide a non-decision-making forum to involve all political groupings in developing the council's approach to

strategic issues. The Strategic forums can make policy and strategy recommendations to the Executive or the council.

157. Working across political groups is effective and there has been good cross-party input in setting the council's strategic priorities which were agreed by council in March 2011. Working relationships between members and officers also work well, including the strategic forums, and the finance review group.
158. The collaborative political working in the council is strength, particularly in view of the close political balance. The council should ensure that it maintains its good working relationships to help it deal with difficult decisions, and to ensure on-going continuity in its strategic direction. This is particularly important in the run up to the next council elections in May 2012.
159. The assistant chief executive role and the wider membership of the CMT across the heads of service is an effective means to address council-wide issues. Senior officers are positive about the new working arrangements and feel that the council is working better across traditional service disciplines.
160. In August 2011 the council agreed to a refinement to the management structure which reduced the number of heads of service in the establishment from eleven to eight. This has resulted in the role of chief financial officer (often referred to as the Section 95 officer) transferring from a head of service to the chief accountant. It also means that the solicitor to the council will assume responsibility as chief governance officer, combining the roles of clerk to the council and monitoring officer. In August 2010 we published a national report in the 'How Councils Work' series⁴ which highlighted the vital role that such statutory officers have in supporting good governance and decision making. The council must ensure that the new organisational arrangements do not compromise the effectiveness of these important statutory roles.
161. The role of assistant chief executive has created the capacity to develop the council strategically. The CMT has a role in managing the council's capacity to deliver its corporate priorities including the change programme. This includes monitoring the workload and bringing in additional resource where required. The SMO are an effective means for the council to focus on its corporate priorities, and are central to the assistant chief executives and heads of service appraisal.
162. Corporate working is less well developed below CMT-level, but there is evidence that the council is addressing this. Senior manager's objectives include better integrating service plans with the vision, and to improve working between service departments. The council introduced management forums in 2010 through its 'Common Vision' programme. These quarterly meetings bring the senior management team and service managers together and aim to improve collaborative thinking and working across the organisation. To date four forums have been held covering topics of 'visioning' to look at the overall direction of the council, performance management and improvement, customer services, and volunteering. These

⁴ How Councils Work: an improvement series for councillors and officers - Roles and Working Relationships: are you getting it right. August 2010

forums are a good means to allow more open communication and improve understanding across the organisation. The council is extending the common vision programme and leadership development programme from senior managers to all managers.

Scrutiny

- 163.** The council has effective arrangements in place to scrutinise its service delivery and decisions. Cross-party representation at committees and non-decision making forums helps to allow challenge and debate at a number of levels. Elected members provide constructive challenge and have a good understanding and focus on council-wide issues as well as individual ward issues.
- 164.** The two main scrutiny committees are the Governance and Audit Committee and the Service Delivery and Performance Committee. These are both chaired by opposition members and provide effective scrutiny. The Executive Committee also allows opposition leaders to refer decisions from the executive to council to allow a fuller discussion. Elected members are making increasing use of the council's electronic performance management system. This is now being used at the SDP to allow stronger challenge and debate from elected members by providing the most current performance information.

How effective is the council's management of improvement?

- 165.** The council is self-aware and its improvement and efficiency programme is a major focus for the chief executive and his management team. The council's improvement programme is ambitious and well managed. Elected members are engaged in improvement activity, including undertaking scrutiny reviews. The assistant chief executives and the heads of service support reviews across the organisation.
- 166.** The council has made good initial progress with its change and efficiency programme, and has identified £6.9 million of efficiency savings toward its 2011/12 budget. It has also agreed a major joint service delivery agreement with Clackmannanshire council which aims to identify further efficiencies in both operational and corporate activities such as personnel and information technology. It is too early to assess the effectiveness of this initiative.
- 167.** The council must continue to develop its partnership working practice to ensure that it can realise further opportunities for joint working and efficiencies. This includes ensuring clear roles and responsibilities for partnership groups at a Forth Valley and Stirling Council area, and ensuring that effective reporting is in place.
- 168.** Effective measures are in place to manage the change programme. The CMT manages the change programme to identify pressures and to ensure that the capacity is in place to deliver it. Performance management gives members and officers an overview of the change programme and its associated risks. The annual improvement statement sets out the council's improvement priorities and progress against these is reported regularly to committee. The council will need to continue to actively manage the programme to ensure that it delivers on its planned 2011/14 efficiency targets.

169. The management development program has also helped to build the management skills required to manage change. Heads of service support the efficiency programme across the organisation, applying their experience more widely to services that they do not directly manage. This works well in sharing knowledge and experience across the council.
170. The council should ensure that its change management practice sufficiently engages staff and monitors the impact of change on the workforce. In its follow-up performance inspection in November 2010 SWIA noted that senior managers had made significant efforts to engage with staff in social work services about the change agenda. This had had a positive impact, for example, 57 per cent of staff using interactive voting at an event in February indicated they had a clear understanding of the improvement agenda. The council should consider applying practice such as this more widely.

Appendix 1

171. The Best Value audit provides two overall judgements on council performance. One assesses how well the council is performing and the other covers the council's prospects for improvement. The judgements are based on standard descriptors and the emboldened text indicates the audit assessment for Stirling Council.

How good is my council's overall performance?	Unsatisfactory	Satisfactory	Good	Outstanding
Improving outcomes and addressing complex cross-cutting issues with partners.	The council has a poor track record in delivering improved outcomes for the area with its partners, and addressing key cross-cutting issues such as community safety, health improvement, equalities, and sustainability.	Progress towards key strategic outcomes is mixed, with improved progress required in a number of important outcome areas. Systematic evidence of the impact of partnership working is not available.	Consistent progress is being made towards the majority of key strategic outcomes. However, some improvements are still required in a number of outcome areas and there is scope to further align partnership working with key strategic priorities.	The council is able to consistently demonstrate considerable success in delivering complex cross-cutting strategic local issues and improving outcomes with partners. Consistent progress is being made towards almost all key strategic outcomes. Limited improvements are required.
The quality of local service.	The overall quality of council services is consistently below the national average. Many services, including one or more key services (education, social work, or housing) require significant or urgent improvement.	Overall service performance is mixed. Whilst some services are performing well several services, or significant aspects of services, require important improvements to be achieved.	Many council services are performing consistently well and demonstrating continuous improvement. Whilst some further improvements are required, all key services are performing well.	Most of the council services are recognised as performing at the highest level. All key services can demonstrate strong and consistent improvement.

How good is my council's overall performance?	Unsatisfactory	Satisfactory	Good	Outstanding
The views of citizens and service users	<p>Overall satisfaction with the council and its services is consistently below the national average.</p> <p>Overall satisfaction trends are static or falling.</p> <p>Arrangements for consulting with local people and users of services are patchy and underdeveloped and the council cannot demonstrate that consultation is influencing decision-making and service improvement.</p>	<p>Overall satisfaction with the council and its services is mixed, with a significant number of services, or important aspects of services, below the national average. Overall satisfaction trends are improving slowly.</p> <p>The council has introduced arrangements for consulting with local people and users of services but these are not applied consistently throughout the organisation. Whilst there are some examples of this „making a difference“ within departments systematic evidence of impact is not yet available.</p>	<p>Overall satisfaction with the council and its services is generally above the national average, with overall satisfaction trends that are improving well.</p> <p>Arrangements for consulting with local people and users of services are well developed. There is good evidence that consultation and engagement is taken seriously across the organisation with good systematic evidence available on its impact.</p>	<p>Overall satisfaction with the council and its services is consistently above the national average for most aspects of performance, with overall satisfaction trends that are improving quickly.</p> <p>The council has comprehensive and well coordinated arrangements for consulting with local people and users of services and is able to demonstrate that their views are influencing strategic priorities and shaping service improvements.</p>
The council's progress in delivering on its improvement agenda (including VFM)	<p>There is limited evidence that the council knows where improvements are required and is able to secure improvement in service performance. It cannot demonstrate improvement in VFM.</p>	<p>Whilst some services are improving the pace of change has been slow and the council has been unable to systematically transfer service improvements from one service to another and secure systematic improvements in VFM.</p>	<p>The council knows where improvements are required and can demonstrate a systematic and effective approach to securing improvements across all services (including VFM). Improvements are implemented quickly, and with little slippage.</p>	<p>The council is able to demonstrate that it is effectively managing performance improvements in line with its strategic priorities, across services, and in partnership with others, and it can demonstrate systematic and significant improvement in VFM.</p>

What are my council's prospects for future improvement?	Poor prospects	Fair prospects	Good prospects	Excellent prospects
Leadership capacity and organisational commitment to change	The council does not have the leadership and management arrangements needed to deliver on its ambitions. Governance is weak and developing its political and managerial ability to tackle the council's problems is a key priority for the council.	The council needs to improve its leadership and managerial impact to deliver on its ambitions. There are some weaknesses in the governance arrangements and it is unable to demonstrate that it currently has the organisational commitment and capacity to secure change and improved outcomes.	The council has effective political and managerial leadership supported by good governance arrangements. It is committed to continuous improvement, focused on what matters to local people, and is securing improved outcomes.	The council has highly effective political and managerial leadership supported by strong and effective governance arrangements. It has ambitious plans for the areas and a strong focus on continuous improvement. It has the organisational commitment and capacity to secure change and improved outcomes.
Partnership working	The council has not yet established a shared vision for the area with its partners, supported by sound governance arrangements and the resources needed to deliver key priorities.	Whilst the council has established a shared vision for the area with its partners, there is not a consistent sense of ownership from the partnership's leaders and improvements are needed in governance and resource alignment.	Leaders of the partnership articulate a clear and consistent shared vision and sense of purpose for the partnership and the improvements it is trying to achieve for the area and effective governance and resource alignment arrangements are in place.	Leaders of the partnership actively promote and communicate the shared vision and sense of purpose of the partnership and the improvements it is trying to achieve for the area. They can demonstrate – and are committed to – ensuring that the shared vision for the area impacts on their own organisation and partnership activity.
Staff understanding of and commitment to improvement	There is very limited staff understanding of and commitment to continuous improvement and the council's improvement agenda.	Staff understanding of and commitment to continuous improvement and the council's improvement agenda is developing.	There is widespread staff understanding of and commitment to continuous improvement and the council's improvement agenda.	There is very strong staff understanding of and commitment to continuous improvement and the council's improvement agenda.

What are my council's prospects for future improvement?	Poor prospects	Fair prospects	Good prospects	Excellent prospects
Effectiveness of resource planning and performance management (including member scrutiny).	<p>The council lacks awareness of where it needs to make improvements and is not able to secure improvement in service performance as a consequence of ineffective performance management arrangements and weak scrutiny and challenge. Resources are not used to best effect.</p>	<p>Whilst the council is aware of where it needs to make improvements, its lacks a systematic approach to securing improvement. Scrutiny and challenge is patchy. The council lacks a systematic process for directing resources to key priority areas and securing improved VFM.</p>	<p>The council is aware of where it needs to make improvements, and has a systematic approach to securing improvement. Scrutiny and challenge is well developed.</p> <p>It has a systematic process for directing resources to key priority areas and securing improved VFM, but cannot yet demonstrate consistently improved outcomes.</p>	<p>The council is aware of where it needs to make improvements, and has a systematic approach to securing improvement. Scrutiny and challenge is highly effective. The council has a systematic process for directing resources to key priority areas and can demonstrate consistently improved outcomes.</p>

Budget Proposal 2012/13

Introduction

Audit Scotland provides services to the Auditor General for Scotland and the Accounts Commission. The principal activities of Audit Scotland are to carry out the annual external audit of around 212 public bodies and to carry out a programme of performance and Best Value audits across all parts of the public sector in Scotland.

Audit Scotland's funding comes largely from charges to audited bodies and partly from the Scottish Consolidated Fund. Audit Scotland is required to submit its budget proposals to the Scottish Commission for Public Audit (SCPA) for their consideration. The SCPA then make a report to the Scottish Parliament as part of the annual Budget Act approval process.

This paper presents Audit Scotland's budget proposals for the 2012/13 financial year - the second year of the four-year plan presented last year. This year we have also provided updated projections of resource requirements to 2014/15 aligning with the period of the Scottish Government's Spending Review.

The headings we use to present our budget proposal are consistent with the presentation of our accounts.

This paper should be read alongside the Fee Strategy.

This submission is presented in three parts.

- Background information
- Proposals for the budget year 2012/13
- Cost profiles for the three years to 2014/15.

Reducing the cost of audit

In making this budget proposal we are responding to the current economic conditions. The challenging financial position has been well documented including in Audit Scotland's reports 'Scotland's public finances – preparing for the future' and 'Scotland's public finances – addressing the challenges' and the report of Scotland's Independent Budget Review Panel. In the Scottish Government's Spending Review the Cabinet Secretary for Finance has confirmed the need to reduce public sector expenditure in Scotland by £3.7 billion (-12.8%) over the four years of the UK Government's Spending Review to 2014/15.

Our proposals build on the plans presented last year. We are able to propose a reduced budget over the next three years through a number of planning and efficiency measures some of which started in 2010 and are reflected in 2011/12 budget.

These include:

- Continuing a targeted freeze on recruitment
- Continuing an internal programme of review and efficiency savings
- Continuing to restructure our business
- Property rationalisation
- Benefits from the tender exercise to appoint external audit providers (firms).

Audit Scotland Budget Proposal 2012/13

Our 2011/12 budget proposals included plans to reduce the cost of audit in real terms by 7%. We are on target to deliver these savings and further benefits will arise from the tender exercise to appoint external audit firms. These actions have reduced our cost base in advance of the budget year 2012/13.

Our budget proposals for 2012/13 accelerate our plan to reduce the cost of audit, and deliver

- Audit fee reductions of 7.75% (for 2011/12 audits)
- Reduced revenue resource requirement of 4.2% from Parliamentary funds
- Running costs reductions of 6.2% from our 2011/12 budget
- A second year of overall cost reductions, continuing our plan to reduce the cost of audit by at least 20% in real terms over four years.

Background

About Audit Scotland

Audit Scotland:

- Is independent
- Works closely with other scrutiny bodies
- Is a resource for the Scottish Parliament
- Publishes the results of its work.

Our work helps the public sector to:

- Manage risks
- Improve performance and service delivery
- Save money.

We do this by:

- Checking the financial health of public bodies
- Assessing performance and service delivery
- Monitoring the governance of public bodies
- Helping to prevent and detect fraud.

Work programme 2012/13

In the coming year we (or the firms we appoint on behalf of the Auditor General and the Accounts Commission) will carry out the financial audits of every public body in Scotland – some 212 in all. We are increasing our scrutiny of financial planning, including looking at budgets, capital plans, efficiency savings and cost reductions.

During 2012/13 we will carry out a programme of performance audits on a wide variety of topics of current and public concern, including:

- Learning the lessons of public body mergers
- Major projects – managing capital investment in local government
- Scotland's Public Finances 3: Workforce planning in times of reducing budgets
- Efficiency of Clinical Services
- Outsourced contracts.

This is a sample of our planned work.

Working with other audit and inspection partners we have reduced the time spent in councils on corporate scrutiny work by 39% while continuing to ensure that areas of concern are highlighted through our Best Value audit work.

Our auditors are alert to fraud when carrying out their annual audit work and we continue to work closely with colleagues in England and Wales to extend the scope of and improve the results from the National Fraud Initiative which has now identified £63 million of fraud in Scotland alone. The results of the next round of this work will be published in spring 2012.

2012/13 Budget Proposal

Principal Budget Assumptions – 2012/13

The principal assumptions underlying the budget proposal for 2012/13 are:

Pay

Audit Scotland is currently in the second year of a pay freeze. We introduced a scale point pay freeze in April 2010 and this was extended by a further year in April 2011. Our pay freeze began one year earlier than most public bodies. The Scottish Government has recently announced a second year pay freeze effective from April 2012 with an expectation that modest increases may be possible from April 2013. Our budget for 2012/13 provides for the possibility of a pay award of up to 1%, following our two-year pay freeze. The Commission should be clear that this is a budgetary assumption and that we will enter negotiations on pay with our recognised trade union later this year. In line with our remuneration strategy, contribution-based payments will continue to be made – these equate to 0.83% of our pay budget.

Staff Vacancy Factor

In recent budget proposals, a vacancy assumption of 4% has been applied to our own staff budgets. We now have fewer staff, lower natural turnover and a much tighter job market. Therefore, we have reduced the vacancy factor from 4% to 2%. The effect of this change is to increase staff budgets by £155k.

Pensions

The majority of Audit Scotland's staff are members of the Local Government Pension Scheme. An actuarial valuation is being prepared as at 31 March 2011 but the results will not be published until December 2011. Our pension administrator has therefore agreed to set contribution rates for 2012/13 based on an extension of the rates set following the 2008 valuation. These are 14.5% for the current cost of pensions, plus a lump sum payment of £408k (3.8%) to contribute to the scheme deficit.

Appointed Auditors (Firms)

The budget assumes that payments to appointed auditors (firms) for 2011/12 audits will reflect the contract values agreed in the recent tender exercise. For 2012/13 audits it has been assumed that firms costs will rise in line with any scale movement for our own staff.

Restructuring Provision

Our budget proposal for 2012/13 include staff reductions of 5 w.t.e. followed by a further reduction of 18 w.t.e. in 2013/14. We anticipate our proposed staff reductions in 2012/13 will be delivered through natural turnover but this is not likely to be the case for 2013/14 and some form of early release scheme will be necessary. Last year we indicated that we would make provision for restructuring costs within our core budget proposal and for 2012/13 we have incorporated £300k to create a business restructuring provision to support staffing reductions in advance of 2013/14. Any surplus will be used to reduce the cost of audit and fees to audited bodies.

GDP deflators

A GDP deflator of 2.5% has been assumed for 2012/13. This is consistent with the rates published by HM Treasury and used in the Scottish Government's Spending Review. These are used to remove the effect of price changes (inflation) when comparing expenditure over time.

Summary of Resource Requirements

The following table summarises the 2012/13 budget proposal total resource requirements and provides a comparator with the approved 2011/12 budget. Further information on expenditure categories is provided in Appendix 1 which also provides information on actual expenditure levels in 2009/10 and 2010/11.

<u>Resource Requirements</u>	2011/12	2012/13	Change	
			Cash	Real Prices
	£000	£000		
Expenditure				
People costs	14,430	14,590	+1.1%	-1.4%
Other Administrative costs	11,788	10,009	-15.1%	-17.2%
Gross Administrative Costs	26,218	24,599	-6.2%	-8.5%
Income				
Income from charges to audited bodies	19,285	18,036	-6.5%	-8.8%
Bank Interest & Miscellaneous Income	113	30	-73.4%	-74.1%
Total Income	19,398	18,066	-6.9%	-9.1%
Net Operating Cost	6,820	6,533	-4.2%	-6.5%
Capital	250	440	+76.0%	+71.7%
TOTAL RESOURCE REQUIREMENT	7,070	6,973	-1.4%	-3.8%

Net Operating costs have reduced by 4.2% in cash terms from the approved 2011/12 levels. Capital expenditure has increase 76% from the approved 2011/12 levels. This increase is required to support property rationalisation plans which will generate long-term savings and business efficiencies.

The Total Resource requirement requested for approval by the SCPA is £6,973k which represents an overall cash decrease of 1.4% over the approved 2011/12 budget comprising a decrease in revenue funding of £287k (-4.2%) offset by a £190k increase in capital funding. In real price terms this represents a 3.8% reduction.

Expenditure

An analysis of expenditure by category is attached as Appendix 1. This provides information on actual expenditure levels in 2009/10 and 2010/11 and the approved budget for 2011/12. The expenditure budget is set after reviewing actual costs for each of the last two years and the current year budget and taking account of any planned developments and cost reductions. The breakdown of the budget in terms of income and expenditure aligns with the cost breakdown as presented in the annual accounts.

Gross administrative costs (our total operating costs) within the proposed budget for 2012/13 are 6.2% (£1,619k) lower than the approved 2011/12 budget. In real terms (2011/12 prices) these proposals represent an 8.5% reduction in expenditure and provide a strong contribution to our plans to further reduce the cost of audit by 15.5% over the three years to 2014/15.

The proposed budget identifies a staffing requirement for 270 w.t.e. excluding Board and Accounts Commission members. This number is 5 w.t.e. less than provided in the 2011/12 budget mainly as a result of continuing benefits arising from investment in new technologies over the past two to three years. These staff reductions will be delivered by natural turnover.

Although staff numbers in the 2012/13 budget proposals are 5 w.t.e. lower than included in the 2011/12 budget, the effect of pay growth, our proposal to include £300k to support business restructuring and the reduction made to the vacancy factor assumption means that in cash terms our staff budget is increasing by 1.1% when compared to the 2011/12 budget. In real price terms a 1.4% reduction is presented.

Other administrative costs in the proposed 2012/13 budget are 15.1% (£1,779k) lower than that provided in the 2011/12 budget. Most categories of expenditure have reduced, the most notable of which are appointed auditors (firms) fees and expenses, property costs, legal and professional fees (lower external consultancy support), information technology and depreciation.

Cost Pressures

The budget includes additional resource to meet a number of cost pressures that will arise in 2012/13. These pressures equate to 0.3% of our 2011/12 gross expenditure budget. Further details are provided below.

	£000
Payroll related items	51
Rental income	30
TOTAL	81

Payroll Related Items

Revised employer pension contributions within the Local Government Pension Fund will increase payroll costs by £51k.

Rental Income

Until March 2011 Audit Scotland provided office accommodation and support services to the Sustainable Development Commission (SDC). Our 2011/12 budget included £30k of rental income to be paid by the SDC but following a UK Government decision the organisation was closed in March 2011. Our 2012/13 no longer includes provision for rental income.

Efficiencies and Cost Reductions

The pressure on public finances affects all of the organisations that we audit. Audit Scotland is committed to assisting the public sector to meet these challenges and is also fully committed to generating its own efficiencies and cost reductions.

The table below shows the main efficiencies and cost reductions which have been incorporated into the 2012/13 budget proposals and which in cash terms amount to 7.4% of gross expenditure in the 2011/12 budget.

	£000
Staffing costs	140
Benefits of procurement - appointed auditors (firms)	1,253
Reduced legal and professional support	100
Property	307
Stationery and printing	29
Insurance	26
ICT and communications	36
Depreciation	43
TOTAL	1,934

Staffing costs

Staff costs account for 59% of our expenditure budgets. Our 2012/13 budget includes a staffing establishment reduction of 5 w.t.e. when compared to the 2011/12 budget. The cost savings generated from these reductions together with the effect of grade mix changes from business restructuring total £540k. These savings are partly offset by increased costs arising from pay growth, £245k and the effects of reducing our vacancy factor, £155k.

Benefits of Procurement - appointed Auditors (Firms)

In the spring of 2011, Audit Scotland completed the tender exercise to appoint external audit firms. This work is re-tendered every five years. The new appointments will take effect from the 2011/12 audit year and will run for five years. The tender exercise which was structured in way to encourage competition and will enable us to reduce the annual costs of audits by a further £1.2m in addition to the 20% reduction in the cost of audit set out in our plan last year.

External Legal and Professional Support

We have targeted a reduction of £100k (11% of 2010/11 approved budget) in the use we make of external consultancy support.

Property

Over the past year we have been working to rationalise our property portfolio. Plans are currently advanced to allow us to close one of our offices in Edinburgh in the spring of 2012. We have also re-negotiated and extended the lease for our Inverness office by five years to 2017 while reducing the annual lease cost by 29%. All our audit activity in the north of Scotland will be provided from our Inverness office. These changes will contribute to reduced annual property costs by £307k.

Stationery and printing

The greater use of electronic media and the introduction of shorter print runs will reduce costs by £29k.

Insurance

Earlier in 2011 we reviewed our general insurances and as part of the process we changed our insurance brokers. Annual savings of £26k will be generated.

ICT and Communication

Continuing investment in our ICT infra-structure, revised telecom and mobile systems and a rationalisation of our networks in support of our property changes will reduce costs by £36k.

Depreciation

Depreciation charges in 2012/13 are budgeted at £43k less than budgeted in 2010/11. The reduction is driven by lower levels of capital investment in ICT equipment as a consequence of increased asset lives.

Income

Audit Scotland is required broadly to break even, taking one year with another, for that audit work which is charged to audited bodies. Money voted by Parliament covers the cost of the annual audits that we cannot charge for, together with most of the performance audit work within the Auditor General's remit.

Audit Scotland's strategy for the fee charging arrangements is set out in the separate Fee Strategy paper.

The 2012/13 budget enables us to reduce the level of fees by 7.75% on average across most sectors for audits that are being completed during the year (2011/12 audits). This represents an additional 4.5% reduction from that planned (-3.25%) at this time last year. Benefits from the appointed auditor tender exercise are the main reason for this change. The actual reduction applied to each sector will be variable as the benefits from competition will be applied to the sector in which they arise. The reductions range from almost nothing in Further Education to 10% in the NHS.

We estimate that fee levels for all sectors will be reduced on average by a further 1.75% for audits which start during the year (2012/13 audits).

This budget results in an average 6.5% reduction in fees earned in the financial year 2012/13. In real terms (2010/11 prices) the proposed budget represents an 8.8% reduction.

**Audit Scotland
Budget Proposal 2012/13**

Income from charges to audited bodies by financial year is analysed below:

	Actual 2009/10 £000	Actual 2010/11 £000	Budget 2011/12 £000	Budget 2012/13 £000
Local authorities	13,183	13,429	12,526	11,844
NHS bodies	4,525	4,523	4,262	3,870
Scottish Water	222	205	198	145
Further education colleges	578	560	539	539
Scottish Government depts. & sponsored bodies	2,036	1,814	1,760	1,638
Total income from charges to audited bodies	20,544	20,531	19,285	18,036
% cash reduction in fees from 2011/12 budget				-6.5%

Capital

Our capital requirements for 2012/13 are £440k which is £190k more than approved for 2011/12.

Capital expenditure for 2012/13 will support Audit Scotland's rolling Information Technology replacement and upgrading programme, £190k and facilitate the consolidation of our property portfolio, £250k. We have the option to break the lease for our West of Scotland office in East Kilbride at no cost in early 2012. We are currently exploring options to relocate the office to a smaller footprint and to improve access to public transport. The £250k represents a provision to fit out a new office should we decide to relocate. Details of the 2012/13 capital requirements are provided below:

	£000
Mobile phone refresh	60
Communication room equipment replacement	25
Software	65
Thin client replacement	40
West of Scotland property relocation	250
TOTAL	440

Conclusion

Our budget proposals for 2012/13 deliver:

- A reduced cost of audit - gross administrative costs reduced by 6.2% from our approved 2011/12 budget. In real terms (2011/12 prices) these proposals represent a 8.5% reduction in expenditure
- A cost reduction target amounting to 7.4% of our 2011/12 expenditure budgets
- Fee decreases on average of 7.75% for 2011/12 audits which is 4.5% lower than previously notified to audited bodies
- A further reduction in the level of fees planned for 2012/13 audits of 1.75%
- A second year of cost reductions to audited bodies, continuing our plans to reduce the cost of audit by 16.7% over the four financial years to 2014/15 and fees by over 20% in real terms over the four audit years to 2013/14
- A reduced cost of audit by 15.5% in real terms over the three years to 2014/15.
- A reduced resource requirement requested for approval by the SCPA of 1.4% in cash terms over the approved 2011/12 budget. This comprises a decrease in revenue funding of £287k (-4.2%) offset by a £190k increase in capital funding. In real price terms this represents a 3.8% reduction.

Cost Profiles 2012/13 to 2014/15

Principal Assumptions – 2012/13 to 2014/15

The principal assumptions for 2012/13 are presented on page 3 of this submission. Where changes have been applied for 2013/14 to 2014/15 they are detailed below.

Pay

Audit Scotland is currently in the second year of a pay freeze. We introduced a scale point pay freeze in April 2010 and this was extended by a further year in April 2011. Our pay freeze began one year earlier than most public bodies. The Scottish Government has recently announced a second year pay freeze effective from April 2012 with an expectation that modest increases may be possible from April 2013. The budget for 2012/13 assumes that following a two year freeze Audit Scotland's salary scale points will be increased by 1% from April 2012. In addition contribution payments in accordance with our remuneration strategy will continue to be made – in 2012/13 these payments equate to 0.83% of our pay bill. Audit Scotland negotiates pay awards on an annual basis and actual awards will be determined as part of this process. However for planning purposes only we have assumed that in 2013/14 and 2014/15 pay levels will also increase by 2% per annum – 1% for salary scale increase and 1% for staff performance and contribution.

Vacancy factor

A vacancy factor assumption of 2% has been applied to our own staff budgets for 2012/13. For planning purposes we have assumed the rate will fall to 1% for both 2013/14 and 2104/15. This is as a result of both lower natural turnover driven by tighter job markets but also as a consequence of the reducing staff number profiles included in our financial plans for the period to 2014/15.

Pensions

The majority of Audit Scotland's staff are members of the Local Government Pension Scheme. The actuarial valuation on 31 March 2008 set employer contribution rates for the three years from 1 April 2009. Since then contribution rates for a fourth year (2012/13) have been agreed and estimates provided by the pension scheme administrator for 2013/14 and 2014/15. The rates for the three years of the projection are noted below:

	Current Cost	Lump sum scheme deficit	
2012/13	14.5%	£408k	advised by scheme administrator
2013/14	14.5%	£408k	advised by scheme administrator
2014/15	14.5%	£408k	advised by scheme administrator

Appointed Auditors (Firms)

Audit prices and volumes have for 2013/14 and 2014/15 have been set at the levels included in the 2012/13 budget proposal. The budget assumes that payments to appointed auditors (firms) will increase at 1% per annum in line with our payroll assumption for our own staff.

Restructuring Provision

Restructuring provisions of £150k have made in both 2013/14 and 2014/15.

**Audit Scotland
Budget Proposal 2012/13**

GDP deflators

The GDP deflator used for each year is noted below. The rates are consistent with those published by HM Treasury and used in the Scottish Government Spending review.

2012/13	2.50%
2013/14	2.70%
2014/15	2.70%

Cost Profiles 2012/13 to 2014/15

The table below highlights Audit Scotland's expenditure profile for the budget year 2012/13 and the three following years.

	Current Budget 2011/12 £000	Proposed Budget 2012/13 £000	Projection	
			2013/14 £000	2014/15 £000
Expenditure				
People costs	14,430	14,590	14,070	14,001
Other Administrative costs	11,788	10,009	9,821	9,888
Gross Administrative Costs	26,218	24,599	23,891	23,889
Bank Interest & Miscellaneous Income	(113)	(30)	(30)	(30)
Net Cost	26,105	24,569	23,861	23,859
Annual GDP deflators		-2.50%	-2.70%	-2.70%
Net Cost at 2011/12 prices		23,970	22,667	22,069
Cumulative savings at 2011/12 prices		2,135	3,438	4,036
Cumulative savings %		8.2%	13.2%	15.5%

Over the three years to 2014/15 net costs which have to be recovered from fees to audited bodies and SCPA support are projected to decrease in real terms by 15.5%. Over the period fees payable by audited bodies will also reduce in real terms by 15.5%. These reductions are in addition to the 7% real price reductions included in our 2011/12 budget.

Audit Scotland Budget Proposal 2012/13

The expenditure profiles as currently presented do not provide an even delivery of cost reductions. Smooth movements in fees between years are preferable to volatility – whilst audit charges may be a small element of an audited bodies overall costs they are often a significant item for the budget holder. Soundings of audited bodies show a clear preference for smooth movements and little volatility. Over the period of our cost projections we will be reviewing the delivery of cost reductions with the intention of smoothing the profile of funding required. This is based on the assumption of no changes in the volume of work required.

Staffing Projections

Reduced staff numbers and costs over the three year period are key to delivering real savings. Over the three year period we are projecting a reduction of 25 w.t.e. representing 9.1% of the staffing establishment in 2011/12. The table below provides details of our staffing projections.

	Current Budget 2011/12	Proposed Budget 2012/13	Projection	
			2013/14	2014/15
Staff excluding board and Accounts Commission members (w.t.e.)	275	270	252	250
Board members (headcount)	3	3	3	3
Commission members (headcount)	12	12	12	12
TOTAL	290	285	267	265
Change – annual		-5	-18	-2
Change – cumulative		-5	-23	-25

The achievement of the above staff reductions is a key component in the delivery of our reduced cost profiles. The process to reduce staff numbers started in the current year – our 2011/12 budget included staffing reductions of 16 w.t.e. and we are on target to deliver these. As noted in the 2012/13 budget submission we anticipate our proposed staff reductions in 2012/13 can be delivered through natural turnover. This is not likely to be the case for 2013/14 and some form of early exit package is envisaged along the lines of the VERA scheme we introduced in 2010/11. A provision of £300k has been included in the 2012/13 to support business restructuring in advance of 2012/13. Projections for 2013/14 and 2014/15 include restructuring of £150k.

Other Administrative Costs

Other administrative costs are projected to reduce further in the two years following our budget proposal for 2012/13. In this period the full benefits of our property rationalisation in Edinburgh will be realised and further reductions in our need to source external consultancy support will reduce costs by £100k.

**Audit Scotland
Budget Proposal 2012/13**

SCPA approved funding

In common with our plans to reduce our total costs over the next four years funding requested for approval by the SCPA is also predicted to fall. The table below provides further information on our projections.

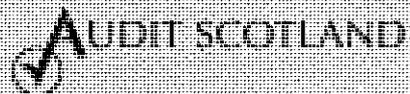
Revenue support is predicted to fall over the three year period. As noted in our budget submission above, our capital budget for 2012/13 includes a provision of £250k for office fit-outs should we relocate our West of Scotland office.

	Current Budget 2011/12 £000	Proposed Budget 2012/13 £000	Projection	
			2013/14 £000	2014/15 £000
Net Cost	26,105	24,569	23,861	23,859
SCPA approved revenue funding	6,820	6,533	6,288	6,288
SCPA approved capital funding	250	440	200	200
TOTAL SCPA APPROVED FUNDING	7,070	6,973	6,488	6,488

**Audit Scotland
30 September 2011**

OPERATING COST STATEMENT

	Actual 2009/10 £000	Actual 2010/11 £000	Current Budget 2011/12 £000	Proposed Budget 2012-13 £000
People Costs				
Salaries and temporary staff	12,299	12,307	11,202	11,349
Employers on costs	2,954	2,929	3,003	3,014
Pension adjustments	-92	-6,219	90	90
	<u>15,161</u>	<u>9,017</u>	<u>14,295</u>	<u>14,453</u>
Accounts Commission Members	134	135	135	137
Total People Costs	<u>15,295</u>	<u>9,152</u>	<u>14,430</u>	<u>14,590</u>
Other Administrative Costs				
Appointed Audit firm fees and expenses	<u>6,408</u>	<u>6,255</u>	<u>6,165</u>	<u>4,912</u>
<u>Other Costs</u>				
Rent & rates	963	965	965	797
Other accommodation costs	656	619	693	554
Travel & subsistence	893	871	874	896
Legal & professional fees	794	614	1,063	963
Stationery & printing	262	205	279	250
Training	396	314	419	419
Staff recruitment	195	70	100	100
Communications (telephone, postage)	85	58	72	66
Insurance	106	107	113	87
Information technology	389	399	373	337
Internal Audit	32	30	35	30
External Audit - financial statements	18	27	25	28
External Audit - other work	8	0	0	0
Other	72	182	67	68
Depreciation	<u>658</u>	<u>639</u>	<u>545</u>	<u>502</u>
Total Other Administrative Costs	<u>11,935</u>	<u>11,355</u>	<u>11,788</u>	<u>10,009</u>
GROSS ADMINISTRATIVE COSTS	<u>27,230</u>	<u>20,507</u>	<u>26,218</u>	<u>24,599</u>
Income				
Fees and charges payable	20,544	20,531	19,285	18,036
Bank interest	4	5	30	30
Miscellaneous income	286	506	83	0
Other finance income - pensions related	-407	-39	0	0
Total Income	<u>20,427</u>	<u>21,003</u>	<u>19,398</u>	<u>18,066</u>
NET OPERATING COST / (SURPLUS)	<u>6,803</u>	<u>(496)</u>	<u>6,820</u>	<u>6,533</u>



FEE STRATEGY

September 2011

Audit Scotland Fee Strategy

Summary

Audit Scotland needs to play its part in responding to the unprecedented pressures on and reductions in public expenditure over the next few years. Scottish Government estimates are that the amount available to it would reduce by £3.7 billion in real terms over the four years to 2014/15.

This Fee Strategy covers the next four audit years from 2011/12 to 2014/15. In our 2010 Fee Strategy we said that we expected to reduce the average cost of audit over the four audit years from 2010/11 to 2013/14 by 19.75% in real terms. We are still confident of achieving or exceeding this target.

This strategy takes account of the UK Government Spending Review in 2010 and the Scottish Government Spending Review 2011.

As a result of initiatives already put into effect during 2010 and based on our plans for 2011/12 we are able to reduce audit charges for the 2010/11 audit year by an average of 7.75% (10.25% in real terms) building on the average 3.5% (5.5% in real terms) reduction for 2010/11 audits. This varies across different parts of the public sector as shown in the table below:

	Average Cash Reduction On 2010/11 charges	Real Terms Reduction
Local government	-6.9%	-9.4%
NHS	-9.8%	-12.3%
Central government	-5.4%	-9.2%
Further education	0.0%	-2.5%

The reductions in charges set out above total 15.75% in real terms and represent the bulk of the overall target set last year of a 19.75% reduction in charges over four years. The variations between sectors in the reductions for 2011/12 audits reflect the variations in discounts offered by firms in our recent tender exercise.

Audit Scotland is able to achieve this reduction, without compromising on the quality of our work as a result of reviewing the way in which we carry out audits and from the investments in new technology and ways of working that we have made over the last few years and continue to make.

Introduction & background

Audit Scotland's principal statutory objective is to provide services to the Auditor General and the Accounts Commission. Together these three bodies and firms appointed by them provide independent external audit to most public bodies in Scotland with the overall corporate aims of Holding to Account and Helping to Improve.

Audit Scotland makes charges to the audited bodies for a significant proportion of its work (around 75% of total income). This fee strategy paper sets out the principles and policies adopted in setting fees and charges to audited bodies and the application of those policies to the fee setting process for the 2011/12 and 2012/13 audit years and the 2012/13 financial year. This Fee Strategy should be read in conjunction with Audit Scotland's Budget submission to the SCPA for the 2012/13 financial year.

The remainder of this document is in two parts. Part 1 explains the principles and policies adopted in setting fees and charges. This part will be subject to annual review but is not expected to change significantly year on year. Part 2 considers the application of the policies to the circumstances of setting fees for the 2011/12 and future years.

PART 1

Objective of the fee strategy

The overall objectives of the fee strategy are to:

- establish a transparent framework for the setting of fees and charges
- enable Audit Scotland to meet its statutory and professional obligations as independent external auditors of public bodies in Scotland; and
- enable Audit Scotland to meet its corporate objectives of providing high quality public audit in Scotland whilst keeping charges to the minimum necessary.

Context for the fee strategy

The fee strategy does not exist in isolation. It is one part of the overall planning process within Audit Scotland. Medium term planning is led by the Corporate Plan 2009-12. On an annual basis Audit Scotland prepares a budget for approval by the Board and then the SCPA.

That process starts by establishing the nature and volume of activity to be undertaken and assessing its cost. That cost will be funded from a combination of charges to audited bodies and funding from Parliament. The fee strategy aims to show how the level of charges is determined. As some of the Parliamentary funding pays for similar activities to the charges to audited bodies eg the annual audit of the Scottish Government, the fee strategy is also influential in assessing the proposed level of Parliamentary funding.

Principal assumptions underpinning the fee strategy

- **Mixed market** – the Auditor General and the Accounts Commission require a mixed market for the conduct of financial audit to be operated involving around 37% of annual audit work being carried out by firms under five year fixed term appointments (with an option to extend for up to 2 years).

The benefits of a mixed market are that Audit Scotland can obtain access to developments in audit approaches in the private sector and that there is a degree of challenge to the cost and audit approach of in house audit teams. From the 2011/12 appointment round explicit price competition has been introduced for firms.

- **The level of charges paid by an audited body should not depend on whether the audit is undertaken by a firm or an Audit Scotland team** – indicative fees are set for all bodies in a sector irrespective of the identity of the appointed auditor and in the case of firms irrespective of the level of discount offered.

To the extent that the budgeted cost of in house teams is less than the estimated value of fees earned the difference will be used to reduce the fixed charge across all audits.

- **Smooth movements in fees between years are preferable to volatility** – whilst audit charges may be a small element of an audited bodies overall costs they are often a significant item for the budget holder. Soundings of audited bodies show a clear preference for smooth movements and little volatility eg councils would rather pay

towards best value audits each year rather than face a large charge every third year when a full BV audit takes place.

- **Charging should follow funding allocations** – where specific funding is distributed to audited bodies eg for best value audit then the audit charges should follow the funding distribution.
- **Indicative fees should be set on the basis of good systems of internal control and well prepared draft accounts** – the expected fee for an audit is based on the audited body operating efficient and effective systems of internal control and being able to prepare complete draft accounts with no material errors and which are underpinned by good quality working papers.
- **Final fees should be agreed between auditors and audited bodies based on local circumstances** – auditor and audited body involvement in fee setting helps to ensure that audited bodies understand the relationship between audit cost and the quality of systems and draft accounts and auditors are challenged on the value of their work.

Fee setting process and governance

Fee setting is one part of the annual budget process.

During June to August draft cost budgets are prepared for the following financial year. The implications of these for the levels of charges and Parliamentary funding are considered and draft proposals taken to the Audit Scotland Management Team for discussion. The discussions take account of new audit burdens, cost pressures, efficiency targets, outturn from the previous financial year and any potential End Year Flexibility available.

Following further refinement budget proposals including levels of charges are presented to the Audit Scotland Board for discussion and approval in mid September, and to the Accounts Commission for consideration of the level of charges to local government bodies, before being submitted to the SCPA at the end of September for their consideration as part of the Budget Bill process.

Because charges are set for audit years which run from approximately November to October the fee setting process related to each financial year covers two audit years. Therefore in September 2011 Audit Scotland will be confirming or amending the levels of charges for the 2011/12 audits which were provisionally set as part of the 2011/12 financial year budget in September 2010. We will also indicate our plans for charges over the next three audit years.

Implementing the strategy in practice

In applying the principal assumptions in practice a number of more detailed policies, estimations and apportionments have to be made. These are set out in Annex 2.

PART 2

Implementing the fee strategy for the 2012/13 financial year

Context

This year's budget and fee charging proposals are set against a background of economic recession and unprecedented pressure on public expenditure. In such an environment audit is an important part of the overall system of control which provides both assurance that high standards of financial management are being maintained and acts as a deterrent against temptation by managers to take actions to meet short term pressures which fall below the expected standards.

Audit Scotland recognises that it needs to play its part in responding to the financial pressures facing the public sector. We have therefore looked at how we can reduce expenditure and consequently audit charges whilst still meeting professional standards and the expectations of stakeholders. Our Budget Proposal for 2012/13 shows a reduction in the cost of our work of 6.2% building on the 7% reduction last year.

The 2012/13 financial year budget includes work on carrying out the final audits of the 2011/12 accounts and initial work on the 2012/13 accounts. Financial audit work mainly takes place in arrears and it is therefore relevant to note that The Total Managed Expenditure (TME) of the Scottish Government is still around £34 billion for 2012/13.

In preparing the 2012/13 financial year budget and charging proposals for 2011/12 and 2012/13 audits the following information and issues have been taken into account:

- Audit Scotland's approved revenue budget for the 2011/12 financial year is gross revenue expenditure of £26.218m funded by charges to audited bodies of £19.285m, sundry income of £0.113m and Parliamentary funding of £6.820m.
- Public sector pay levels – Audit Scotland pay scales take account of those in other parts of the public sector including local government. Audit Scotland has not increased its pay scales at 1 April 2010 or at 1 April 2011.
- Audit Scotland's audited accounts for the 2010/11 financial year show potential revenue End Year Flexibility of £1.275m. Audit Scotland has sought to carry £945,000 of this amount forward to provide a fee rebate to audited bodies.
- Changes in the public sector landscape – the budget and fee strategy take account of known changes in public bodies such as The Care Inspectorate but does not take account of any further possible changes. Where these are minor they have little impact on the amounts charged to remaining bodies although any major restructuring would lead us to revisit the strategy.

Options for the level of charges

Taking into account the above information there are several components which can be combined in different ways to produce options for future levels of charges:

- Maintain fee levels in 2012/13 reflecting the fact that gross expenditure of public bodies in cash terms has not yet reduced significantly and defer reductions in charges to later years.
- Reflect the cost reductions that we have been able to achieve in further reductions in fees for 2011/12 and 2012/13 audits.

Consideration of options

Given the progress made in identifying efficiencies and the pressure on all public bodies to reduce costs it would be preferable to propose an increase lower than the amount indicated a year ago.

A number of scenarios have been modeled to gauge their impact on the current financial year, 2011/12 and the likely effect on the first part of the 2012/13 financial year.

Taking into account the effect of proposals on the 2011/12 accounts and the 2012/13 budget it is proposed that average charges to audit bodies for the 2011/12 audits should fall by 7.75% in cash terms (10.25% in real terms).

Effect of proposals

The effect of the above proposals on the average level of charges for each sector for the 2011/12 audits is shown below.

Audit Years	Local			Central
	Gov	NHS	FE	Gov
2008/09				
Annual increase	3.0%	3.0%	3.0%	3.0%
IFRS		4.6%		5.9%
Housing Benefit audit (2 nd part)	0.8%			
Rebate	-5.5%	-5.5%		-5.5%*
*chargeable audits only				
2009/10				
Actual increase	1.5%	1.5%	1.5%	1.5%
2010/11				
Actual decrease	-2.5%	-2.5%	+0.5%	-2.5%
IFRS		-2.2%		-2.2%
2010/11 Total	-2.5%	-4.7%	+0.5%	-4.7%
2011/12	-6.9%	-9.8%	0.0%	-5.4%

Note – for further education colleges the discounts offered by firms were considerably lower than in any other sector. Accordingly, in order for Audit Scotland to break even taking one year with another in this sector it is not possible to reduce fees for 2011/12 audits.

For 2012/13 audits, at this stage we expect to be able to make further reductions averaging 1.75% in cash terms.

Legislative provisions relating to Audit Scotland charges

Audit Scotland is subject to several statutory provisions in the setting of charges which are set out in the Public Finance and Accountability (Scotland) Act 2000. Specifically section 11 of the Act states that "Audit Scotland may impose reasonable charges in respect of the exercise of its functions in connection with" certain of its functions.

Further provisions specify that charges may be determined by reference to particular cases or classes of case and that in determining the amounts of those charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure in connection with the matters for which charges are made. Where an examination or study covers more than one body each body is to pay such proportion of the charge as is determined by Audit Scotland.

Sums received by Audit Scotland in respect of charges are to be retained by it and applied to meet the related expenditure. Other sums received are to be paid into the Scottish Consolidated Fund subject to any provision for them to be applied for any other purpose eg through the Budget Acts.

Any expenditure of Audit Scotland, so far as not met out of sums received and applied from charges is payable out of the Scottish Consolidated Fund.

The full text of section 11 of the PFA Act is set out at the end of this Annex.

Application of the legislation

The following paragraphs show which work Audit Scotland charges for and which it does not in order to comply with legislative provisions and existing precedents:

Work that Audit Scotland makes charges for

- Local government – all work (annual audit, performance audits, Best Value Audits, statutory performance indicators, housing benefit audit, cost of the Accounts Commission)
- NHS – annual audit + part of cost of performance audits (note 1)
- Central Government – annual audits except the Scottish Government, its Executive Agencies and the Scottish Parliament Corporate Body
- Further Education – annual audit
- Scottish Water – annual audit

Work that Parliamentary funding pays for

- Local government – none
- NHS – part of the cost of performance audits (note 1)
- Central government – annual audits of the Scottish Government, its Executive Agencies (note 2), Scottish Parliamentary Corporate Body, Scottish Consolidated Fund + performance audits
- Further education – performance audits
- Scottish Water – performance audits
- cost of supporting the work of the Parliament's public audit committee and the cost of the Auditor General.

note 1 – historically the NHS paid for all of its audit work through charges. Following devolution it was agreed that as the Parliament was the beneficiary of, at least some of the performance audit work, it was appropriate that it should bear some of the cost.

note 2 - whilst these financial audits are not charged for in cash, fees are calculated in the same way as for other financial audits and appear as a notional charge in the accounts of the bodies.

The requirement to determine charges by reference to particular cases or classes of case is interpreted as being by sector i.e. local government, health, central government, further education and Scottish Water.

Audit Scotland has the power to charge for all performance audit work except that relating to the Scottish Government, its executive agencies and other bodies receiving funds from the Scottish Consolidated Fund eg SPCB. In practice all central government, further education and water studies together with part of the cost of NHS studies are paid for through the Parliamentary funding. This is partly for historical reasons - pre devolution all national studies work carried out by the NAO was paid for by the UK Parliament whereas studies carried out by the Accounts Commission on the NHS were paid for by the audited bodies. Following the creation of Audit Scotland it was agreed with the then SCPA that it would be appropriate for performance audits to be largely paid for through Parliamentary funding as the programme of work is drawn up on a national basis taking account of national priorities and the resultant reports are laid in Parliament and considered by the Audit Committee. However, as the NHS bodies had previously paid for this work and continued to benefit from it, it was agreed that the NHS bodies should continue to make a contribution to the cost of this work.

Extract from the Public Finance and Accountability (Scotland) Act 2000

11 Audit Scotland: financial provisions

- (1) Audit Scotland may impose reasonable charges in respect of the exercise of its functions in connection with:
 - (a) the provision of services under arrangements made in pursuance of section 10(5)
 - (b) the audit under sections 21 and 22 of an account, other than one prepared in pursuance of section 19(1) to (3) or 20(1)
 - (c) the carrying out under section 23 of an examination, other than one in respect of an office-holder in the Scottish Administration or a body or other office-holder to whom sums are paid out of the Fund
 - (d) the audit of an account in pursuance of Part VII of the Local Government (Scotland) Act 1973 (c. 65)
 - (e) the undertaking or promotion of any study under section 97A or 105A of that Act
 - (f) giving of directions under section 1 of the Local Government Act 1992 (c. 19).
- (2) Charges under subsection (1) may be determined by reference to particular cases or classes of case.
- (3) In determining the amounts of those charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure in connection with the matters mentioned in subsection (1)(a) to (f).
- (4) Charges under subsection (1)(b) to (f) are payable by the body or office-holder whose account is audited or, as the case may be, in respect of whom the examination is carried out, the study undertaken or promoted or the direction given.
- (5) Where a charge under subsection (1)(c), (e) or (f) relates to an examination, study or direction in respect of more than one body or office-holder, each body or office-holder is to pay such proportion of the charge as is determined by Audit Scotland.
- (6) Sums received by Audit Scotland in respect of charges under subsection (1) are to be retained by it and applied to meet the expenditure mentioned in subsection (3).

- (7) Any other sums received by Audit Scotland are to be paid into the Fund, subject to any provision made by any enactment for such sums to be applied for any purpose instead of being paid into the Fund.
- (8) Any expenditure of Audit Scotland, so far as not met out of sums received and applied in accordance with subsection (6), is payable out of the Fund.
- (9) Audit Scotland must, for each financial year, prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit (constituted under section 12), which is to examine the proposals and report to the Parliament on them.

Detailed policies for the implementation of the principles of the fee strategy

In implementing the principles of the fee strategy in practice a number of assumptions, estimations and apportionments have to be made including:

- **Total audit charges for a body comprise two elements** – the **agreed fee** (the amount paid to the appointed auditor for the annual audit work) and a **fixed charge** which covers the cost of performance audits, best value audits, National Fraud Initiative, Housing Benefit audit and a contribution to the central costs of running Audit Scotland. The proportion of the total fee which is represented by the fixed charge will vary according to which elements of audit work such as performance audits are charged for. Therefore, because local government bodies pay for the performance audits conducted by Audit Scotland central teams whereas central government bodies do not, the proportion of the total charge represented by the fixed charge is higher for local government.
- **Indicative fees and agreed fees** – indicative fees are Audit Scotland's centrally arrived at estimate of the fee for the financial audit element of audit work to be undertaken at each body based largely on historical experience. The appointed auditor is free to negotiate the agreed fee with the audited body based on their collective greater knowledge of the circumstances of the body in relation to that audit year taking into account such factors as the quality of internal control systems, the scope and extent of internal audit work, the quality of draft accounts and supporting papers and the scope of any additional audit work agreed. Auditors have discretion to agree fees within a range of + or - 10% of the indicative (30% for very small audits) without reference to Audit Scotland. Outside of that range fees can be agreed but only with the consent of Audit Scotland. This acts as a safety valve if either the auditor or the audited body is exerting undue pressure on the other.
- **Costs of financial audit** – the estimated costs of firms and of in-house audit teams are pooled and shared between all audits across all sectors.
- **Travel costs** – all cash costs of travel and subsistence relating to financial audits are pooled and shared across all audited bodies. In this way the amount paid by each audited body does not depend on the location of the appointed auditor (although the ability of each auditor to conduct audits in each area of Scotland is considered before appointments are made).
- **Best value audit in local government** – when the duty of Best Value audit was introduced by the Local Government in Scotland Act 2003 the additional funding for this new duty was distributed between councils in accordance with the normal funding formula. In order to reflect this pattern of funding best value audit costs are charged to councils based on relative populations. The charge is included in the annual total audit charge rather than being made only in the year in which the main best value audit is conducted in order to keep movements in total audit charges as smooth as possible.
- **Housing benefit audit/inspection function** – funding and charges are distributed in the same way as for best value audit.
- **Costs of performance audit work** – this is spread across audits in each sector on the basis of the relative indicative cost of the financial audit work.
- **Audit Scotland central costs** – costs of Audit Scotland central services such as finance, human resources, information technology and depreciation are spread across audit work in proportion to the budgeted direct cost of the work.
- **VAT** – Audit Scotland does not charge output VAT on its charges for statutory audit work as they are deemed to be statutory services. Audit Scotland cannot therefore recover most of its input VAT. However by agreement with HM Revenue & Customs Audit Scotland can recover the input VAT on invoices from professional firms for the conduct of local government statutory audit work only. The amount recovered reduces the fixed charge paid by all local government bodies.
- **Capital expenditure** – all capital expenditure is initially funded through a separate part of Parliamentary funding. The costs incurred are then charged to operating activities through depreciation over the lives of the assets and are thereby included in charges to audited bodies or Parliamentary funding as appropriate.