

464th meeting of the Accounts Commission for Scotland
Thursday 9 January 2020, 10.15am
in the offices of Audit Scotland, 102 West Port, Edinburgh

Agenda

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 10 to 12 in private (* see note).
4. **Minutes of meeting of 12 December 2019.**
5. **Update report by the Secretary to the Commission:** The Commission will consider a report by the Secretary to the Commission.
6. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit.
7. **Improvement Service: Strategy and activities:** The Commission will consider a report by the Secretary to the Commission.
8. **Best Value Assurance Report: The Highland Council:** The Commission will consider a report by the Controller of Audit.
9. **Statutory report: Glasgow City Council:** The Commission will consider a report by the Controller of Audit.

The following items are proposed to be considered in private:

10. **Best Value Assurance Report: The Highland Council:**
The Commission will consider the actions that it wishes to take.
11. **Statutory report: Glasgow City Council:** The Commission will consider the actions that it wishes to take.
12. **Commission business matters:** The Commission will discuss matters of interest.

* It is proposed that items 10 to 12 be considered in private because:

- Item 10 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the appropriate council of its decisions, which the Commission does before making the decision public.
- Item 11 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the appropriate council of its decisions, which the Commission does before making the decision public.
- Item 12 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers

The following papers are enclosed for this meeting:

Agenda item	Paper number
Agenda item 4: Minutes of meeting of 12 December 2019	AC.2020.1.1
Agenda item 5: Report by Secretary to the Commission	AC.2020.1.2
Agenda item 7: Report by Secretary to the Commission	AC.2020.1.3
Agenda item 8: Report by Controller of Audit	AC.2020.1.4
Agenda item 9: Report by Controller of Audit	AC.2020.1.5

MEETING: 9 JANUARY 2020

MINUTES OF PREVIOUS MEETING

Minutes of the 463rd meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday 12 December 2019, at 10.00am.

PRESENT: Graham Sharp (Chair)
Andrew Burns
Andrew Cowie
Sophie Flemig
Christine Lester
Tim McKay
Elma Murray
Stephen Moore
Pauline Weetman
Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
Carol Calder, Senior Manager, PABV (item 11)
Antony Clark, Audit Director, PABV (item 12)
Stuart Dennis, Corporate Finance Manager (item 14)
David Love, Senior Auditor, PABV (item 11)
Tricia Meldrum, Senior Manager, PABV (item 12)
Fiona Mitchell-Knight, Audit Director, Audit Services (items 13 and 15)
Mark Roberts, Audit Director, PABV (items 10 and 11)
Kirstin Scott, Auditor, PABV (item 10)
Kathrine Sibbald, Audit Manager, PABV (item 11)
Rebecca Smallwood, Senior Auditor, PABV (item 12)
Claire Sweeney, Audit Director, PABV (item 13)
Claire Tennyson, Audit Officer, PABV (item 11)

Item Subject

1. Apologies for absence
2. Declarations of interest
3. Decisions on taking business in private
4. Minutes of meeting of 14 November 2019
5. Minutes of meeting of Financial Audit and Assurance Committee of 28 November 2019
6. Minutes of meeting of Performance Audit Committee of 28 November 2019
7. Audit Scotland Board update
8. Update report by the Secretary to the Commission
9. Update report by the Controller of Audit
10. Briefing: Preparing for withdrawal from the European Union (in private)
11. Local Government overview: Challenges and performance 2020: emerging messages (in private)
12. Performance audit: draft report - Early learning and childcare follow up (in private)
13. Update: Developing the approach to Best Value auditing in integration joint boards (in private)
14. 2019/20 local government audits - fees (in private)
15. Best Value statutory guidance (in private)
16. Commission business matters (in private)

1. Apologies for absence

It was noted that apologies for absence had been received from Sheila Gunn and Sharon O'Connor.

2. Declarations of interest

The following declarations of interest were made:

- Elma Murray, in various items, as a former officer of Glasgow City Council and chief executive of North Ayrshire Council, in relation to references to those councils in the reports.
- Christine Lester, in item 13, as a board member of Health Improvement Scotland.

3. Decisions on taking business in private

It was agreed that items 10 to 16 be considered in private because:

- Item 10 proposes a briefing paper which the Commission is to consider in private before it is published.
- Item 11 is to discuss the emerging messages from an overview report which may require consideration of confidential policy matters in advance of further audit work and subsequent publication.
- Item 12 proposes a draft performance audit report which the Commission is to consider in private before publishing.
- Item 13 updates the Commission on development work on a new approach to auditing Best Value which may require consideration of confidential policy and commercial matters.
- Item 14 reports on proposed fees for the local government audit, on which the Commission may wish to discuss confidential commercial matters with the author.
- Item 15 proposes a response to the Scottish Government on draft statutory guidance, which may require discussion of confidential policy matters.
- Item 16 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.

4. Minutes of meeting of 14 November 2019

The minutes of the meeting of 14 November 2019 were approved as a correct record.

5. Minutes of the Financial Audit and Assurance Committee of 28 November 2019

The minutes of the meeting of the Financial Audit and Assurance Committee of 28 November 2019 were approved as a correct record.

6. Minutes of the Performance Audit Committee meeting of 28 November 2019

The minutes of the meeting of the Performance Audit Committee of 28 November 2019 were approved as a correct record.

Arising therefrom, the Deputy Chair drew particular attention to item 10, in which the Committee had agreed a range of actions relating to the Committee's and the

Commission's business processes, on which the Commission will be further engaged in due course.

7. Audit Scotland Board update

The Commission considered a report by the Secretary providing an update on the recent activity of the Audit Scotland Board.

During discussion, the Commission noted:

- Advice from Andrew Burns, Tim McKay and Elma Murray that they had taken up the invitation from the Audit Scotland Board Chair to all Commission members to attend a meeting of the Board, which they did on 27 November.
- Advice from the Commission Chair, in response to a query from Andrew Burns, that he would reciprocate the invitation to members of the Audit Scotland Board.

Following discussion, the Commission noted the report.

8. Update report by the Secretary to the Commission

The Commission considered a report by the Secretary providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

During discussion, the Commission:

- In relation to paragraph 8, noted advice from the Secretary, in response to a query from Stephen Moore, that he would arrange with Audit Scotland for the note of the 'roundtable' event on 11 November on health and social care integration to be shared with Commission members.

Action: Secretary and Director of PABV

- In relation to paragraph 12:
 - Noted advice from the Secretary that:
 - The Group referred to is the Community Empowerment Advisory Group, which has been previously established by the Strategic Scrutiny Group.
 - Geraldine Wooley, rather than Christine Lester, attended the recent meeting of the Group.
 - Noted advice from the Deputy Chair that the recent meeting of the Group had yielded some useful thinking and discussion, matters arising from which would feature in the Commission's consideration at forthcoming meetings of its refresh of its work programme.
- In relation to paragraph 29, noted advice from the Secretary, in response to a query from Sophie Flemig, that the Commission would consider the implications for its work – including its stakeholder engagement strategy - of a proposed Scottish Parliamentary Bill implementing the United Nations Convention on the Rights of the Child.

Action: Secretary and Chair of Audit Scotland Diversity and Equalities Steering Group

- In relation to paragraph 39, agreed that the Secretary provide more

information on the Scottish Elections Reform Bill, including any implications for the Commission's work.

Action: Secretary

- In relation to paragraph 42, noted advice from the Secretary, in response to a query from Christine Lester, that matters discussed by members at the visiting speaker session on 28 November on the National Performance Framework will feature in the Commission's consideration at forthcoming meetings of its refresh of its work programme.

Action: Secretary and Director of PABV

- In relation to paragraph 103, noted advice from the Secretary, in response to a query from Geraldine Wooley, that he would discuss with Commission members a paper on Commission engagement with citizens and communities.

Action: Secretary

Following discussion, the Commission agreed to:

- Note the report.
- In particular note, in relation to paragraph 42, advice from the Secretary that he would report to the next meeting on how the Commission will respond to the call for view by the Scottish Parliament's Local Government and Communities Committee on how to achieve community wellbeing.

9. Update report by the Controller of Audit

The Commission noted a verbal update from the Controller of Audit on his recent activity.

10. Briefing: Preparing for withdrawal from the European Union (in private)

The Commission considered a report by the Director of PABV introducing a briefing paper produced by Audit Scotland for the Commission and Auditor General on how public bodies have been preparing for withdrawal from the European Union, and seeking its view on how it wished to publicise the briefing paper.

During discussion, the Commission:

- Noted the report
- Agreed that before publication a number of revisions be made as noted in discussion.
- Endorsed proposed publication arrangements, subject to:
 - The Chair writing to councils and IJBs on publication.
 - As part of this communication, setting out the Commission's reasons for not undertaking a performance audit in this regard, as is included in the Commission work programme.

Action: Secretary

- Noting advice from the Director of PABV that the briefing would be shared with all appointed external auditors to facilitate further discussion with audited bodies.

11. Local government in Scotland 2020: Challenges and performance - emerging messages (in private)

The Committee considered a report by the Director of PABV proposing the emerging

messages for the *Local government in Scotland 2020: Challenges and performance* (local government overview 2020) report.

During discussion, the Committee agreed:

- To endorse the emerging messages, structure and tone of the report, subject to some revisions and other points to be addressed by the report team in conjunction with the report sponsors, Graham Sharp and Elma Murray.
- That the emerging messages form the basis of the report for *Local government in Scotland 2020: Challenges and performance*.
- That a draft audit report be brought to the Commission meeting in March 2020, prior to publication in April 2020.
- The proposed publication and promotion strategy be considered at its meeting in March 2020.

Actions: Director of PABV

12. Performance Audit: draft report - Early learning and childcare follow up (in private)

The Commission considered a report by the Director of PABV seeking approval of the draft performance audit report, jointly with the Auditor General, *Early learning and childcare follow up*, and of proposed arrangements for publication and promotion of the report.

Following discussion, the Commission agreed:

- To approve the draft report, subject to the audit team considering in conjunction with the report sponsors, Sophie Flemig and Geraldine Wooley, points raised in discussion.
- To approve the publication and promotion arrangements for the report, including ensuring opportunities for the report sponsors to promote the report at relevant events such as conferences.

Actions: Director of PABV and Secretary

- To note the importance of ensuring that further work informs, and is informed by, the work of other scrutiny partners in this regard.

Action: Director of PABV

- That service user experience continues to be a feature of performance audit work, to be considered as part of the Commission's consideration of its refresh of its work programme at coming meetings.

Action: Director of PABV and Secretary

13. Developing the approach to Best Value auditing in Integration Joint Boards (in private)

The Commission considered a report by the Director of PABV introducing a discussion on a future approach to auditing Best Value in health and social care integration joint boards (IJBs).

During discussion, the Commission agreed a number of features to be considered by the Director in the further development of an approach in this regard.

Action: Director of PABV

Following discussion, the Commission:

- Endorsed the proposals on how to provide assurance on best value in IJBs in a way that is proportionate and adds value.
- Agreed that further development be undertaken by the Commission's Best Value Working Group, to be referred to the Commission for further consideration as appropriate.

Action: Secretary and Director of PABV

- Noted the importance of ensuring effective engagement with IJBs around the development of the approach and around Best Value in general, including IJBs' responsibilities relating to their duty of Best Value and associated statutory guidance.

Action: Secretary and Director of PABV

- Noted the influence of the approach on future consideration by the Commission of audit fee strategy in relation to a new Code of Audit Practice and new round of audit appointments.

14. 2019/20 local government audits – fees (in private)

The Commission considered a report by the Corporate Finance Manager providing information on expected audit fees for the local government sector for the 2019/20 audit year.

Following discussion, the Commission agreed:

- To note advice from the Corporate Finance Manager that engagement would take place with appropriate audit bodies on planned fee levels for smaller local government bodies.
- To note the paper.

15. Draft statutory guidance - Best Value (in private)

The Commission considered a report by the Secretary to the Commission providing an update on progress with Best Value statutory guidance and seeking the Commission's view on the terms of any response to the Scottish Government on the guidance.

Following discussion, the Commission:

- Agreed to endorse the draft statutory guidance as a basis for fulfilling its statutory responsibilities, forming a formal response in this regard to the Scottish Government, to be delegated for signing off by the Chair and Deputy Chair.
- Agreed that such a response include proposals raised in discussion.

Actions: Secretary

- Noted the next steps in relation to the guidance being taken forward by the Scottish Government.

16. Commission business matters

The Chair, having advised that there was no business for this item, closed the meeting.

MEETING: 9 JANUARY 2020

REPORT BY: SECRETARY TO THE ACCOUNTS COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee also receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the extranet site, which provides more detailed news coverage in certain areas.
3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business

Publications

4. Audit Scotland collects [media coverage](#) on all the reports published by the Accounts Commission. Audit Scotland also provides a weekly summary of the [key media stories regarding local government](#). Both are available on the Accounts Commission members' sharepoint site.
5. The download statistics of the reports published over the last 12 months (as at 28 November) are set out in the **Appendix**. (Please note that given the time of writing this report was so close to the previous report, these figures have not been updated since the previous report.)
6. On 17 December the Accounts Commission [published](#) the 'Local government in Scotland: Financial overview 2018/19' report. The report notes local authorities had experienced a 7.6% real-terms reduction in Government funding since 2013-14, significantly higher than the 0.4% reduction in funding for other services. Over the last three years, 23 local authorities had to draw from their reserve funding. The amount held by councils fell by £45m last year, the second consecutive year in which net reserves fell. The report also raised concerns around Integration Joint Boards, 19 of 30 of which had to rely on extra funding from partners to prevent a £58m deficit.
7. On 17 December the Accounts Commission and the Auditor General [published](#) their impact report on the 'Self Directed Support: 2017 progress report'. This report found that findings from the 2017 report have been well received and echoed by key stakeholders with the recommendations for improvement accepted and actions put in place by the Scottish Government, COSLA and partners. Authorities have yet to make the transformation required to fully implement the Self-Directed Support strategy,

although further steps have been made to progress on recommendations. The Commission Chair has also written to council chief executives advising them of the report's publication.

Other business

8. At its last meeting, the Commission noted that on 18 November the Scottish Parliament's Local Government and Communities Committee had [launched](#) a call for views on how to achieve community wellbeing. The Committee will seek views on the financial impact of poverty and the extent to which councils and organisations are advancing community wellbeing. The Commission noted that I would report to the next meeting on how the Commission should respond to this consultation. In discussion with Audit Scotland colleagues and with the clerk of the Committee, it has been agreed that the Commission should note its interest with the Committee with a view to participating at a later stage of the Committee's work. The Commission is asked to note this position.
9. On 8 January, the Chair of the Commission, along with Fraser McKinlay, Controller of Audit; Brian Howarth, Audit Director; Lisa Duthie, Senior Auditor, Audit Services; and Chris Lewis, Senior Auditor, Performance Audit and Best Value, briefed the Local Government and Communities Committee on the local government financial overview.
10. On 15 December, Jamie Hepburn MSP, Minister for Business, Fair Work and Skills announced that he has appointed Elma Murray as Deputy Chair of the Developing Young Workforce Employers Forum. Elma will be fulfilling this role in a personal and voluntary capacity.
11. On 17 December, the Financial Reporting Council [issued](#) a significant revision to its Ethical Standard which it intends to help strengthen auditor independence and prevent conflicts of interest. I will consult with Audit Scotland on what this will mean for public audit in Scotland. I will also consider what it means for the Commission's own Code of Conduct. I will report back accordingly.

Auditor General for Scotland

12. On 13 December the Auditor General for Scotland [published](#) the *2018/19 audit of Bòrd na Gàidhlig: Governance and transparency*. The report states that the organisation must address a range of concerns from a lack of openness to poor relationships and organisational culture.

Audit Scotland

13. On 16 December Audit Scotland [published](#) a briefing on 'Preparing for withdrawal from the European Union'. This report focuses on how the Scottish public sector has been preparing for EU withdrawal. It highlights ongoing issues and potential risks, and features some examples of activity that public bodies have undertaken to date. The Commission Chair has written to council chief executives to advise them of the publication.

Issues affecting local government

Scottish Government

14. On 2 December the Scottish Government [published](#) quarterly statistics on the Council Tax Reduction (CTR) scheme. The statistics show there was a marginal decrease in CTR recipients in Scotland of 0.4% over the quarter.

15. On 2 December the Scottish Government [published](#) guidance for contracting authorities on the construction phase of a built asset project.
16. On 3 December the Scottish Government [launched](#) a consultation on the draft vision and principles for *Housing to 2040* outlined in the 2019-20 Programme for Government. A series of engagement events will coincide with the consultation including a housing exhibition, *Present Voices, Future Lives*, which has begun touring 12 locations across Scotland. Respondents are encouraged to offer proposals which could increase the affordability, accessibility and energy efficiency of existing and new housing. A [fact sheet](#) has also been published. The consultation will close Friday 28 February. I will consult with Audit Scotland colleagues on whether to respond to the consultation.
17. On 4 December, the Scottish Government [published](#) a joint letter from Aileen Campbell MSP, Cabinet Secretary for Communities and Local Government and Councillor Alison Evison, President of COSLA, to public sector leaders, reporting the progress of the Local Governance Review. The letter sets out the next stage of the review, being taken forward through work on three 'interconnected empowerments':
 - community empowerment through a new relationship with public services where communities have greater control over decisions
 - functional empowerment of public sector partners to better share resources and work together
 - fiscal empowerment of democratic decision-makers to deliver locally identified priorities.

The letter invites public sector bodies to submit proposals on how they can contribute to this work. I am consulting with Audit Scotland on how the review is reflected in our own activities and work programme.
18. On 4 December the Scottish Government [published](#) the latest [progress report](#) on the Fairer Scotland Action Plan, which suggests "*significant progress*" has been made regarding the reduction of poverty and inequality. The report found more than 5,000 low income households benefitted from the Money Talk Team advice service, averaging £1,940 through increased benefit uptake and savings on essential services.
19. On 5 December the Scottish Government [published](#) the findings of a consultation on strengthening fire safety in high rise domestic buildings, along with [guidance](#) informed by its outcomes. Respondents preferred that information be distributed in leaflet form but also wanted a multi-media approach, with a priority of ensuring the information was accessible to all. Major concerns were expressed by respondents that they were receiving conflicting 'stay put' advice, while some were unsure of whether a process for reporting fire safety concerns existed. Stakeholders also welcomed the suggestion of a campaign to provide information on not leaving items in common areas. A [Business and Regulatory Impact Assessment](#) has also been published. The advice will be delivered to high-rise homes from December and will be made available in libraries and community centres in each of the 15 local authority areas with the properties.
20. On 9 December the Scottish Government [announced](#) it would introduce new guidelines to enhance the housing rights for disabled people. Subject to receiving parliamentary approval, these new guidelines will be introduced in February 2020.
21. On 10 December the Scottish Government [published](#) its [response](#) to the Independent Review of Mediation in Scotland. In her foreword, Scottish Government minister, Ash Denham MSP said it was "*clear that mediation should have a bigger role to play in helping citizens resolve disputes*". Some of the recommendations in the review will be

the subject of a public consultation and the Scottish Dispute Resolution Delivery Group will meet for the first time early next year. The Minister was “*highly sceptical*” about the appropriateness of using mediation in cases involving domestic abuse, sexual violence or gender-based violence.

22. On 11 December the Scottish Government [published](#) Community Ownership in Scotland 2018, which presents the number of assets and total area in community ownership, in addition to the number of community groups that own assets. The publication [found](#) there were 593 assets in community ownership as of December 2018, which represented 2.7% of land area in Scotland, that were under the ownership of 429 community groups. While community ownership was widespread across the country, the findings highlighted a significant difference in distribution. Over a third of assets and community groups – 38% and 39%, respectively – were located within two local authority areas, Highland and Argyll and Bute, while Na h-Eilean Siar and Highland made up 96.4% of the land area in community ownership in Scotland.
23. On 16 November the Scottish Government [published](#) its National Health and Social Care Integrated Workforce Plan. The plan sets out the future workforce requirements and provides revised workforce planning guidance to health and social care employers. A [guidance document](#) and [illustrative scenarios](#) were also published.
24. On 17 December the Scottish Government [published](#) the public sector employment statistics for Scotland in Q3 2019. The statistics revealed in September 2019 there were 561,500 people employed in the public sector in Scotland, accounting for 21.5% of total employment. There were 16,420 more people employed in the public sector between September 2018 and September 2019 than in September 2018.

Scottish Parliament

25. On 29 November John Finnie MSP received a response from the Scottish Government over how it is supporting Highland Council to tackle housing shortages. The Scottish Government responded by highlighting the ‘many ways’ where they are supporting Highland Council to deliver more homes. The Scottish Government claims that are investing almost £194 million in the Highland Council area as part of their wider commitment to deliver 50,000 affordable homes across Scotland. The Scottish Government also suggested that its awarded Highland Council £13 million towards an infrastructure fund to open up both affordable and private housing developments.
26. On 1 December the Scottish Elections Reform Bill motion [passed](#) at Stage 1 (For 63, Against 18), with SNP, Labour, Liberal Democrats and Greens supporting and Conservatives opposing. As agreed at the previous Commission meeting, I will report further on the implications of the Bill for the Commission’s work.
27. On 9 December the *Scottish Parliament statistics for 2018 – 2019*, reporting on the business of the Parliament, were [published](#). The Auditor General is mentioned several times in relation to the work of the Parliament’s Public Audit and Post-legislative Scrutiny Committee.
28. On 11 December the Scottish Parliament’s Information Centre (SPICe) [published](#) a briefing about Scotland’s prison population. It contains annual and monthly data.
29. On 11 December the Scottish Parliament [agreed to changes](#) being made to the Code of Conduct for MSPs, following the publication of a report by the Standards, Procedures and Public Appointments Committee. The changes ensure that MSPs, parliamentary staff and the staff of MSPs have the same opportunity to make a complaint directly to the Commissioner for Ethical Standards and make it clear that

MSPs must not behave in a manner that involves bullying, harassment or any other inappropriate behaviour.

30. On 16 December SPICe [published](#) a briefing on the UK's withdrawal from the European Union. Audit Scotland's report on preparing for withdrawal from the EU is summarised.

Parliamentary Committee News

Local Government and Communities Committee

31. On 27 November the Committee considered amendments at stage 2 for the Non-Domestic Rates Bill.
32. On 4 December the Committee amended the Non-Domestic Rates Bill to pass control over business rates to local authorities. The amendment, introduced by Andy Wightman, was supported by all parties except the SNP. The Committee will be seeking written evidence from COSLA on the potential implications of such a clause. On 11 December the Committee [published](#) a written submission from the Scottish Tourism Alliance ahead of its meeting with COSLA on 8 January, expressing concern about the clause.

Public Audit and Post Legislative Scrutiny Committee

33. On 27 November the Committee took evidence from a range of stakeholders on the section 22 report, "The 2018/19 audit of the Scottish Prison Service".¹
34. On 5 December the Committee:
 - Continued its post legislative scrutiny of the Freedom of Information (Scotland) Act 2002.
 - Took evidence from a range of stakeholders on the section 23 report, "Scottish Public Pensions Agency: Update on management of PS Pensions project".²

Finance and Constitution Committee

35. On 27 November the Committee considered amendments at stage 2 to the Referendums (Scotland) Bill. On 4 December the Committee approved the amended Bill at stage 2.

Other Committees

36. On 2 December the Justice Committee [published](#) a report following its scrutiny of the Scottish Government's draft Budget. Members concluded the Scottish Prison Service is under unsustainable pressure because of factors including high prisoner numbers, risk-averse sentencing, staff absence rates and the poor quality of the prison estate. The report highlights similar concerns expressed by the Auditor General for Scotland and the Chief Inspector of Prisons. Purposeful activity, through-care services and

¹ The Auditor General for Scotland reports to the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee under Section 22 of the Public Finance and Accountability Act on the accounts of Scotland's public bodies (excluding local government).

² The Auditor General for Scotland may initiate examinations under Section 23 of the Public Finance and Accountability Act into the economy, efficiency and effectiveness with which Scotland's public bodies (excluding local government)) have used their resources in discharging their functions, and may publish conclusions and report accordingly to the Public Audit and Post-legislative Scrutiny Committee.

safety are suffering as a result. Extra funding from the Scottish Government during 2019-20 was acknowledged, but members noted it was being used, at least in part, to buy places in privately-run prisons. The quality of Barlinnie, Greenock and Inverness prisons was another area of concern, with the Committee describing them as being “*no longer fit for 21st century standards*”. Work on progress towards securing a site for HMP Glasgow, the intended replacement for Barlinnie, was welcomed in the report. The Committee has encouraged the Scottish Government to adopt a longer-term approach to funding that would consider the balance between money spent on preventative services and money spent on keeping people in prison.

37. On 4 December the Health and Sport Committee [published](#) a report arguing social prescribing “*is key to tackling Scotland’s health issues*”. The report found that social prescribing promotes physical activity while tackling social isolation, reducing the likelihood of developing a long-term condition and minimising dependence on prescriptions. Suggesting social prescribing should be viewed as an investment rather than a cost, the Committee called for integration authorities to allocate 5% of their budgets to social prescribing over the next two years. In light of the inequality gap between active and non-active populations, the Committee suggested the majority of any investment is spent in more deprived areas. The report also asks the Scottish Government to provide an update on the recruitment of 250 additional link workers.
38. On 5 December the Equalities and Human Rights Committee [published](#) its Stage 1 report on the FGM (Protection and Guidance) (Scotland) Bill. The Committee has confirmed its support for the principles of the Bill, which seeks to strengthen legal protection for women and girls at risk of FGM by creating a new FGM Protection Orders (FGMPO) court order. While supporting the aims of FGMPOs, the Committee warned that they will not work without additional support for individuals and families. The report calls on the Government to explore measures to remove barriers for those in need of legal assistance with FGMPOs. Other recommendations include further engagement with communities and professionals while developing statutory guidance and increasing education on FGM as part of the curriculum.
39. On 6 December the Education and Skills Committee [launched](#) an inquiry into the recruitment and training of student teachers. The inquiry follows a report published by the Committee in 2017 on teacher workforce in Scotland which found there was no baseline standard for literacy and numeracy in teacher education and called for more work to ensure students on placement were properly supported. The inquiry will revisit the recommendations made in the report to find out what progress has been made.
40. On 9 December the Environment, Climate Change and Land Reform Committee [published](#) its report on the proposed regulations for the [Deposit Return Scheme](#) (DRS). The Committee had been hearing oral evidence on the DRS from stakeholders and Government officials throughout the latter half of 2019, while also receiving submissions and supplementary written evidence. If successfully implemented, the DRS would be the first of its kind in the UK and is expected to be up and running by 2021. However, the proposal to include glass in the scheme has proved controversial among retailers and manufacturers as claims of incurred costs and negative environmental impacts have been made by bodies such as the [Scottish Retail Consortium](#).
41. On 10 December the Culture, Tourism, Europe and External Affairs Committee [published](#) a report following its inquiry into arts funding. The report looks at the funding landscape, local and national policy alignment, and investing in Scotland’s artists. The Committee has called for an “*urgent resetting*” of arts policy and funding. The report highlights that funding models do not provide adequate support to individual artists and

recommends the Scottish Government consider this in the culture strategy.

42. On 17 December the Education and Skills Committee [published](#) its report on the Disclosure (Scotland) Bill at Stage 1. While the Committee supported the general principles of the Bill, it concluded there were a number of areas that will require “*further clarification*” at Stage 2. In particular, the Committee shared concerns over how some of the measures proposed in the Bill would work in practice. The report also called for greater clarity regarding decision making processes and urged the Government to ensure that care experienced people were not disadvantaged by regulations relating to the disclosure of childhood offending.
43. On 19 December the Health and Sport Committee [launched](#) a call for views in its inquiry into social care. The [Scottish Government Adult Social Care Reform Programme](#) is currently working to reform social care in Scotland. This inquiry will not focus on replicating that work, but will instead explore the future delivery of social care in Scotland and what is required to meet future needs. The call for views closes on 20 February. I will consult with Audit Scotland colleagues on whether the Commission should respond to the call for views.

Public Policy News

44. On 3 December Citizens Advice Scotland [published](#) its annual ‘Advice in Scotland’ report which reviews the most common issues on which people consult the Citizens Advice network. The issues most people were seeking advice on were social security, debt, employment, housing, legal issues and finance. Social security is the top issue for Citizens Advice’s clients, with Universal Credit inquiries making up 13% of this category. Fuel debts have increased their share of debt related advice from 3% to 4%. The report suggests that people in Scotland are continuing to “*feel the squeeze*” regarding their incomes through unsustainable debt, insecure work or social security payments. Turning to the future, the report highlights the challenges facing Scotland, including the need to move to a green economy, growing income pressures and falling living standards.
45. On 3 December Laura Paton was [appointed](#) as the new HM Chief Inspector of Prosecution in Scotland. Previously a lead inspector within HM Inspectorate of Constabulary in Scotland, Ms Paton succeeds Michelle McLeod who held the role since 2013.
46. On 5 December think tank Reform Scotland [published](#) research on corporation tax in Scotland and called for the tax power to devolved to create a more attractive business environment. The report highlights the areas in which Scotland falls behind the rest of the UK, including the projections for the working age population and the number of people paying Additional Rate taxes. Reform Scotland also points out that the number of businesses in Scotland per 10,000 adults sits at 750, while there are 1,000 for the rest of the UK. Regarding tax revenues, the research highlights the significant burden faced by the lowest earners, with 44% of non-savings, non-dividend income tax coming from the lowest earners. Reform Scotland has called for the Scottish Government to be given control of corporation tax to “*widen the basket*” of taxes so that it could offer a zero rate to attract new businesses to Scotland.
47. On 5 December Susan Deacon [resigned](#) as the Chair of the Scottish Police Authority citing “*deep-rooted flaws in the system*”.
48. On 5 December Members of the Firework Review Group [met](#) for the first time to examine introducing tighter firework controls in Scotland. This group was established by the Scottish Government and includes the British Veterinary Association, the British

Firework Association, Police Scotland, Veterans Scotland and NHS Greater Glasgow and Clyde.

49. On 11 December the NHS Information Services Division [released](#) figures which suggested that 22.4 per cent of primary one children are at risk of being overweight or obese, while 77.6 per cent were of a healthy weight. While the proportion of children who are at risk of being overweight or obese has stayed quite constant since 2001-02, the gap between rich and poor areas has widened, with the proportion of primary one children at risk of obesity in the most deprived areas now more than double that of those living in the least deprived areas. In the most deprived areas this year, 13.7 per cent of primary one children were at risk of obesity, while 6.5 per cent were at risk of obesity in the least deprived areas.
50. On 13 December it was [reported](#) that Police Scotland are investigating potential fraud at the Scottish Qualifications Authority (SQA). The Scottish Qualifications Authority (SQA) found three cases of 'financial irregularities' in the last two financial years. One involved procurement fraud – whereby the body lost £2,190 to a phishing scam, after an email was sent purporting to be from a genuine supplier. The other two – one of which *Public Finance* understands to be the subject of the police investigation – were in the 2017-18 financial year.

COSLA

51. On 29 November COSLA held its regular [meeting](#) of local authority leaders in Edinburgh. The meeting agreed amongst other things a formal response to the Scottish Government's [consultation](#) on the Transient Visitor Levy.

Improvement Service

52. On 26 November the Improvement Service [published](#) a briefing explaining why violence against women is a public health issue. This follows a conference that the Improvement Service and other stakeholders organised which explored opportunities to adopt a public health approach to tackling violence against women and gender inequality in Scotland, and the leadership needed at a local and national level to support this shift.

Other Scottish local government news

53. On 27 November the Simon Community, on behalf of the Scottish Government, [produced](#) new guidance to help support homeless people keep any pets they may have. The guidance states that many people are forced to give up their pet in order to secure homeless accommodation. The Simon Community claim that a pet can improve physical and mental health and reduce loneliness and trauma. The guidance recommends improved training for those working in homelessness services on the importance and benefits of supporting people to remain with their pets, as well as on how to work with animals. It also calls for temporary shelters to introduce dog-friendly communal rooms or dog crates and for services to consider how policies such as curfews might affect pet owners.
54. On 29 November UKhospitality [published](#) analysis which suggested the Transient Visitor Levy could cost the Scottish economy £200 million and result in a loss of 6,000 jobs.
55. On 3 December the Programme for International Student Assessment (2018) [results](#) were [published](#). The PISA results, run and organised by the OECD, contain an international comparison of reading, maths and science performance of 15-year-old

pupils. The results showed Scotland's [performance](#) in the PISA assessments was above the OECD average in reading and similar to the OECD average in maths and science. The data also [showed](#) reading levels among children had risen since the last set of results in 2015.

56. On 3 December the Glasgow Health and Social Care Partnership [released](#) figures which stated that 45 homeless people died in Glasgow last year. 43 of those were living in temporary accommodation at the time of their death. Of the two people who died outside, one did not have any accommodation and died of substance misuse after leaving temporary accommodation four days earlier and the second had previously been in contact with homelessness services but had broken that off.
57. On 10 December Highland Council [approved](#) the findings of a public consultation supporting the introduction of a Highland Transient Visitor Levy and committed to further work to develop an optimal scheme for Highland.
58. On 10 December Scotland's Chief Statistician [published](#) a range of statistics, including those on school pupils' achievement of Curriculum for Excellence (CfE) levels in reading and numeracy. The gap between the proportion of primary pupils in P1, P4 and P7 from the most and least deprived areas who achieved their expected levels in literacy and numeracy remains, although slight improvements have been made in literacy since 2016/17.

Scrutiny, inspection, regulatory and related bodies

Standards Commission for Scotland

59. On 26 November the Standards Commission for Scotland [published](#) their draft Strategic Plan for the four-year period from 2020 to 2024.

Care Inspectorate

60. On 2 December the Care Inspectorate [published](#) new quality framework for mainstream boarding schools and school hostels.

Scottish Housing Regulator

61. On 4 December the Scottish Housing Regulator [published](#) a report following their inquiry into the housing options and homeless service at Dumfries and Galloway Council. The report noted that the Council started a large-scale review of its Housing Options and Homeless Service in 2016. Since then it has significantly improved the service and has a clear plan to deliver further improvement. The Council and its Registered Social Landlord (RSL) partners have significantly increased the number of settled lets made to people who are homeless. This includes the allocation of newly built houses. The Council has put in place an effective process for referring people who are homeless to its partner RSLs for settled accommodation. The report offered a series of recommendations, including that stating that the Council must always take a homelessness application when it has reason to believe that someone is homeless or threatened with homelessness.

UK Parliament

General

62. On 13 December the Conservatives secured an overall majority in the House of

Commons. The results of the 2019 UK general election are as follows:

	2019 UK	2017 UK	2019 Scotland	2017 Scotland
Conservative	365	317	6	13
Labour	203	262	1	7
SNP	48	35	48	35
Liberal Democrats	11	12	4	4
DUP	8	10	-	-
Sinn Féin	7	7	-	-
Alliance Party	1	0	-	-
Plaid Cymru	4	4	-	-
SDLP	2	0	-	-
Green	1	1	-	-
Other/Independent	0	2	-	-
TOTAL	650		59	

63. On 18 December the Independent review by Sir Donald Brydon into the quality and effectiveness of audit was [published](#). Sir Donald recommends the creation of a standalone audit profession, which should be governed by its own principles, qualifications and standards. He also says auditing should reflect wider public interest, rather than simply verifying financial statements. Other recommendations in the report include improved auditor transparency, a specific focus on rooting out corporate fraud, and additional powers for shareholders to question auditors at annual investor meetings. I will liaise with Audit Scotland to report to the Commission on the implications of the review for the Commission's work.

Other general – UK

64. On 6 December the Department for Transport [released figures](#) showing that prosecutions for misuse of blue badges increased by nearly 18% in the last financial year in England. There were 1,432 prosecutions between 1 April 2018 and 31 March 2019. Most of the prosecutions were in London, and 99% involved non-badge holders using another person's badge.
65. On 13 December Martin Swales, president of the UK Society of Local Authority Chief Executives (SOLACE), [wrote](#) to Prime Minister, Boris Johnson, calling on him as a matter of urgency to confirm the local government finance settlement for the year ahead.
66. On 16 December CIPFA [published](#) its Financial Resilience Index which analyses English council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments. CIPFA found that against these indicators - which it said provided a "rounded picture" of finances – the majority of councils are not showing signs of stress. Around 10%, however, show "some signs of potential risk to their financial stability".

67. A [report](#) from the Campaign to Protect Rural England found that, over the past 40 years, 50% of council farms have been sold, with sales increasing “dramatically” in the past two years as authorities deal with austerity. They recommend that Ministers should introduce new legislation and funding to halt the mass sale of council-owned farms in England.
68. Public sector leaders in England including CIPFA, the Association of Public Sector Excellence and the County Councils Network have [called](#) for further assurance from the UK Government in relation to the future of social care following the 19 December Queen’s Speech, which stated that the Government would seek cross-party consensus for “long-term reform of social care” to ensure that the “social care system provides everyone with the dignity and security they deserve”.

Conclusion

69. The Commission is invited to consider and note this report, and in particular:
- In relation to paragraph 8, to note that the Commission will note its interest with the Local Government and Communities Committee in its call for views on how to achieve community wellbeing, with a view to participating at a later stage of the Committee’s work.
 - In relation to paragraph 11, to note that I will report back on the implications for the Commission on the Financial Reporting Council’s revised Ethical Standard.
 - In relation to paragraph 16, to note that I will consult with Audit Scotland colleagues on whether to respond to the Scottish Government consultation on the draft vision and principles for *Housing to 2040*.
 - In relation to paragraph 43, to note that I will consult with Audit Scotland colleagues on whether the Commission should respond to the call for views of the Health and Sport Committee in its inquiry into social care.

Paul Reilly
Secretary to the Accounts Commission
18 December 2019

APPENDIX: Accounts Commission reports in past 12 months - downloads

Report	Date	Report downloads	Podcast downlds
Scottish Borders Council: Best Value Assurance Report	22 Oct 19	482 (+149)	36
National Scrutiny Plan	30 Sept 19	385 (+90)	n/a
Perth and Kinross Council: Best Value Assurance Report	22 Aug 19	818 (+84)	34
Principles of community empowerment	25 July 19	4,145 (+457)	n/a
Midlothian Council: Best Value Assurance Report	4 July 19	1,180 (+61)	53
Clackmannanshire Council: Best Value Assurance Report progress report	27 June 19	635 (+199)	64
Accounts Commission annual report 2018/19	31 May 19	303 (*)	n/a
Accounts Commission Engagement strategy and plan 2019-24	31 May 19	206 (*)	n/a
Accounts Commission Strategy and annual action plan 2019-24	31 May 19	238 (*)	n/a
Accounts Commission Engagement plan progress report 2018/19	31 May 19	91 (*)	n/a
North Lanarkshire Council: Best Value Assurance Report	23 May 19	893 (+111)	57
Stirling Council: BV Assurance Rprt	25 Apr 19	985 (+47)	78
How council work: Safeguarding public money	11 Apr 19	1,670 (+123)	n/a
South Lanarkshire Council: BV Assurance Rpt	28 Mar 19	1,358 (+128)	63
Local government in Scotland: Challenges and performance 2019	21 Mar 19	4,173 (+413)	177
Local government in Scotland: Challenges and performance 2019 - Supplement	21 Mar 19	449 (*)	n/a
Social Work in Scotland – Impact report	5 Dec 18	1,342 (+61)	n/a
Local government in Scotland – Financial overview 2017/18	28 Nov 18	3,690 (+147)	305 (*)
Local government in Scotland – Financial overview 2017/18 - Supplement	28 Nov 18	344 (*)	n/a
Dumfries and Galloway Council BV Assurance Rpt	22 Nov 18	1,547 (+35)	305 (*)
Health and social care integration: update on progress	15 Nov 18	13,840 (+643)	284 (<30)
East Lothian Council Best Value Assurance Report	1 Nov 18	1,536 (+28)	240 (n/a)

Key:

- (x) Increase in numbers since last month
- * This figure is below 30
- n/a Not applicable.

MEETING: 9 JANUARY 2020

REPORT BY: SECRETARY TO THE COMMISSION

IMPROVEMENT SERVICE: STRATEGY AND ACTIVITIES

Purpose

1. This paper introduces a presentation from the Interim Chief Executive of the Improvement Service.

Background

2. The Improvement Service is the national improvement organisation for local government and community planning in Scotland. Its board consists of representatives from COSLA and SOLACE. The current [Strategic Framework 2015-20](#) and annual [Business Plan](#) sets out the organisation's priorities.
3. Its core funding - £1.65m per year - is by way of a block grant from the Scottish Government as part of the local government block expenditure grant. This covers the core activities of the organisation, including a small corporate team and organisational running costs.
4. On top of this, the organisation has developed other income streams linked to programme deliverables, bringing in some £20m over the past five years. Notably there is Scottish Government funding to deliver the [myaccount](#)¹ and related services, as well as a range of other agreements securing funding, mainly from the Scottish Government but also through agreements with the UK Government and the Big Lottery. There are also partnerships which bring in funding from each council, as well as commercial income.
5. The Commission and the Service have enjoyed a close working relationship, collaborating and making use of each other's work. Notably the Improvement Service provides the programme support for the [Local Government Benchmarking Framework](#), in which the Commission has a particular strategic interest given its [Statutory Performance Information Direction](#). Audit Scotland also works closely with the Service in a number of areas including overview work and performance audit work. The Service also provides programme support for the [Community Planning Improvement Board](#), on which the Controller of Audit serves as a member.

Improvement Service strategy and activities

6. The Interim Chief Executive of the Improvement Service, Sarah Gadsden, is present at today's meeting to update the Commission on the current and planned future work of the Service.
7. This presentation and discussion will allow the Commission to consider the Service's work as part of its annual work programme refresh.

¹ myaccount provides people living in Scotland with the ability to set up an online account to access a range of online public services, such as paying council tax, requesting a parking permit or paying for school meals, made available by service providers.

8. The Commission consulted with stakeholders on its priorities, risks and work programme refresh over November and December. A paper setting out the matters raised in the consultation will be considered at its February meeting, with a view to advising Audit Scotland of matters to be considered in the work programme refresh. A paper on the refresh exercise, setting out proposals for a refreshed work programme, will then be considered by the Commission at its March meeting, with subsequent publication of the refreshed work programme, in conjunction with the Auditor General, in March.

Review of Improvement Service

9. There is an ongoing review of the Service conducted by its Board in conjunction with COSLA. Sarah will update the Commission on the status of the review.

Conclusion

10. The Commission is asked to consider the matters raised in the consultation by the Interim Chief Executive of the Improvement Service, and in particular any matters of interest for its work programme refresh.

Paul Reilly
Secretary to the Commission
18 December 2019

MEETING: 9 JANUARY 2020

REPORT BY: SECRETARY TO THE COMMISSION

BEST VALUE ASSURANCE REPORT: HIGHLAND COUNCIL

Purpose

1. The purpose of this paper is to introduce for the Commission's consideration the Controller of Audit's Best Value Assurance Report for Highland Council.

Background

2. A key objective of the approach to auditing Best Value is to allow the Commission to provide more regular assurance to the public about how councils are performing in relation to their Best Value statutory duties. It is intended that this will be achieved by the Controller of Audit submitting a Best Value Assurance Report (BVAR) on each council at least once during the five-year audit appointment and by annual audit reports reporting a council's performance against its Best Value duties.
3. The attached BVAR (Appendix 1) is on Highland Council. This is the first BVAR on the council and reports on the progress made by the council since previous Best Value reports. The Controller of Audit reported to the Accounts Commission on the council in April 2010 and the Commission's findings were published in [May 2010](#) (set out in Appendix 2).

The Controller of Audit report

4. The BVAR is made by the Controller of Audit to the Commission under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
5. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
 - the accounts of local authorities audited under the Act;
 - any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public; and
 - the performance by a local authority of their statutory duties in relation to best value and community planning.
6. 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.
7. The report concludes with a series of recommendations proposed by the Controller of Audit which are to be part of the Commission's considerations.

Procedure

8. 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:

- direct the Controller of Audit to carry out further investigations
 - hold a hearing
 - state its findings.
9. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
10. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence and judgements presented in the report. This is done in the public part of the Commission meeting.
11. The Commission is then expected to consider in private how it wishes to proceed. Subsequently, the Commission is obliged by statute to inform the council of its decision, which the Commission does before making the decision public.

Conclusion

10. The Commission is invited to:
- a) consider the Controller of Audit's BVAR on Highland Council; and
 - b) decide in private how it wishes to proceed.

Paul Reilly
Secretary to the Commission
19 December 2019

APPENDIX 1:

BEST VALUE ASSURANCE REPORT: HIGHLAND COUNCIL

See separate paper.

APPENDIX 2:

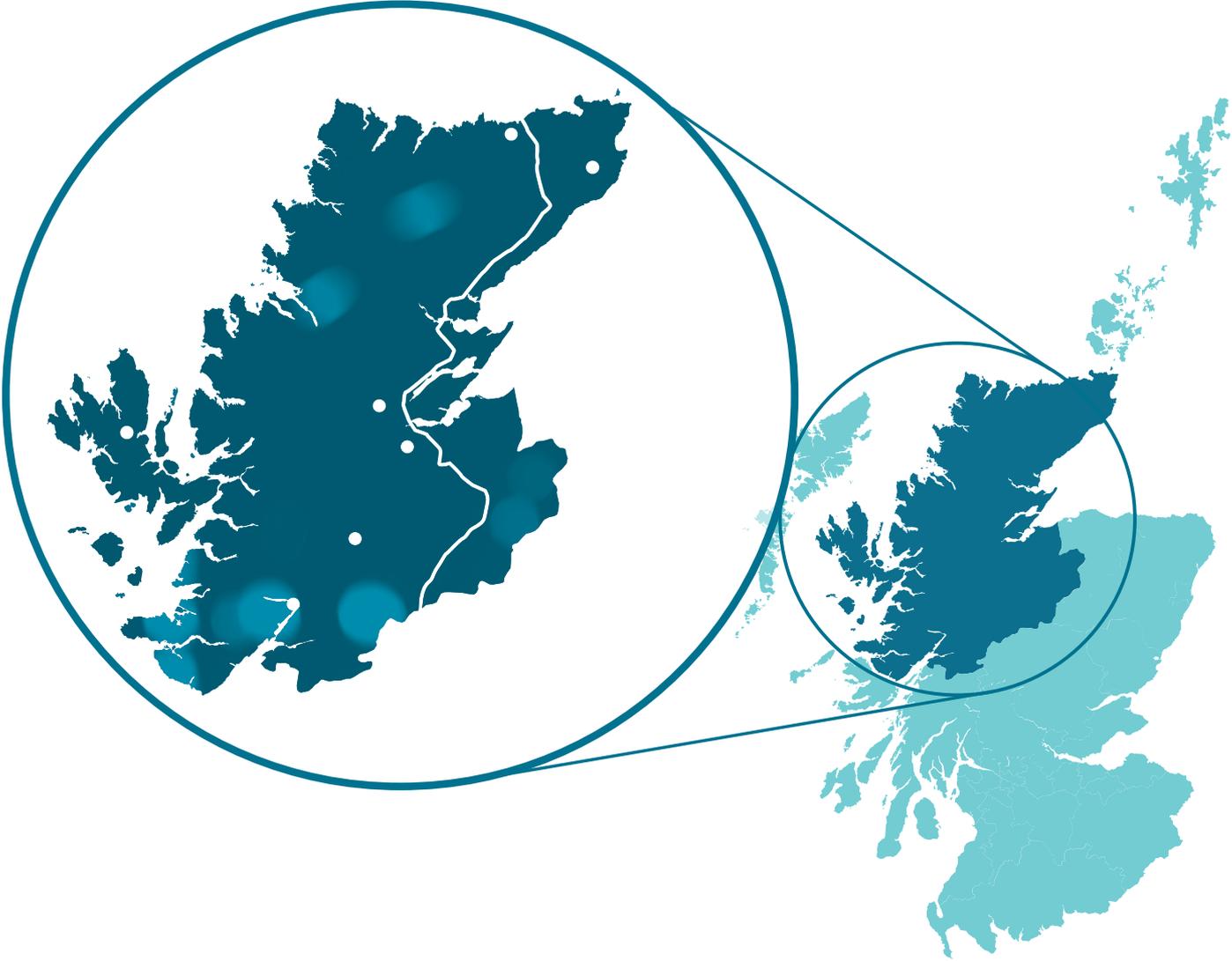
AUDIT OF BEST VALUE – HIGHLAND COUNCIL: COMMISSION FINDINGS

13 MAY 2010

1. The Accounts Commission accepts this report from the Controller of Audit on The Highland Council's performance of its statutory duties on Best Value and Community Planning. The Commission accepts the Controller of Audit's judgements that, in respect of these duties, the council is improving well and that it is well-placed to deliver future improvement.
2. The Commission gratefully acknowledges the co-operation provided to the audit team by the elected members, chief executive and other officers of the council and its community planning partners, in particular for their constructive approach to being a pathfinder Best Value 2 area. The Commission also gratefully acknowledges that this report arises from work conducted in close co-operation with colleagues from other local government inspectorates.
3. The council benefits from strong political and managerial leadership. We particularly welcome evidence that elected members now provide clear and consistent community leadership and strategic direction, combining concern for local issues with a shared ambition around the significant issues for the community as a whole. The Commission welcomes the fact that changes to committee structures and managerial arrangements have allowed this leadership to improve over recent years through a period of electoral change.
4. The council is strongly focused on issues which matter to local people, is generally delivering good quality services, and is making progress with its partners in delivering improved outcomes which meet the needs of its diverse communities. Overall, there are high and improving levels of customer and citizen satisfaction with its services. Some improvement is required in areas such as adult social work and management of housing rent arrears.
5. The council works well with its partners at a strategic level. The Commission welcomes the evidence of effective partnerships and the active engagement and community leadership exercised by elected members and senior managers in a variety of structures.
6. The Commission welcomes evidence that the council has made tangible progress on areas of improvement identified in the first Best Value audit in 2006. A culture of continuous improvement has developed and deepened, and the council now has a clear awareness of its improvement needs based on feedback from communities.
7. We welcome the evidence that the council is aware of, and working on, the challenges for its future financial planning. We encourage the council now to improve its performance management capacity and ensure that it has effective mechanisms to test value for money and provide robust options appraisal. This is essential to allow the most effective decision-making by elected members when budgets are under increasing pressure. We also recommend that the council should seek to improve its communication with the public specifically on how it demonstrates value for money in its activities.
8. We urge the council to make progress as a matter of urgency on its review of pay, terms and conditions and to resolve continuing legacy issues from former district and regional council structures. These have been outstanding for some years and present a significant financial and staff morale risk. We also recommend that the council continues to develop its staff management processes, for example, by ensuring that absence management and recruitment processes are integrated in the HR system.
9. The issues identified in this report will inform the Assurance and Improvement Plan for scrutiny of The Highland Council over the next three years. Local audit and inspection teams will continue to monitor progress. The Commission notes the action taken by the council on issues relating to Caithness Heat and Power, and expects to consider a report on this separately.

Best Value Assurance Report

Highland Council



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
January 2020

The Accounts Commission

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

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

Our work includes:

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

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

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

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Links

-  PDF download
 -  Web link
-

Key facts



9,906
square
miles

Area

235,180

Population

8,059

Workforce
(number of full-time
equivalent employees)

74

Elected members
27 Independent
9 Liberal Democrat
3 Scottish Labour
20 Scottish National Party
11 Conservative and Unionist
1 Green Party
1 Sutherland Independent
Group
2 Non-aligned

13,949

Council houses

£571.1
million

2019/20
revenue budget

£118.9
million

2019/20
capital budget

£60.3
million

Budget gap
2020–23

Most
optimistic
£50.2m
Most
pessimistic
£77.3m

Commission findings



Audit approach



1. The statutory duty of Best Value was introduced in the Local Government in Scotland Act 2003. The audit of Best Value is a continuous process that forms part of the annual audit of every council. Findings are reported each year through the Annual Audit Report. In addition, the Controller of Audit will present a Best Value Assurance Report to the Accounts Commission at least once during the five-year audit appointment for each council. This is the first assurance report on Highland Council. The findings from the previous Best Value report on the council are summarised in [Exhibit 8 \(page 46\)](#).

2. This report seeks to provide the Commission with assurance on the council's statutory duty to deliver Best Value, with a particular focus on the Commission's strategic audit priorities. We are looking for councils to demonstrate Best Value by showing continuous improvement in how they deliver services. The pace and depth of this improvement are key to how well councils meet their priorities in the future.

3. Our audit approach is proportionate and risk based, so it reflects the context, risks and performance of the individual council. It also draws on the intelligence from audit and scrutiny work carried out in previous years. In keeping with this approach, we conducted some initial work to identify risks and council initiatives to build into the scope of our audit. This included a review of previous audit and inspection reports and intelligence, a review of key council documents, initial meetings with senior officers and reflection on our wider public sector knowledge and experience. Key areas of focus for our audit are listed in [Exhibit 1 \(page 7\)](#).

4. The detailed audit work for this report was undertaken in May, June and July 2019. Our audit work included:

- interviews with elected members and senior officers
- holding focus groups with members of staff
- observing a range of council and committee meetings, including area committees
- reviewing documents and analysing data, including Local Government Benchmarking Framework (LGBF) data
- interviewing a sample of the council's partners, including those involved in the Community Planning Partnership (CPP).

5. The audit work was carried out by a joint team from Audit Scotland and Grant Thornton UK LLP, the appointed auditor. Audit work in future years, performed as part of annual audits, will include a follow-up on the findings from this report and additional audit work on other Best Value characteristics as appropriate.

Exhibit 1

Key areas of focus for our audit

The audit considered a broad range of issues.



The council's vision and priorities and how these are embedded across the organisation

This included assessing how well the leadership of the council works together to deliver the priorities identified in strategic documents. Our findings on this are reported in [Part 1](#) of this report.



Managing performance, self-evaluation and measuring outcomes

This included an overall assessment of outcomes and performance and the council's reporting on these, including to the public. Our findings on this are reported in [Part 2](#) of this report.



Planning the use of resources

We assessed how effectively the council plans its use of resources, including asset management, financial planning, procurement and workforce planning. Our findings on this are reported in [Part 3](#) of this report.



Delivering services with partners

We assessed how the council delivers services with partners, including through consideration of the lead agency model for health and social care and the City Region Deal developed in collaboration with partners to drive economic and cultural improvements. We also considered how well services are developed in collaboration with others and how community engagement and empowerment affect the council's activities and delivery of services. Our findings on this are reported in [Part 4](#) of this report.



Continuous improvement programmes

We reviewed the council's continuous improvement programmes, including assessing the overall pace and depth of change. Our findings on this are reported in [Part 5](#) of this report.

Source: Audit Scotland

6. Our analysis of the LGBF data reflects the 2017/18 results published by the Improvement Service. We have:

- commented in the report where the level of performance has changed
- analysed performance on a family grouping basis
- assessed performance against service satisfaction indicators.

7. We gratefully acknowledge the cooperation and assistance provided to the audit team by all elected members and officers contacted during the audit.

Key messages



- 1** Since the 2010 Best Value report, the council's pace of change has been inconsistent and slower in areas including improving performance and taking steps to ensure longer-term financial sustainability. While the pace of change has recently increased significantly, previous examples of a lack of joined-up working have resulted in slower decision-making and differing service performance.
- 2** The council has a clear strategic vision, and this is well embedded across the organisation through the service planning process. However, this has not yet led to consistent improvements in performance.
- 3** The council is large with 74 elected members, and a high proportion of independent members. This has required a collaborative approach to decision taking and implementation which is often challenging. Governance structures have recently been changed to support officers and elected members to work together to deliver the council strategy.
- 4** The council has struggled to achieve agreed financial savings in-year resulting, for example, in the care and learning service consistently overspending compared to budget. The council recognises it needs to contain spending in-year to live within its financial means. It has established more robust financial and governance controls to reverse this trend. Given the low level of reserves there is only limited contingency to meet unplanned costs. Therefore, it is important that across the council all savings are achieved, and transformational change is delivered.
- 5** The council cannot demonstrate that it is achieving all aspects of Best Value as its approach to self-evaluation and continuous improvement has been inconsistent. A more systematic approach is required.
- 6** There have been several structural and personnel changes in the senior leadership team in recent years, including the appointment of the new Chief Executive in September 2018. A new organisational structure has been implemented, which aims to increase senior officers' engagement with defined geographical areas. A period of stability is now required for the leadership team to work together to deliver the improvements required to sustain and improve services in the future.

- 7** It will be very challenging for the council to meet all of its commitments and priorities during a period of significant change and with reducing resources. There are currently nine overarching strategic priorities and 22 strategic improvement priorities set out in the council's corporate plan.
 - 8** Performance against national benchmarking indicators has deteriorated over a five-year period, with poor performance in priority areas including education. However, performance against the service satisfaction indicators is good and in line with citizens' panel feedback. The council could improve its approach to performance management. Currently, it does not make good enough use of data and scrutiny to drive improvement.
 - 9** Generally, the council works well with partners and there are early signs of improved working with the third sector. However, progress implementing some of the requirements of the Community Empowerment Act has been slow.
 - 10** The Community Planning Partnership has recognised the need for more local representation and has established nine local community partnerships to work locally and engage with the public. The council and its partners have identified 25 communities to establish locality plans to address inequalities. Many of these plans are still not in place well beyond the October 2017 deadline set by the Scottish Government.
-

Part 1

Does the council have clear strategic direction?



There has been significant recent change in the leadership of the council at officer level. A new organisational structure has been implemented, which aims to increase senior officers' engagement with defined geographical areas.

The council's political make-up is complex but elected members work together constructively.

The council's vision continues to be clear and well articulated. Recent improvements to the corporate plan have provided clearer alignment between the council's programme and strategic improvement and operational priorities.

The approach to service planning is well established and there is clear alignment with the council's vision. However, this is not yet contributing to consistent improvements in performance across services.

It will be very challenging for the council to meet all of its commitments and priorities during a period of significant change and with reducing resources.

Highland Council covers a large and varied geographical area

8. Highland Council covers an extremely large and diverse geographical area, which represents a third of the land area of Scotland. The total population of the area is 235,180, split across eight regions spanning 9,906 square miles. This includes 14 island communities and several communities that are considered remote and rural. Inverness is the largest settlement area in the region, with a population of around 64,000. Providing services that meet the needs of different remote and rural communities is a challenge for the council.

9. Between 1998 and 2018, the population of Highland increased by 12.8 per cent. This is the seventh highest percentage change of all 32 council areas in Scotland. Analysis of the percentage change in population by age shows the

largest movement was in the 75+ age group, with a 57.4 per cent increase. The most recent population projections show that if current trends continue the population is expected to rise to 237,988 by 2041, a 1.2 per cent increase from 2016. However projected growth is uneven; increases are projected for the Inner Moray Firth and Skye and Lochalsh areas while population decline is projected in all other areas.

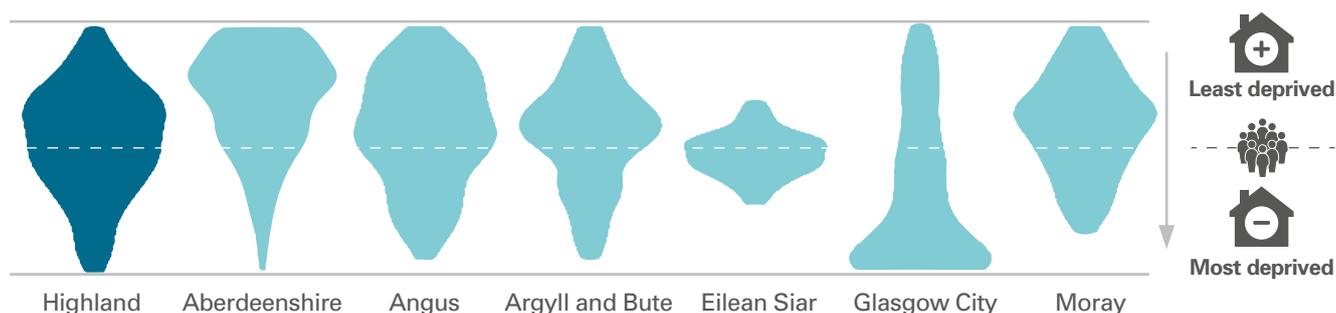
10. The council faces challenges posed by an ageing population and this is reflected in its workforce profile. Although staff turnover levels have remained broadly stable since 2014/15, 41 per cent of all employees are aged 50 or over. The council is the major employer in Highland, with around 10,000 employees distributed across the council area. More than 95 per cent of employees work outwith the council's Inverness headquarters. The dispersed geography of the region brings recruitment challenges caused by remote locations with fewer amenities, or limited employment opportunities for families of council staff in rural areas. The average gross weekly pay in Highland in 2018 was £557.00, compared with an average of £562.70 across Scotland.

11. The most recent Scottish Index of Multiple Deprivation (SIMD) data, from 2016, identified 20 data zones in Highland that are within the 15 per cent most deprived in Scotland. This was an increase of three (data zones) from 2012 and an increase of four since 2009. Highland's profile of deprivation suggests that relatively few households are at the extremes, that is, relatively few are in the most or least deprived areas ([Exhibit 2](#)).

Exhibit 2

The distribution of deprivation in Highland compared with other councils

Highland's profile of deprivation suggests that relatively few households are at the extremes.



Note: The top of the shape shows the proportion of the population in the least deprived areas, working down to the proportion of the population in the most deprived areas.

Source: Open Data Manchester using Scottish Index of Multiple Deprivation (SIMD), 2016. SIMD is the official tool for identifying the most deprived areas in Scotland. It looks at multiple aspects of deprivation such as resources and opportunities as well as low income.

12. The council has also adopted the socio-economic performance (SEP) index as a way of identifying inequalities in Highland, given that the SIMD does not always accurately represent deprivation in rural settings owing to the dispersed nature of rural communities. The SEP index combines 20 indicators organised to reflect the strategic objectives of the Scottish Government: wealthier/fairer, healthier, safer/stronger and smarter. These indicators include health, income, benefits, access,

education and population data and have been ranked across Highland. The council has identified 48 of 292 areas where inequalities are most acute. When combined, this has identified 25 communities for locality planning. Those areas require targeted locality planning, as stipulated in the Community Empowerment Act.

The council's strategic priorities have remained stable over time

13. The council has been broadly consistent in its strategic priorities since the previous Best Value report. The 2010 report noted that the council could demonstrate 'a clear vision for the Highlands which is shared by partners and clearly defined in strategic plans'. Although there have been several changes in the political leadership of the council since 2010, this has not had a significant impact on the strategic direction. This consistency has provided continuity and focus for partners and staff in delivering on key priorities and objectives. More recently, the council has improved the articulation of the vision in strategic documents and significantly reduced the number of priorities to be achieved. The programme between 2012–15 included 129 priorities across seven main themes. This has now fallen to 51 in the 2018/19 version.

14. The Best Value audit timeline ([Appendix, page 54](#)) lists the main events that have taken place since the previous Best Value report was published in 2010.

15. The current council programme covering the period 2017–22 is 'Local Voices, Highland Choices'. The themes of this programme are broadly in line with previous programmes. It adds a focus on the redesign of the council, reflecting the recognised need for change. This period shows the most significant pace and depth of change, particularly following the appointment of the new Chief Executive in September 2018. This triggered a change in the council's vision: it now seeks to be 'ambitious for a sustainable, connected Highland', and this was supported by extensive staff and community engagement on the budget for 2019/20. It is too early to draw conclusions on these recent developments, but the early signs are positive that the council is embracing the need for a quicker pace of change.

The council's vision is clear and well embedded across the organisation. Recent improvements have been made to better align the council's programme and strategic improvement and operational priorities

16. The council's vision and priorities are set out clearly in the key strategic documents. Senior officers and elected members are satisfied with the clarity of the council's vision and there is consensus in the organisation that the vision is well embedded and reflected in key activities. The development of the vision involved cross-party elected member involvement through a series of member workshops as well as input from council officers. The public were also able to feed in to the development through engagement sessions on the council budget. The strategic documents are available to the public online and include:

- The Highland Outcome Improvement Plan (HOIP) – this sets out the priorities of the CPP and includes outcomes developed to support the CPP's main ambition to tackle the issues that lead to inequalities.

- The council programme – ‘Local Voices, Highland Choices’ is the council’s programme for 2017–22. It is based on five themes: a place to live, a place to learn, a place to thrive, a welcoming place and a redesigned council.
- The corporate plan – this sets out nine overarching strategic priorities supported by 22 strategic improvement priorities. It also shows the outcomes that the council aims to deliver through ‘Local Voices, Highland Choices’. The nine overarching strategic priorities are:
 - Make the Highlands a stronger, healthier and more resilient region
 - Work to invigorate local democracy and put communities at the heart of the design and delivery of services at a local level
 - Protect the vulnerable in communities, promoting fairness and welcoming diversity
 - Support all children and families to learn and thrive by delivering a whole system approach to education and integrated children’s service
 - Promote the contribution older people make to communities and help them have an active lifestyle and stay in their own homes with appropriate support
 - Work collaboratively to drive economic growth and champion innovation as well as ensuring infrastructure meets the needs of businesses, citizens and visitors
 - Address the financial challenges with a positive vision of change
 - Safeguard and enhance Highland’s significant reputation and standing
 - Address the climate and ecological emergency, minimising the carbon footprint and working with partners to adapt to the changing climate.
- Service plans – council departments have their own service plans, which feed into the corporate plan.
- Change strategy – ‘A Sustainable Highland’ covers the period 2019–22 and sets out how the council plans to use its resources to deliver the commitments and priorities articulated in the corporate plan.

17. The council may be unable to meet this number of commitments and priorities during a period of significant change and with reducing resources. To mitigate this risk, the council is using its change fund and programme management governed by a change board which aims to ensure delivery of improvement priorities. Progress is now reported at each meeting of the council.

The council’s approach to service planning is well established and there is clear alignment with the council’s vision. However, this is not yet delivering consistent improvements in performance

18. The council’s approach to service planning is well established. Service plans are updated every year and are submitted to the relevant service committee for approval. Each service plan sets out a service background, a high-level performance analysis and a link between service priorities and corporate priorities. Guidance is prepared by the Corporate Performance Team to ensure

that a consistent approach to service planning is adopted across the organisation. The council has made further improvements to strengthen service planning by developing more robust service workforce plans. These plans feed in to the council's new strategic workforce plan.

19. Although the service-planning process is well established, it is not yet contributing to the delivery of consistent improvements in performance. As noted in **Part 2** of the report, the council's performance in some key services is poor in comparison with other Scottish local authorities despite priorities remaining fairly consistent. The council should use the service-planning process to embed a culture of performance improvement across the organisation, including more consistent use of self-evaluation and self-assessments. Improvements are also required as to how performance information is used to trigger improvement activity.

There has been a great deal of recent change in the leadership of the council, particularly among senior officers

20. The Chief Executive was appointed in September 2018 and has implemented major changes to the council's organisational structure over a short time. New posts created in the structure aim to increase senior officer engagement at a local level. The eight new executive chief officers have a range of corporate responsibilities alongside their service function and each are linked to a specific geographical area.

21. Evidence gathered during fieldwork suggests that there has been a lack of joined-up working within the council for a number of years and this is one factor that has contributed to the council's challenge in achieving continuous improvement. Teams and services in the council were working in isolation and there was little communication across the organisation. This restricted the opportunity to share information, learning and experience, and slowed progress in making improvements. This is further evidenced by a lack of consistent performance improvements across services. The council's new organisational structure has been developed with a view to addressing this issue, with greater focus on services working more closely together to share knowledge and good practice, as well as to give each locality a senior officer to represent it.

The council must ensure that the senior leadership team work together to deliver the level of transformational change required

22. A major restructure of the council's leadership team is currently taking place, but it is too early to judge its effectiveness. Although there is a risk that significant staff turnover at a senior level will lead to a loss of corporate memory for the council at a time of financial challenge and uncertainty, there is a recognised need for a quicker pace of change than has happened previously.

23. The Chief Executive has identified areas for improvement and has already implemented significant changes over a short time. Although the council needs to increase the pace of change, it is important that there is a strong focus on staff wellbeing and resilience as part of this approach to manage the risks. Feedback gathered by the council so far has been positive, through engagement with staff at staff forum meetings. However, staff focus groups carried out as part of audit fieldwork identified some concerns. These focused mainly on the challenge of dealing with change alongside maintaining service delivery with reducing resources.

24. The council expects to complete its recruitment to its leadership team by early 2020. The only vacant post is the Depute Chief Executive. The new leadership team now needs to come together and use collective leadership to support the Chief Executive in maintaining the current pace of change, while ensuring their respective teams are engaged, committed and supported.

The council's political membership structure is complex, but elected members are working together constructively

25. The council has 74 elected members, representing 21 multi-member wards. The political representation is made up of a 27-member Independent group, nine Liberal Democrats, three Scottish Labour, 20 SNP, 11 Conservative and Unionist, one Green Party, one Sutherland Independent Group and two non-aligned. Although complex, the current political set-up is constructive, with elected members committed to working together for the good of the Highlands.

26. Following the 2017 local government elections, the council formed a coalition administration of the Independent group, the Liberal Democrat group and the Labour group. Coalition administrations are a feature of the council ([Appendix](#)). The current opposition groups are SNP and Conservative and Unionist. Thirty-one new members were elected in 2017.

27. The political make-up of the council can, at times, present a challenge to effective decision-making, in particular balancing council-wide decisions aligned to council priorities alongside the needs of the local communities that elected members represent. Thirty of the council's 74 elected members are not aligned to a political party but are independents.

28. There are positive relationships between officers and elected members. Improvements have been made since the appointment of the new Chief Executive. This has also contributed to improvements in the relationship between the administration and opposition groups of elected members. For example, members of different parties collaborated more on developing the 2019/20 budget than previous ones, and committee convenors and council officers have closer working relationships. Elected members and officers need to continue to build on these improvements to support the council through a period of transformation.

Some improvements have been made to the council's governance arrangements recently

29. The council has recently carried out a comprehensive review of governance arrangements at both strategic and local levels. This involved direct engagement with elected members and communities and was designed to support the council through a period of transformation, including significant structural and organisational changes and a renewed focus on financial and performance management. The review focused on three main themes: strategic governance, elected members' training and development and managing the business.

30. A Governance Review Steering Group has been established. This group includes elected members and officers and has reviewed governance arrangements in other Scottish local authorities. The group recognises that further investigation work remains to be done, including looking at councils that have

recently implemented changes to governance structures to see what benefits have been delivered. This represents a positive development, with the council seeking to learn from others.

31. The early signs are that the governance review is progressing well; however, the council recognises that it will take time for the new arrangements to become fully embedded across the organisation. Changes instigated by the review include:

- a reduction in the membership of the Audit and Scrutiny Committee (24 to 14) alongside the introduction of a mandatory training programme for elected members
- the development of an enhanced training, development and wellbeing programme for all elected members
- changes to report formats with a view to improving overall scrutiny levels at committees.

32. The new arrangements have not yet had time to fully bed in, so it is too early to conclude on their overall effectiveness. The council should continue to monitor the changes over the short term and review them again when the senior leadership team is fully established.

Area committees provide an effective means of highlighting issues, sharing information and driving cross-partner action

33. In response to recognising the need for more local decision-making, the council piloted area committees between 2012 and 2015. Initially, this involved two areas but progressed to eight area committees by 2017, providing coverage across the full region. Area committees are now an integral part of the council's committee framework and provide an effective means of highlighting issues, sharing information and driving cross-partner action. They are attended by elected members, officers and representatives from partner bodies, and each has a ward manager in place to coordinate activity.

The council operates in a transparent manner

34. The council publishes agendas, papers and minutes on its website, providing transparency to stakeholders and enabling members of the public to obtain information on key decisions made by the elected members. Council and committee meetings are broadcast live online and made available as webcasts on the council website.

Part 2

How well is the council performing?



Performance against national LGBF indicators has deteriorated over a five-year period. For 2017/18, 70 per cent of indicators sit within the bottom two quartiles. This includes areas that have been council priorities for a number of years.

The council has recently established 27 key performance indicators (KPIs). It reports that 81 per cent of these indicators are either improving or being maintained. However, this analysis does not consider performance against targets. The council does not do enough to use targets and family grouping data to trigger improvement activity.

Performance against LGBF service satisfaction indicators is good and in line with citizens' panel feedback.

Weaknesses were identified in elected members' knowledge of and involvement in the performance management process.

The council reports that the majority of its KPIs are improving or being maintained. However, the transparency of reporting and approach to continuous improvement could be improved by using targets

35. The council has many performance indicators (144), and reports against them as part of public performance reporting duties. Of the 144 indicators included in the council's suite, there are 27 that the council consider to be 'key' in that they provide a high-level overview of the council's performance overall. These indicators have been selected because of their importance in showing effective delivery of key council functions. The KPIs provide a more concise summary of performance and are clearly linked to the council's corporate plan. Of the 27 indicators selected, 21 are from the national LGBF.

36. A summary of performance against KPIs is included in the local and national statutory performance indicators report presented to full council on an annual basis. The most recent report, presented in March 2019, covers the 2017/18 reporting period and shows that 22 of the 27 indicators (81 per cent) are either improving or being maintained. The council reports that this demonstrates that

it is performing well against its KPIs. However, the transparency of reporting and approach to continuous improvement could be improved by using targets as well as trend analysis. At present, it is not clear whether these indicators are performing above or below the target level. National averages are provided along with short-term trend analysis, but there is limited evidence to demonstrate that performance is in line with the targets set. It is also unclear whether or not stretching targets have been set, with a view to continuous improvement.

37. Very recently, the council has set targets for improvement across the 74 indicators included in its new corporate plan. The majority of these are nationally benchmarked. It is intended that this recent development will improve the transparency of reporting and the council's approach to continuous improvement.

Performance against national LGBF indicators has deteriorated over a five-year period

38. The LGBF allows councils to compare their performance with the Scottish average for a variety of indicators. Performance relative to other councils can be gauged by considering how all councils are performing, from highest to lowest for each indicator, and dividing relative performance into four equal bands or quartiles. Quartile 1 contains the best-performing councils and quartile 4 contains the poorest-performing councils.

39. The council reports annually on performance against the national LGBF performance indicators in the annual Statutory Performance Indicators (SPI) report. This shows information for the previous two years, performance against Scottish averages and quartile ranking.

40. The key messages and issues arising from the data are detailed in the SPI report. For 2017/18, the council concluded that services need more detailed analysis to understand the factors that link performance and resource, identifying opportunities where self-assessment, redesign, lean principles and benchmarking can support learning and improvement activity. The council hopes that this will provide greater clarity on the impact of budget decisions.

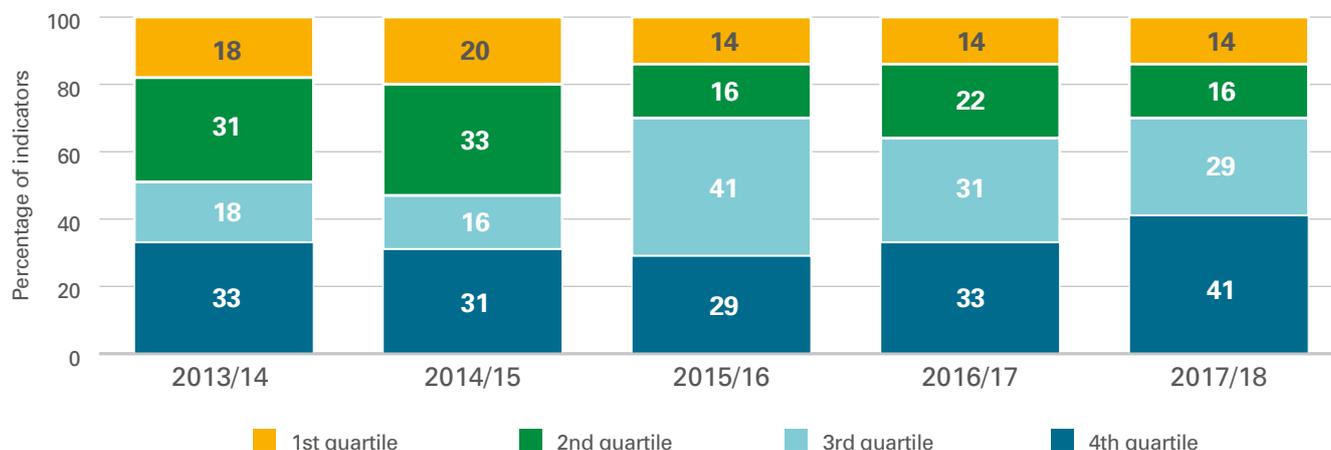
41. Our analysis of Highland Council's LGBF indicators is based upon 49 single-year, mainly outcomes-based indicators, which have been reported on every year in the five-year period. The analysis shows a deterioration in performance over time. This is a cause for concern. For 2017/18, 70 per cent of indicators sit in the bottom two quartiles ([Exhibit 3, page 19](#)).

42. We note underperformance in priority areas such as education and sickness absence days per teacher. Indicators in the top quartile include gross rent arrears as a percentage of rent due and the percentage of adults supported at home who agree that the services and support had an impact on maintaining their quality of life.

Exhibit 3

The council's LGBF relative performance, 2013/14–2017/18

From 2013/14 to 2017/18, the council's performance has deteriorated.



Note: This analysis is based upon 49 single-year, mainly outcomes-based indicators, which were reported on as part of the Local Government Benchmarking Framework every year in the five-year period.

Source: Audit Scotland analysis of Local Government Benchmarking Framework, Improvement Service

There is limited evidence to demonstrate that the council has consistently used benchmarking and family grouping data to trigger improvement activity

43. As part of the LGBF, councils with similar demographic characteristics have been grouped into family groups so they can share good practice and work together to improve services. The council has not routinely used family grouping data as a trigger for improvement activity. Performance information reported to committee includes trend analysis and comparison with Scottish averages through benchmarking. However, there is little evidence to show that the council has considered performance against other councils with similar profiles. The council could make more use of this comparative data to help with its improvement.

44. The council's approach to improvement has been inward-looking and this extends to performance analysis. Although benchmarking information is reported, it is not always clear how this has been used to identify areas for improvement. There are examples of the council making good use of performance information in some services, but this is not replicated across the organisation. The council needs to implement effective processes for sharing good practice between services and teams.

Performance improvements are required in Children's Services

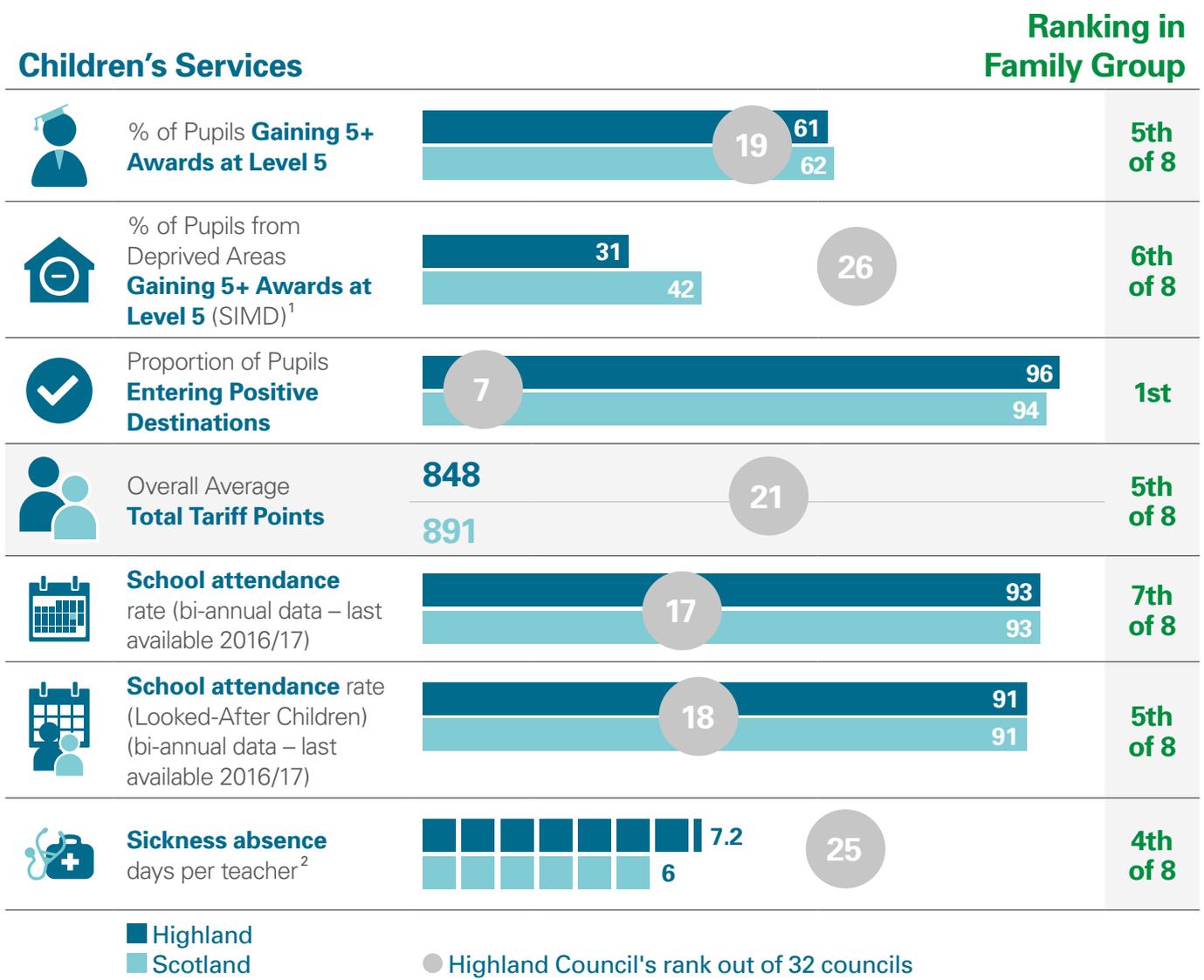
45. We carried out further analysis on performance information reported in Children's Services, a priority area for the council. Most LGBF Children's Services indicators are performing in the bottom two quartiles. The most recent results, for 2016/17 and 2017/18, show 88 per cent and 87 per cent of indicators are in the bottom two quartiles. This gives clear cause for concern. The council recognises this and is now taking action to address this area of weakness. The Chief Executive has recently introduced targets to improve attainment levels with a view to achieving performance results that sit within quartile 2.

46. The council’s KPIs include eight Children’s Services indicators. Seven of these are taken from the LGBF. The council’s analysis shows that seven of these eight indicators are improving. However, our analysis of these seven LGBF indicators against family grouping and national comparators shows poor performance for the majority ([Exhibit 4](#)). Highland Council is in a family group with Angus, Argyll and Bute, East Lothian, Midlothian, Moray, Scottish Borders and Stirling councils for Children’s Services indicators. This family grouping analysis is not routinely reported to elected members and the public and contributes to a lack of scrutiny of performance information. The council could make better use of this analysis to help support continuous improvement.

Exhibit 4

Highland Council’s performance against Children’s Services KPIs in 2017/18

Highland Council performed poorly against the national average and similar councils for most indicators



Notes:

- Four councils did not submit data for this indicator.
- Highland Council is in a family group with Aberdeenshire, Argyll and Bute, Scottish Borders, Dumfries and Galloway, Eilean Siar, Orkney Islands and Shetland Islands Councils for Corporate Services indicators.

Source: Audit Scotland analysis of Highland Council 2017/18 LGBF data

47. Further analysis of the indicators shows consistently strong performance exceeding the Scottish average for pupils entering **positive destinations**  after schools, with the council ranked seventh overall among all Scottish councils. This presents a complex picture. Even though attainment levels are poor, positive destination statistics have increased year on year and have been higher than the Scottish average for the last five years. Positive destinations remains a priority within the Care and Learning service plan for 2019/20.

The CPP performs well against the National Performance Framework indicators

48. The Community Planning Outcomes Profile (CPOP) helps to assess whether or not the lives of people in a community are improving, using a set of core measures on important life outcomes. CPOP indicators are relevant to the council and the CPP.

49. An interim partnership performance report was presented to the CPP Board in March 2019. It analysed key performance indicators for the Highland CPP from the Scottish Government's National Performance Framework (NPF). This compared performance with the Scottish average as well as that of the CPP's related family group. The results show that the CPP performs well in terms of overall performance against the key indicators from the NPF. Positive results include higher than average performance in:

- positive destinations achieved by school leavers
- employment rate
- business survival rate
- crime rate per 10,000.

50. The report also picks out areas where the partnership scores below the national or family group average. These include median earnings, fuel poverty and the percentage of Primary 1 school children with a healthy body mass index. These areas have been highlighted by the partnership, and they link to HOIP themes such as reducing poverty, infrastructure and mental health and wellbeing. It is not yet clear if action plans have been developed in response to these findings.

Service satisfaction exceeds the Scottish average in over half of the indicators, but others perform less well

51. The LGBF includes indicators to assess customer satisfaction with council services. These are based on results from national surveys. Our analysis of these indicators shows that the council performs above the national average in terms of satisfaction with schools, refuse collection, street cleaning, social care services and library services ([Exhibit 5, page 23](#)). It is below average for parks and open spaces, museums and galleries, and leisure facilities.

52. The council has conducted an annual performance and attitudes survey with the local citizens' panel every year since 2003. The most recent was in May and June 2018, and a report presented to council provides an analysis of the views of the 1,152 Highland residents who responded. Key findings from each of the



Positive destinations:

School leavers who are engaged in higher education, further education, training, voluntary work, employment or activity agreements are classified as having a 'positive destination'.

Source: Scottish Government

questions in the survey are presented and, where appropriate, comparisons are made with the findings of previous surveys.

53. The survey shows levels of satisfaction with council services. Services with satisfaction scores of at least 70 per cent include walking routes, libraries, recycling facilities and swimming pools. Of the 48 services areas surveyed, there were more positive views than negative views for 43 of them. Satisfaction levels were lowest for road repairs and potholes. The results show consistent trends with a similar profile over a number of years. However, the council note a declining year-on-year trend in whether people completing the survey feel listened to, from 78 per cent answering “yes” in 2013, to just over half (54 per cent) in 2018.

54. A housing tenant survey is also carried out every three years. The council has collated results from the most recent survey, issued in late 2018. This survey was designed to identify tenant opinions, such as on the Highland Council as a landlord, preferred communication styles, rents and value for money, and the quality and maintenance of homes. The survey was posted to 13,404 tenants and the council received 2,343 responses (17.5 per cent). Responses show that satisfaction with the housing services provided has improved since the previous survey in 2016, with over three-quarters (78.1 per cent) of respondents saying they were either very or fairly satisfied. This represents a small increase in satisfaction level from 74 per cent in 2016.

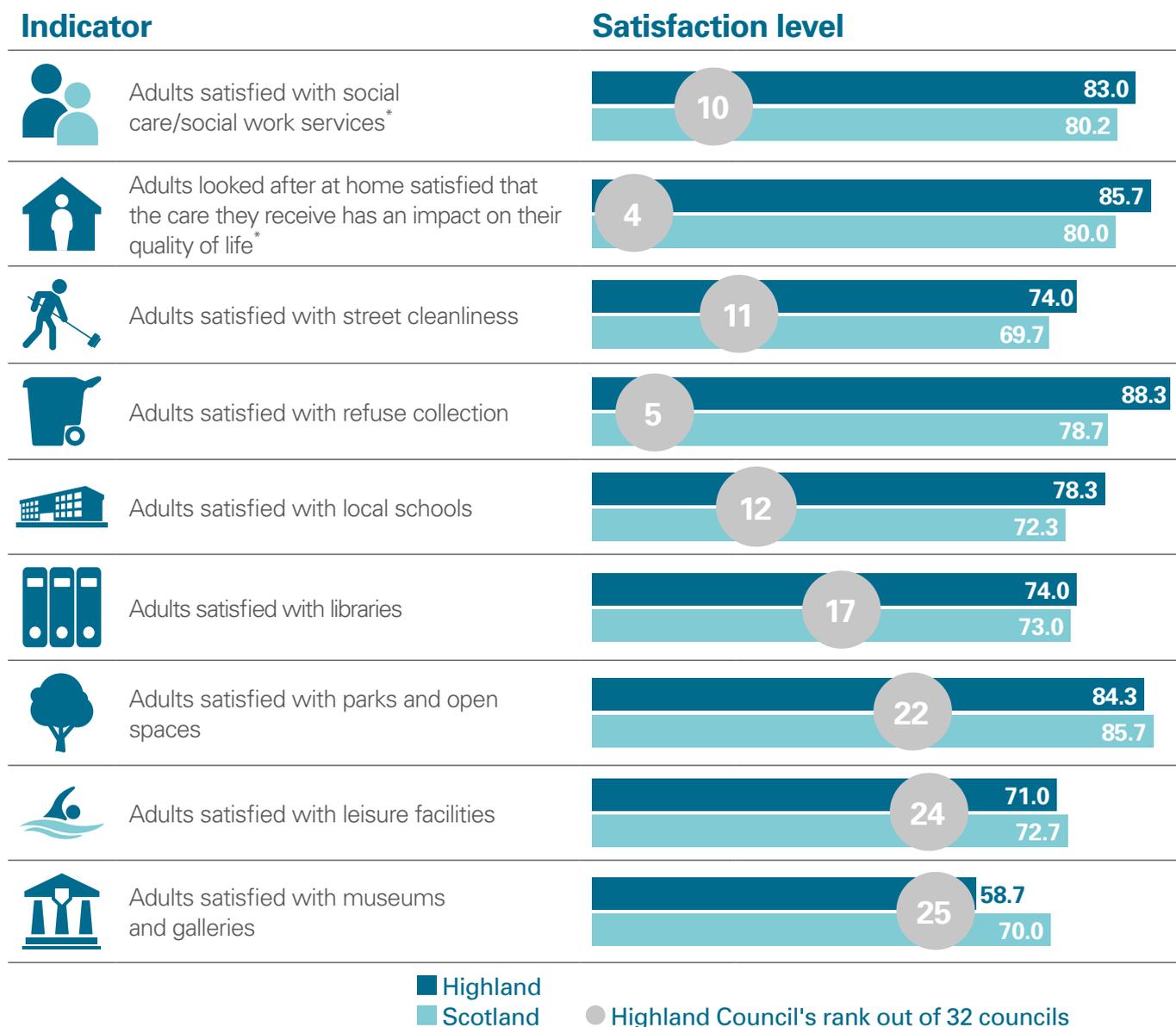
55. The 2018/19 Scottish Housing Regulator landlord report for Highland Council shows results generally well below the Scottish average:¹

- 78.3 per cent said they were satisfied with the overall service it provided, compared to the Scottish average of 90.1 per cent.
- 69.4 per cent felt their landlord was good at keeping them informed about its services and outcomes compared to the Scottish average of 91.6 per cent.
- 56 per cent of tenants were satisfied with the opportunities to participate in their landlord’s decision-making, compared to the Scottish average of 86.5 per cent.

Exhibit 5

Highland Council's performance against LGBF service satisfaction indicators 2015-18

Highland Council generally performed well on service satisfaction indicators.



Notes.

1. Satisfaction levels are based on three-year rolled average responses to Scottish Household Surveys.
2. Indicators marked '*' are from the Scottish Health and Care Experience Survey and presented for 2017/18.

Source: Audit Scotland using the LGBF satisfaction measures from 2015-18

The council is developing its performance management framework. However, it is too early to draw conclusions on the effectiveness of new arrangements

56. As part of the move towards the new strategic improvement priorities, the council has also set out an approach to developing a Highland Improving Performance Programme to deliver performance improvement consistently and

robustly across the organisation. This builds on the performance management framework already in place and is part of a new culture being advocated by the Chief Executive. The objective of the programme is to achieve the council's ambition to be a high-performing council driven by a culture focused on improvement.

57. The council recognises that elected members' input to performance management needs to improve, and that it needs to use targets to deliver improvement and introduce a systematic and structured approach to self-evaluation. This has featured as part of the ongoing governance review, with new arrangements for member training in development. Recently, the council has also improved the reporting of its corporate plan, with clearer emphasis on targets and improvement priorities.

58. A clearer focus on improving performance across the council is still required. The council should continue to develop the performance management framework and implement it across the organisation as soon as possible. A consistent approach is likely to improve scrutiny, and this may contribute to improvements in how performance management is used to benefit the council and deliver improvements in service delivery.

Public performance reporting could be used more effectively to assess the council's progress against targets

59. It is important that councils report their performance clearly to local citizens and the community. Detailed reporting on performance at a service level is provided to elected members at various committees. However, the council's overall annual performance reporting to elected members and the public could be improved. Reporting could be clearer about progress against targets. This would provide additional context and transparency for users of the report and show a more balanced picture of overall performance.

60. When reviewing Highpoints, the council's quarterly online magazine, it was difficult to judge how well the council performs overall. Although it provides detailed information on key achievements, survey results and benchmarked indicators, it is not clear if the results are in line with the council's expectations and how results compare with targets. Furthermore, Highpoints focuses mainly on good performance and does not fully explore poorer performance. It is unclear from the magazine how the council plans to address areas of underperformance and drive improvement.

61. The council also prepares an annual corporate performance report. This provides an assessment of performance against the corporate plan, which is the performance framework for the council programme. The analysis focuses on performance against commitments in the plan and provides a commentary on progress made throughout the year. The report sets out whether commitments are complete or progressing well and if performance is being maintained. It also highlights where performance is mixed and any commitments that have not been met.

62. Although the level of detail provided is reasonable, it is difficult to determine overall success in delivering against the commitments. The clarity of reporting could be improved by using more measurable indicators and targets for each commitment. The council has started to address this through its new corporate plan (updated in September 2019). This includes targets against family

group averages and national benchmarks that reflect the council's objectives and recognise areas of underperformance. However, the council should consider carrying out further work to ensure that all targets included in the corporate plan are **SMART** . This will make it easier for elected members and members of the public to scrutinise performance in the future.

Improvements are required in elected members' knowledge of the performance management process and their involvement in it

63. Although there is clear evidence that performance information is regularly reported to elected members, improvement is required in relation to elected members' knowledge of and involvement in the process. In March and April 2019, the council surveyed a sample of elected members and found that 63 per cent of respondents felt they needed training to help them to better understand performance management, and 60 per cent were not aware of self-evaluation and review processes in the council. This highlights a training issue and links to judgements in [Part 1](#) of the report. More focused and tailored training is required. The council has taken early steps to develop this through work carried out as part of the governance review, with plans in place to implement a more personalised training programme for elected members before the end of 2019.

64. Elected members also highlighted the need for more concise reporting to improve scrutiny of performance at committee level. Feedback in the recent survey identified the need for a greater focus on performance against priorities, and the use of targets and benchmarking to deliver improvement. In response to this feedback, officers have recently carried out work with elected members on developing corporate plan targets.

65. Overall, the results of the recent survey of elected members show that there is still some disconnection between performance information produced and how to use it to improve the council. If elected members do not understand it adequately, they may not be able to scrutinise performance robustly. This is demonstrated by the fact that only 40 per cent of officers indicated in a recent survey that elected members usually challenge them. Evidence gathered suggests that there is inconsistency between strategic committees in how performance information is used.



A SMART target is:

- S**pecific
- M**easurable
- A**chievable
- R**ealistic
- T**ime-based

Part 3

Is the council using its resources effectively?



The council's three-year budget, which covers 2019/20 to 2021/22, recognises the financial pressures facing the council. The council faces significant financial challenges over the coming years, with the latest financial forecasts projecting a funding gap of £50.2 million to £77.3 million between 2020/21 and 2022/23.

Financial management at the council could be improved. Some council services have continued to not deliver services within the annual budget set, either through in-year overspends or not making the planned level of savings.

Financial pressures have resulted in the council using its general fund reserves to the extent that these are now one of the lowest in Scotland, leaving little financial contingency.

The council has improved its workforce planning arrangements. The current workforce planning strategy was developed in 2017 and this is supported through service workforce plans. This should support greater alignment between strategic and operational resource planning.

The council's three-year budget, which covers 2019/20 to 2021/22, recognises the financial pressures facing the council. The latest financial forecasts project a funding gap of £50.2 million to £77.3 million between 2020/21 and 2022/23.

66. The council set a three-year budget for the first time in 2019/20 which covers the period, 2019/20 to 2021/22. The budget recognises the financial pressures facing the council and followed a public consultation exercise 'Your Voice, Your Council, Your Future' to help shape the areas of planned investment and use of resources. This included an online budget engagement survey and community engagement sessions.

67. The council has estimated a potential funding gap of between £50.2 million (most optimistic) and £77.3 million (most pessimistic) over the next three years covering 2020/21 to 2022/23. The council's non-earmarked reserves play a

critical role in supporting the council meeting any additional investment required in strategic transformational programmes, as well as managing any unforeseen expenditure that could not be met through in-year resources.

68. The council has developed *A Sustainable Highland – A Change Strategy*, outlining how the council plans to transform its services to address the financial and operational challenges over the next three years. While we recognise the significant work done to date and financial controls established by the council, the council faces significant risk in delivering the level of transformational change required with limited reserves to support in-year investment to undertake this work or absorb any unforeseen costs ([paragraph 71](#)). The council recognises further work is required to address budget gaps identified. A £2.5 million change fund was established in 2019/20 to support transformational change. A key challenge for the council is delivering in-year savings programmes in full.

The council has faced challenges in delivering services within budget. Financial performance is inconsistent across the council

69. Scrutiny of financial performance is delegated to the Corporate Resources Committee who receive regular updates on both capital and revenue performance for the council. The individual service committees receive service specific financial information to monitor in-year financial performance.

70. The council reported an overspend of £2.3 million for the year ended 31 March 2019. This was due to in-year overspends within the Care and Learning service and the failure to deliver the planned level of efficiency savings targeted at the start of the financial year, with the council failing to achieve £2.7 million of corporate savings in 2018/19. This has been a recurring theme over several years within the council, with Care and Learning Service costs being a particular area of challenge as well as fully delivering corporate savings. The overspends have been met through release of earmarked general fund balances as well as unearmarked reserves. Given the low level of reserves, this is not sustainable over the short to medium term.

71. Over the last nine months, the council has introduced additional financial controls. A key area has been the officer-led Resources Governance Board, through which the senior leadership team exercises oversight and control over vacancy management and resources. The remit of this group is being extended to cover the wider costs, including agency and procurement costs. In the short term the board has been operating, spend is starting to reduce through challenge and corporate overview. Financial performance reports from quarter 1 in 2019/20 indicate that financial performance has improved, particularly within the Care and Learning Service. It is important that this continues to operate effectively during 2019/20, supporting the wider transformation plans of the council as well as greater financial control.

In 2015/16, the council implemented a voluntary severance programme without having a clear workforce strategy. This used significant amounts of the council's reserves and created operational challenges

72. During 2015/16, the council implemented a significant voluntary severance scheme. The scheme was launched primarily to address financial pressures arising following the anticipated reduction in Scottish Government grant funding

in 2016/17 being significantly higher than that originally planned for by the council. The council had initially projected a 1.6 per cent reduction but following the UK Spending Review in November 2015, the council estimated the reduction to be approximately four per cent. The key driver for the scheme was to reduce the council's underlying cost base. The scheme resulted in over 340 employees leaving the council at a cost of £13.5 million, primarily funded through reserves.

73. During 2016/17 the council launched a second, smaller voluntary severance scheme for staff, with a view to streamlining the workforce. This was the Employee Early Release Scheme which saw 23 employees leave.

74. For both schemes, decisions were taken in the absence of a wider workforce plan or strategy. While the workforce planning strategy was developed in 2017, from discussions with officer focus groups, the voluntary severance scheme has resulted in some operational challenges and workforce pressures. Decision-making by the council did not consider operational need across services and the financial benefits could have been better articulated and managed. With decisions taken in the absence of a wider workforce plan, this has impacted on service delivery and created gaps in operational areas.

Financial pressures over the last five years have resulted in the council using its general fund reserves to the extent that these are now one of the lowest in Scotland

75. The council has faced financial challenges over the last five years. The council has used significant levels of unearmarked reserves over the last five years, primarily to meet voluntary severance costs in 2015/16 as well as to offset service overspends. Overall, the council's general reserves have decreased by £20 million (50 per cent) over the last four years ([Exhibit 6](#)).

Exhibit 6

Trend in use of general reserves, 2014–2019

Highland Council's general reserves have decreased significantly over the last four years.



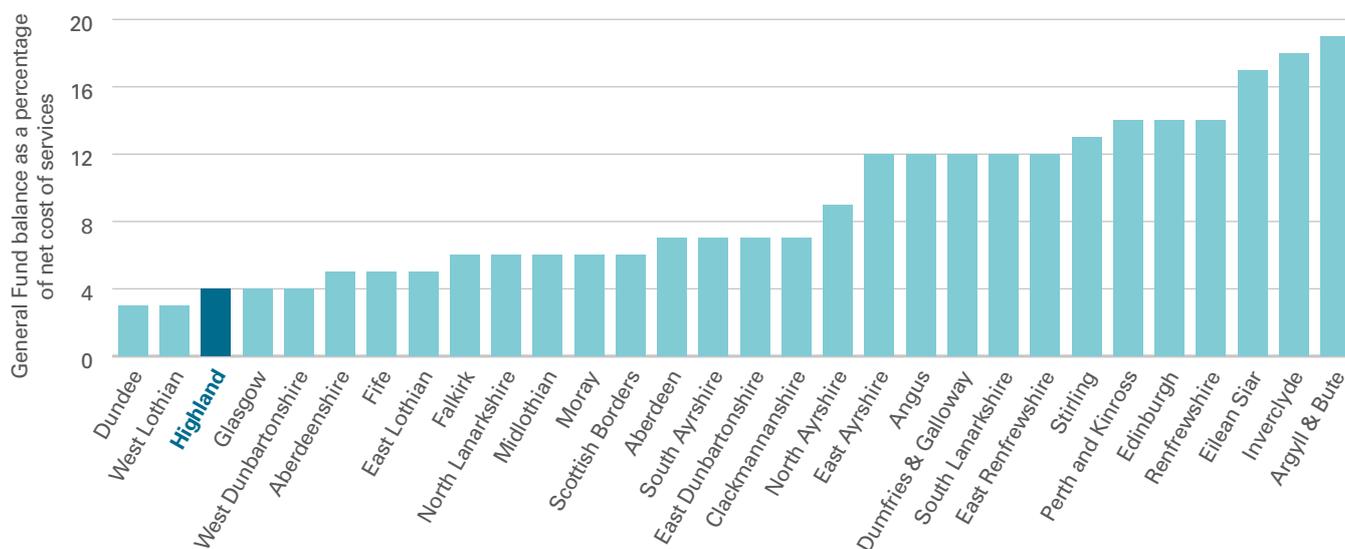
Source: Highland Council

76. As at 31 March 2019, the council's non-earmarked reserves balance represents 1.4 per cent of the annual revenue budget. This was a reduction of 0.2 per cent from the position as at 31 March 2018. The council's overall general fund balance represents four per cent of the net cost of services. This is one of the lowest across Scottish local authorities ([Exhibit 7](#)).

Exhibit 7

General fund balances across Scotland, as at March 2019

Highland Council's general fund balance is one of the lowest across Scottish local authorities.



Note: Orkney and Shetland have been excluded because their values would make it difficult to see the relative positions of other councils.

Source: Audit Scotland – Database of unaudited local government accounts

The council should continue to implement the new workforce strategy across the organisation

77. Over the last two years, the council has enhanced its workforce planning arrangements. A new workforce planning strategy was developed in 2017 and supported through service workforce plans. The workforce strategy sets out a five-year roadmap and strategic objectives to allow the council to maintain and develop the workforce and enhance services provided. The council's budget is set in the context of the workforce strategy.

78. The council's Corporate Resources Committee approved a modern apprenticeship programme on 30 August 2017. This was aimed at refreshing and rebalancing the workforce profile and helping to build a sustainable workforce for the future. The council now has over 100 modern apprentices across services and aims to have 150 by Autumn 2019 to support the development of skilled and experienced staff. The importance of developing the young workforce is further brought into focus by the council's current workforce age demographic, with only 10 per cent of the workforce under 30, and only 0.8 per cent aged 20 or under.

Regional demand for workforce replacement is exacerbated by a projected drop in the size of the working age population. It is therefore critical that the council continues to implement the new workforce strategy across the organisation.

The council's procurement service is delivered through a shared service model with neighbouring authorities

79. In November 2017, a joint procurement strategy covering the period 2017–22 was formed between Highland, Aberdeen City and Aberdeenshire Councils. This created the Commercial and Procurement Shared Service. This new combined structure was created to increase procurement capability and capacity, enabling the shared service to manage peaks in demand more effectively and devote dedicated procurement skills to larger-scale, more complex projects. The council notes several anticipated benefits from the shared service, including faster implementation than for more complex alternative delivery models; a greater voice in shaping procurement frameworks; delivery of combined savings when carrying out major procurements across the councils; improved quality and capacity to provide supplier, contract and category management; and improvements in performance, productivity and customer satisfaction. The most recent annual procurement report shows that a total of £1.39 million of savings was achieved during the period 1 April 2017 to 31 March 2018. As part of the council's financial plans, it is looking at further ways of delivering savings through procurement.

The council's capital programme has been refreshed to support sustainable capital investment aligned to the council's priorities

80. In March 2018, the council approved a revised five-year capital programme encompassing over £480 million of capital investment. The capital programme was revised to align with the council's strategic priority areas, including investment in schools and infrastructure, but also to be affordable, sustainable investment. The revised capital programme represented a significant reduction in planned capital investment. This provided a more affordable level of capital investment through reducing revenue implications including costs of borrowing to support investment.

81. Investment in the council's asset base remains very important. As at March 2018, the council estimated that 42 per cent of the school estate was considered to be in poor condition. In addition, the council has an expansive road and infrastructure network which requires continued investment and upkeep. With the revised capital plan reflecting a reduction in the level of council funding available for investment, the council has prioritised investment in key priority areas including schools, roads, housing and council infrastructure including IT capability.

Part 4

Is the council working well with its partners?



Progress has been made in implementing some of the requirements of the Community Empowerment Act. However, there has been slow progress developing and implementing the large number of locality action plans that reflect the various challenges faced across Highland communities.

The council generally works well with its partners and there are early signs of improved approaches to joint working with the third sector.

Health and social care services have been delivered by a lead agency model since 2012, well ahead of the Scottish Government requirement for integration of adult health and social care services by April 2016. This has recently delivered some improvements in outcomes.

The council has recently made improvements to the governance and reporting arrangements associated with the City Region Deal.

Progress has been made in implementing some requirements of the Community Empowerment Act

82. The council is one of five statutory partners in the **CPP** ². This partnership provides an example of how the council has collaborated with other entities to support delivery of the agreed strategic objectives. In Highland, community planning at a local level is delivered by nine local partnerships established in 2016. Each local partnership has to develop a children's plan, adult plan and a number of locality plans. The leadership of each of the nine local partnerships is shared across the five statutory partners, with the council leading in one locality, Inverness, the largest of the partnerships.

83. The Community Empowerment Act requires the CPP to develop a local outcome improvement plan aimed at tackling the impacts of deprivation and the inequalities faced by those who live in these areas. The Highland Outcome Improvement Plan (HOIP) has been developed by the council and its partners. It involved extensive consultations with communities and third sector organisations (TSOs) across Highland. Education Scotland's recent review of community



Community Planning Partnerships (CPPs):

Statutory forums for councils, NHS boards and other public and third sector bodies, such as charities and voluntary groups, to work with local communities to plan and deliver better services.

learning and development in Highland Council found that the HOIP has a strong focus on community engagement.³

84. The HOIP's initial annual progress report suggests that roles and responsibilities of community planning partners have been agreed and an understanding has been developed. The report contains only Highland-wide benchmarking information with no details of impact on local areas.

85. The HOIP's vision is to 'work together to reduce inequality in Highland'. Five priority outcomes for the CPP have been agreed and will be reviewed annually. These are:

- reducing poverty
- increasing the voice of the people
- infrastructure
- community safety and resilience
- mental health and wellbeing.

86. The CPP has identified 25 areas that experience the most inequalities and deprivation across Highland. In response to limitations with SIMD analysis in rural contexts, the partnership used a combination of SIMD data, SEP data and local knowledge to establish the areas requiring support (**Part 1**). This resulted in a significantly higher number of locality plans being required than if the council had used SIMD data only. This reflects the partnership's recognition that its communities face various social, economic and geographical challenges across the Highland area.

87. The partnership works at Highland level but also at local level through the nine community partnerships, which are located across the area. These partnerships have been tasked with developing the locality plans for the 25 areas identified as needing support. Discussions with officers involved in the CPP highlighted that the local focus of these partnerships has been effective in understanding the needs of local communities, as well as adopting the most appropriate approach to engagement and feedback. Education Scotland has highlighted that one of the strengths of this arrangement is that lead roles, including the chairs of community partnerships, are shared among partner organisations. This deliberate approach to strengthening partnership working between services is increasing officers' understanding of each other's roles and expertise and their capacity to work together to address existing and emerging community issues.

There has been slow progress in developing and implementing locality action plans and delivery plans

88. The Community Empowerment Act requires CPPs to develop locality plans for the communities facing greatest inequality. The HOIP states that each community will have a delivery plan, the live document recording actions and impacts. These plans will be reviewed regularly and reported back to communities. The Scottish Government required these plans to be complete by October 2017.⁴ However, currently only 11 of the 25 plans have been developed. Like many other councils, slow progress is the result of a lack of resources –

finances, staff and time – to carry out the significant level of engagement and consultation required.

89. For the plans that are in place, the level of engagement is good and there is evidence of involving a range of communities and TSOs. Some community workers have used the **Place Standard tool**  to develop an understanding of how people feel about their communities. However, many actions in the plans are small-scale and lack any details of resources allocated or required by partners. It is difficult to assess the impact of the activity and if there has been progress in achieving the outcomes identified within the plans. In addition, not all plans are publicly available which may reduce ownership by the communities and their ability to scrutinise the plans. A recent self-assessment carried out by the CPP highlighted that partners had mixed views on:

- whether or not there are effective governance arrangements in place in relation to scrutiny and accountability
- whether or not actions are in place to deliver the HOIP
- whether or not the partnership can evidence achievements made through community engagement
- whether or not the partnership can demonstrate effectiveness in delivering real outcomes and impact for the people and communities in its area – several informants say they don't know
- whether or not evidence demonstrates what the partnership is doing to improve outcomes and reporting to stakeholders is regular and effective.

90. A new HOIP delivery structure has been designed to deliver the HOIP priorities. The CPP Board receives quarterly update reports from the themed delivery groups and the nine local community partnerships. The community partnership reports are provided as short summaries and include potential developments, partnerships and initiatives. Again, many initiatives are small-scale, and lack strategic partnerships and any details of resources allocated or required by partners.

91. The Delivery Groups for the HOIP have recently provided draft Delivery Plans for four of the five cross-cutting areas: Poverty Reduction; Community Learning, Development and Engagement; Community Safety and Resilience and Mental Health and Wellbeing. Infrastructure is still not available. These plans set out how partners are to work together at a strategic level to achieve the outcomes set within the HOIP. The existing plans are at a very early stage and require further details of responsible staff, resources required and measurable indicators of success.

Community asset transfers have increased but community experiences of the process have been mixed

92. Community asset transfer (CAT) requests are a way for community bodies to ask to purchase, lease, manage or use land and buildings belonging to local authorities. In Highland, there was a long-standing tradition of asset transfers before the introduction of the Community Empowerment Act (2015). The number of completed asset transfers increased from four in 2017/18 to eight in 2018/19.



The Place Standard tool:

Provides a framework to structure conversations about place. It allows you to think about the physical elements of a place (for example its buildings, spaces, and transport links) as well as the social aspects (for example whether people feel they have a say in decision-making).

[www.placestandard.](http://www.placestandard.scot)

[scot](http://www.placestandard.scot) 

The council supports various models to encourage asset sustainability in rural communities ([Case study 1](#)).

93. There have been mixed experiences from those communities that have approached the council to explore options surrounding CATs. The Highland Third Sector Interface (HTSI) survey highlighted that the process could be lengthy while community workers spoke of onerous contracts, high valuations of properties and inconsistent levels of transparency and support for expression of Interests. Loss of capacity in legal services and expertise in community work within the council have also contributed to the challenges faced.

94. The council has recently reviewed the CAT process and has created a single point of contact for groups to direct enquires. There is now also a separate process for any review of decisions. This may increase the transparency of decisions and centralise expertise within the council.

Case study 1



Fort Augustus and Glenmoriston Community Company community asset transfer

The Fort Augustus and Glenmoriston Community Company was established by the Community Council in 2007 as the approved body to receive and distribute community benefit to the Fort Augustus & Glenmoriston area as mandated by the community. From starting the grant programme in 2009 up until 31st March 2018, the company has awarded £473,495 in grants to local groups and individuals.

In 2010, the company took over ownership and management of the village hall via a community asset transfer from Highland Council. It then built the extension and put solar panels on the roof to reduce the heating bills.

In 2013, it launched an apprenticeship scheme in conjunction with Glengarry Trust and Stratherrick and Foyers Community Trust. To date they have had 10 apprentices: three have qualified, two chefs and one butcher. They currently have three electricians at different stages, plus one mechanic, one joiner, one GP administrator, and one beautician.

Since 2014 they have also been involved in running the community caretakers for both villages, Fort Augustus and Invermoriston, as well as looking after the cemeteries. The company was supported by Highland Council. It is paid £25,000 from the council and spends £35,000 from its own funds. The company employs three staff all year and one seasonal staff member.

Source: Highland Council

Closer working with communities has been initiated through participation requests

95. Participation requests provide a new way for communities to interact with local authorities. Communities can raise proposals or issues that may or

may not be on the council's agenda and be guaranteed that the authority will enter a dialogue, unless there are reasonable grounds for refusal. Although the authority does not have to agree to the community body's proposals, it must listen, consider and report on the suggestions. There were three participation requests in 2018/19. Two were deemed not appropriate because no specific outcome was specified in the request. The report does, however, highlight that the council engaged further and worked more closely with the communities after the requests were made. It is unclear if the communities were satisfied with this result. The accepted request was from a community group aiming to increase the availability of affordable housing in the area. Further engagement was carried out with the local group, area housing manager, private developers and the Highland Small Communities Housing Trust to explore options for a community asset transfer.

Participatory budgeting is working well in some areas but is less developed in others

96. Participatory budgeting (PB) is recognised as a way for local people to have a direct say in how public funds are used to address local needs. For the last three years, the council has applied PB to the distribution of discretionary grant aid and Scottish grant funding. The council reports it has delivered strong results in engaging communities. Update reports presented to area committees and to the CPP Board show that some communities are more active than others, with some areas showing no funding distributed through PB. The council aims to increase the practice and scale of the PB approach and has identified several service areas that may be appropriate to start with. These include transport commissioning, community asset planning and community service activity.

97. The Caithness area has been active in pursuing the PB approach. It runs annual PB processes, which have been fully supported by a wide range of community organisations and elected members in the area. To date Caithness has run five PB processes, each distributing grant aid to local community organisations through a bidding process at a public event. This has generated some wider positive aspects, including high levels of interest and attendance by the community members and funding of projects that a public agency's planning process may not consider. The area has seen involvement in PB from community councils, local community development organisations, High Life Highland (HLH), youth organisations and specialist community organisations.

98. However, there are challenges in terms of ensuring PB grants reach deprived areas and that the PB process encourages wide representation and cohesion within and across communities. The council should continue to develop the PB mechanisms in place across communities and share the learning from those areas that are working well. This will assist with further empowering communities across the region and moving the council closer to using the PB mechanism for mainstream services.

Improvements are required in community learning and development (CLD)

99. Highland Council has the legal responsibility to plan and deliver CLD for the Highland area. The remit for the CLD work lies with the CPP. A Community Learning Development and Engagement delivery plan has been agreed by the partnership and sets out improvement priorities for the partnership. This is one of the delivery plans that are part of the HOIP. High Life Highland (HLH), the

council's **arm's-length external organisation (ALEO)**  provides a coordinating role and lead role, along with individual third sector partnerships across Highland, to deliver key areas of CLD such as youth work.

100. Education Scotland's Inspection Report stated that "there is a positive culture around partnership working", in relation to CLD work. Interviews with some community development staff in HLH as part of this audit process highlighted some issues of working separately from the council. Although partnership working was seen to work well, there was a sense of frustration that their work was less visible to the council and that networking with officers could be more difficult because of the geographical and organisational split between the council and the ALEO.

101. Education Scotland's review of CLD partners of Highland Council and the area of Mid Ross during October and November 2018 found:

- increased value placed on CLD and partnership working
- community organisations improving local infrastructure and increasing learning opportunities
- a rich landscape of vibrant, self-starting community groups increasing sense of place and reducing isolation
- staff and volunteers delivering quality services and learning opportunities which improve lives

It also identified several areas for improvement, including:

- strengthening the alignment of local provision with strategic and area priorities and plans to ensure a clear shared sense of direction
- improving joint evaluation and performance monitoring to better capture and report CLD impact
- strengthening the role of communities in local planning and decision-making
- developing clear learning pathways for adults.

102. The council and its partners have agreed to address these areas for improvement and developed an action plan that will be reviewed within 2019/20.

Some opportunities for improvement in services have been lost through a lack of good partnership working with the third sector. However, there are early signs of improved approaches to joint working

103. The third sector in Highland is a particularly active and valuable asset to the Highland area. The third sector census in 2015 estimated that 3,200 TSOs existed across the region. These ranged from small, locally based groups to some very large organisations. It is estimated that more than 20,200 volunteers assist these organisations across Highland. TSOs that have worked in partnership with the council have praised the level of support they received. However, many TSOs have little or no contact with the council or other CPP partners.



Arm's-length external organisation (ALEO):

A separate organisation that is established by a council to provide services on its behalf.

Councils' use of ALEOs, June 2018 

104. Some TSOs have little interest in working in the formal partnership framework, which is seen to be bureaucratic, time-consuming and lacking impact on the ground. Some TSOs have mentioned the council's failure to appreciate the value of the TSO's input. This has led to challenges for TSOs becoming more involved with service design and delivery. Ongoing reductions in council grants have led to some organisations leaving the council area and many struggling to fulfil their remits. The HTSI survey noted a loss of opportunity to support and improve services in Highland.

“ There are opportunities for the third sector to offer solutions and bring more resource to ensure services survive, but these opportunities have not been listened to or taken into account. There is a need for third sector organisations to be viewed as equal and able partners and to be included in the redesign and development of services. To enable this has been an extreme challenge. ”

105. Some of Education Scotland's aspects for improvement may support an improvement in the relationships across the third sector and CPP partners:

- improve the process to enable community organisations to engage in area and locality planning as equal partners
- improve the consistency and coordination of community development support
- enable all community groups, activists and partners to be part of productive networks
- review how resources are allocated to best support progress against priorities.

106. Recent developments may support an improvement in relationships between the council and the third sector. Earlier this year, third sector organisations with service level agreements with the Children's and Families Service Group presented their range of work and services to the council to raise awareness of their impact on individuals and communities. HTSI has also proposed a systematic approach to engagement and involvement of third sector organisations when dealing with the council and CP partners.

Council service redesign has not routinely considered service users' views on how services could be improved

107. The council's redesign programme has been implemented since 2016. This involved prioritising services based on budget, performance information and whether the service was statutory or non-statutory. While service users have been consulted on some elements of the council redesign programme, customer feedback has not always been a driver in identifying areas for review. A review of progress to date was undertaken during a workshop held with the Redesign Board in March 2017. This concluded that the council needed to be more open minded, more commercially minded and more community focused in its approach to service delivery. Changes to staff engagement processes and improved governance arrangements will feature as part of ongoing work in this

area. In particular, a Programme Management Office is being established to deliver the council's change programme. This includes introducing a clear and consistent mechanism for assessing potential projects arising from member, staff and public feedback.

Highland's Youth Parliament provides a strong platform for young people from across Highland

108. An example of successful integration into the planning of local services is the Highland Youth Parliament and the social media platform, Highland Youth Voice. These provide forums across Highland for representing young people's views and sharing experiences. First established in 2001, the Highland Youth Parliament has shown itself to be an effective way of engaging with a demographic of the population that can be difficult to access. The parliament system is designed to allow good representation from across all geographical areas, and more recently it has included young people with additional needs. This forum presents an effective collaboration of ideas, concerns, solutions and possibilities and highlights good practice in terms of the Youth Convenor's role, which many other councils are now trying to replicate.

109. Established in 2006, the Youth Convenor is a full-time, paid post for a young person to represent the interests of their peers and liaise with council services. The Youth Convenor is connected to the Highland Youth Parliament and serves for one year. The work of the Youth Parliament has resulted in several real changes including police responding to safety concerns, mental health support being deployed in schools, inconsistencies in education provision being highlighted (staff shortages and curriculum issues). This year the council's Youth Work Strategy was developed by the Youth Convenor, and the Youth Parliament was consulted on its final draft before it went to council.

The council adopts a range of methods to engage and consult with communities

110. The council uses a range of methods to contact communities to hear their views and experiences including: citizens' panels, public meetings and focus groups as well as social media, such as Facebook chats. During 2018/19 there has been more emphasis on broader discussions and two-way dialogue rather than consultation.

111. Staff have highlighted the capacity challenges in carrying out engagement activity to a high quality due to staff shortages across services, lack of expertise, the large geographical distances to be travelled and the tendency for many events being held outside of normal working hours. [Case study 2 \(page 39\)](#) describes the extensive and varied consultation and engagement involved in developing the new Community Learning, Development and Engagement (CLDE) plan for 2018-21.

Case study 2

2018-21 CLDE Plan



The plan was drawn together following discussion and engagement with learners, communities and partner organisations. A working group which included public and third sector providers was formed to draw on the knowledge and expertise of the sector. This group was tasked with analysing the engagement findings, carrying out focus group activity and co-producing the CLD recommendations for the plan.

An online survey provided CLD providers and partners with an opportunity to inform the plan. Partners, by contributing, helped:

- ensure Highland communities, particularly those which are disadvantaged, have access to the CLD support they need
- strengthen coordination between a range of CLD providers
- reinforce the role of communities and learners in shaping and evaluating CLD provision
- articulate the important role and contribution of CLD
- make CLD more visible.

CLD conversation workshops took place in community partnership areas, providing an opportunity for providers, partners and participants to come together to discuss the CLD needs in their areas. Focus groups were held with young people through the Highland Youth Parliament, Adult Literacies Support Workers, Adult Learning tutors and Youth Development officers.

Intelligence gathered from further engagement work has also been used to develop the plan, including:

- the findings from the CPP's Place Standard approach which have supported the locality plans
- the Highland CPP's series of surveys and roadshows which highlighted the need for more cohesive and effective engagement
- outcomes identified in the For Highland's Children and the Adult Strategic Commissioning Plan.

In addition to the direct engagement to develop the plan, findings from initiatives across Highland exploring rural poverty and effective engagement strategies have been fed into the plan.

Source: Highland Council

There is an extensive community council network across Highland, but members feel they could be more effective

112. There are 154 community councils (CCs) across Highland. Some are very active across several remits whereas others traditionally focus on planning issues in the community. Independent research bodies carried out a survey in early 2018 which highlighted CC members' frustrations regarding the level of influence they have in the engagement process.⁵ Members wanted to be consulted earlier in the planning process and they felt ignored by the council. There was widespread agreement that a wider remit in terms of the CCs' role, together with more resources being provided to support the work, would raise the profile of the CCs. This might also attract new members, which could also encourage a more representative and effective community forum.

Health and social care services in Highland are delivered through a lead agency model. The integration scheme is due for renewal by 31 March 2020 and is currently being negotiated by the council and the NHS.

113. In March 2012, Highland Council and NHS Highland signed a formal partnership agreement to establish the only lead agency model in Scotland. This was in advance of the Scottish Government's requirement for local authorities and NHS boards to integrate adult health and social care services by April 2016. Under the lead agency model all adult social care services were transferred from the council to NHS Highland in April 2012 and, in a reciprocal arrangement, Highland Council took on responsibility for the delivery of community children's services. This involved 1,400 adult care staff transferring from Highland Council to NHS Highland. Alongside this, 200 NHS Highland staff transferred across to Highland Council. The Chief Social Work Officer post remains with Highland Council. As part of the agreement, new single budgets had to be prepared. An integration scheme was developed in 2014 in line with legislation, with a Joint Monitoring Committee established with a remit to oversee the delivery of health and social care.

114. Under the agreed lead agency model the council pays NHS Highland a fixed sum, allocated as part of the council's annual budget setting process. There is no obligation built into the current integration scheme on the council to increase the funding in-year, where in-year costs of providing the services may exceed the budget set through demand led pressures. As the budget is devolved to NHS Highland, and with an absence of joined up governance structures, the council distanced itself from service delivery in adult social care. This, alongside the fixed annual funding, has created tensions in the relationship between officers, elected members and NHS Highland.

115. In line with the requirements of the original lead agency partnership agreement, a renegotiation of the agreement with NHS Highland is ongoing. Further clarity on the future direction, governance and funding of the lead agency model for health and social care delivery in Highland is anticipated through the agreement of the new integration scheme. The review of the agreement to date has focused on the future NHS Highland and council funding of the lead agency, alongside wider discussions on joint strategic planning and a renewed commitment to shifting the balance of care.

Limited progress has been made in shifting the balance of care. But some outcomes have improved recently

116. Although the lead agency model has been in place since 2012, there has been limited evidence to demonstrate how this has shifted the balance of care. In response to findings in the 'Review of Progress under Integration Authorities' carried out by the Ministerial Strategic Group for Health and Community Care, the council has very recently created a temporary post to manage the partnership agreement with NHS Highland.⁶ It is too early to determine if improvements have been made. This will become clearer when the revised partnership agreement is in place and has had a chance to bed in across the partnership.

117. The health and social care partnership reports annually against the nine national outcomes, alongside an additional three outcomes specifically for children. The most recently available report covers 2017/18 and shows a mixed picture of performance against indicators in Children's Services. Strong performance is noted against school evaluations for curriculum and meeting learners' needs in inspections carried out by Education Scotland, whereas significant poor performance is noted in the delay in the time taken between a child being accommodated and permanency.

118. Recent improvements have been noted against out-of-area placements for looked-after children. A Placement Services Change Programme was designed to redirect resources to develop services locally in Highland for looked-after children and to address their education outcomes. The council reports considerable work has been carried out focused on returning young people to Highland. Thirty-four have returned or avoided out-of-area placements since the programme began in June 2018. Total costs avoided are estimated at over £5 million, compared with the young people remaining in out-of-area placements for a year. The programme is demonstrating progress against the original plan with forecast year-end spend on placements £1.8 million less than at the same time in the last financial year.

119. The council reports that the programme has significantly exceeded the number of young people returning estimated in the original business case. While there continues to be a requirement for new purchased placements due to specific needs of young people, only two young people have gone into this type of placement since April 2019.

The council has recently made improvements to the governance and reporting arrangements associated with the City Region Deal.

120. The Inverness and Highland City Region Deal (CRD) was signed on 30 January 2017 and is being led by Highland Council. The council estimates that this will bring £315 million of investment to the region. The deal is made up of £135 million from the Scottish Government, £53 million from the UK Government and £127 million from local partners over a ten-year period. The aim of the deal is to position the area as the best digitally connected rural region in Europe. The core overarching aims are to:

- help to rebalance the population by attracting and/or retaining an additional 1,500 young people in the 18-29 age group
- create 1,125 jobs directly, and a further 2,200 jobs in construction, indirectly

- help to upskill the labour market to move to a high-wage, high-skill economy, adding an extra £100 million a year to the regional economy
- deliver 6,000 homes over a 20-year period, of which 1,600 will be affordable
- deliver £800 million of private sector investment in the region over a 20-year period.

121. The CRD comprises six partners that coordinate and drive the component projects. These organisations are Highland Council, Highlands and Islands Enterprise, the University of the Highlands and Islands, Transport Scotland, Albyn Housing Society Limited and the Highlands and Islands Transport Partnership (HITRANS). Input is also received from contributing partners such as the Highland Economic Forum and the Highland CPP, which support the CRD by providing expertise and access to networks, playing the role of critical friend and promoting the benefits of the CRD and the region.

122. The council's internal audit team identified that improvements to the governance arrangements supporting the CRD are required, including more consistent reporting on progress and a structured approach to scrutiny. Recently, the council has introduced a proposal to prepare and present an annual report to full council, covering progress, financial reporting, and issues and added value provided by the CRD. Recently, improvements have been made to overall reporting arrangements on CRD progress. A detailed update report was presented to the Environment, Development and Infrastructure committee in May 2019.

123. The CRD Programme Board is attended by the lead officers for each project, a representative from Highland Council's Finance Service, a representative from the business community and representatives from the Scottish and UK governments. The deal is made up of 11 funded projects and two non-funded projects (employability and air connectivity). Progress on some projects has not been in line with expectations. The council could improve the alignment between the objectives of the City Region Deal and key priorities in the Council Programme and Corporate Plan. At present, there is limited reference to the CRD in the council's key strategic documents.

124. A key theme running through CRD projects is digital connectivity. Given the region's geography, digital connectivity and capability are essential to enhance growth capacity; therefore, projects have been designed to deliver improvements in this area. A specific 'digital' project is included, with £20 million of capital funding available through the CRD for improving broadband connectivity across the Highland Council area to support the ambition to be the 'best digitally connected rural region in Europe'. The Highland Local Full Fibre Network project is under way. The CRD also included an aim to provide free public Wi-Fi in town centres across the region. This project is now complete, with 15 towns now having access. The Inverness 'Ness' Wi-Fi was the first to be implemented across the region and won a Bronze Award at the COSLA Excellence Awards in 2018.

The council's partnership with HLH, its largest ALEO, has delivered improvements in the quality and uptake of services and enabled significant savings

125. HLH is the council's ALEO that develops and promotes opportunities in culture, learning, sport, leisure, health and wellbeing across nine services throughout the whole of the Highlands. It was established in October 2011 and delivers public service obligations through a service delivery contract. The services it delivers are adult learning, archives, arts, leisure facilities, libraries, museums, music tuition, outdoor activities, and sport and youth work. There have been improvements in the quality and uptake of some services delivered by HLH, particularly in music tuition ([Case study 3, page 44](#)).

126. The main purpose of the ALEO is to deliver services for the council and protect them. However, it also saves the council around £3.5 million each year through non-domestic rates relief and value-added tax status. Furthermore, HLH meets the cost of any inflationary increases in staff salaries, pensions and the living wage. The *Councils' use of arm's-length organisations* national report, published in May 2018, highlights areas of good practice identified at High Life Highland.⁷ This includes the ALEO's participation as a member of the Highland CPP since 2015, helping to find new opportunities, for example through partnership working with the NHS, as well as taking on a positive role in supporting community-run organisations that were facing financial difficulties.

127. Three performance indicators have been established by HLH to monitor overall performance. These are:

- HLH customer engagements
- HLH reliance on council funding
- percentage of population with an HLH card.

128. Since 2011, the number of customer engagements has increased from 2.3 million to 8.2 million. HLH is also less reliant on council funding. Over the same period, this has reduced from 79 per cent to 51 per cent. The percentage of the population with an HLH card is a new indicator and will be introduced from 2019/20 onwards.

129. HLH also plays an active role in the Highland CPP. It is represented by a senior officer at each of the nine community partnerships and has contributed to innovative projects such as social prescribing in Sutherland.

130. HLH has established a new Leisure Link Partnership. This is a reciprocal partnership with four other areas of Scotland and will see HLH members being able to access free use of leisure facilities outside the Highland region. This innovative relationship has been established with partners in Moray, Orkney, the Western Isles, and Argyll and Bute, and is designed to increase the accessibility of leisure facilities and improve outcomes for local citizens.

Case study 3



Improvements in service delivery through use of an ALEO

The council's school music tuition service transferred to High Life Highland on 1 April 2018. This followed consideration and review by the council's Redesign Board in late 2017 which highlighted that the service had experienced a 16 per cent decline in the number of pupils engaged in it over a two-year period, from 3,450 in 2015/16 to 2,900 in 2017/18.

The council concluded that the best way of protecting and possibly growing and developing the service was to transfer it to HLH. Within one year of the transfer, pupil numbers had increased by 21 per cent. This brought pupil numbers to their highest ever level at over 3,500. This was achieved by HLH:

- adding five new posts to the staff team; three funded through customer income, one through external funding and one through the Pupil Equity Fund
- realigning provision and small increases to existing part-time staff contracts where demand was identified
- enabling existing music instructors to take on additional pupils
- developing an online management and bookings system which made it easier for parents to access the service and provided staff and managers with more comprehensive statistical information on which to base future service developments
- advertising the service in schools, online, through social media and on local radio
- freezing charges at the level set by the council in the year before the service transferred.

The change of approach following the transfer to HLH was to balance the budget by growing the service rather than increasing prices. This showed evidence of an understanding of price sensitivity and recognising the importance of HLH's charitable, independent and contractual role in determining its own pricing strategies.

Source: Highland Council

Part 5

Is the council demonstrating continuous improvement?



The council's pace of change since the previous Best Value report has been slow in some areas and it needs to build on recent work to establish a consistent culture of improvement.

The council's approach to continuous improvement has been inward-looking and requires fresh impetus. Recently, the council has shown clear recognition that change is required.

The approach to self-evaluation has been inconsistent. A more systematic, council-wide approach is required.

A more structured approach to elected member training is required.

The council's pace of change since the previous Best Value report in 2010 has been slow in some areas, particularly within financial sustainability and the use of performance management to trigger improvement activity

131. In 2010, the council was subject to a Best Value 2: Pathfinder audit. The Controller of Audit and the Accounts Commission concluded that the council was improving and was well placed to deliver its statutory duties on Best Value and Community Planning. They highlighted that there was a clear vision and strategic direction, which was shared with partners, and that the council generally delivered good-quality services and managed resources effectively.

132. The report identified opportunities for improvement in corporate asset management, workforce planning and demonstrating competitiveness in how it delivers services in the current financial climate. However, it found that the council demonstrated a strengthening culture of continuous improvement and a good awareness of where further improvement is required.

133. While the council has delivered some significant changes over this period, such as the lead agency model ([Part 4](#)), progress in some areas since 2010 has been slow. For example, performance against priority areas such as education has shown little improvement. [Exhibit 8 \(page 46\)](#) shows what we reported in 2010 and what we have found in this audit work. The council needs to make further progress against the recommendations in this report.

Exhibit 8

A comparison of 2010 Accounts Commission findings and 2020 audit judgements

The council has made slow progress in some areas since 2010.

Accounts Commission finding 	Controller of Audit judgement 	View
<p>Vision and strategic direction</p> <p>There is a clear vision for the Highlands which is shared by partners and clearly defined in strategic plans. Changes to political and management arrangements have strengthened corporate working and reduced inconsistency between council areas.</p>	<p>The council's vision and priorities are clearly defined. Priorities have remained relatively stable over time.</p> <p>This consistency has provided continuity and focus for partners and staff in delivering on key priorities and objectives. However, consistent improvements in performance in priority areas have not been achieved.</p>	<p>Part 1</p>
<p>Performance</p> <p>Satisfaction with the council and its services is consistently high and improving. The council provides generally good-quality services that are responsive to local communities and is improving performance in important areas such as education and child protection.</p>	<p>The council's performance has been mixed. Performance against LGBF indicators has deteriorated over a five-year period. For 2017/18, 70 per cent of indicators sit in the bottom two quartiles. However, performance against LGBF service satisfaction indicators is good.</p>	<p>Part 2</p>
<p>Use of resources</p> <p>The council has sound arrangements to manage its resources, although improvement is needed in corporate asset management, workforce planning, and demonstrating competitiveness in how it delivers services in the current financial climate.</p>	<p>The council's financial management arrangements require improvement. It has faced challenges in recent years in delivering services within budgets. Service overspends have been met through the council's reserves and have resulted in a significant reduction in general fund reserves available to meet future unforeseen costs or make investments in the year.</p> <p>Over the last two years, the council has enhanced its workforce-planning arrangements. A new workforce strategy has been developed and supported through service workforce plans. However, these were not in place to support key decision-making around two voluntary severance programmes in 2015/16 and 2016/17. Consequently, the programmes lacked a clear cost/benefit analysis to support resource decisions made.</p>	<p>Part 3</p>
		<p>Cont.</p>

Exhibit 8 continued

Accounts Commission finding	2010	Controller of Audit judgement	2020	View
<p>Partnership working</p> <p>The council has developed effective partnership working and has made consistent progress in delivering complex cross-cutting strategic local outcomes with partners and has good service performance overall.</p>	<p>The council generally works well with its partners and there are early signs of improved approaches to joint working with the third sector.</p> <p>Progress has been made in implementing some of the requirements of the Community Empowerment Act. However, there has been slow progress developing and implementing the large number of locality action plans.</p>		<p>Part 4</p>	
<p>Continuous improvement</p> <p>The council's pace of change and direction of travel are positive, and the council is demonstrating that it is improving well. A strengthening culture of continuous improvement and a good awareness of where further improvement is required is in place.</p>	<p>The council's approach to continuous improvement has been inward-looking and requires fresh impetus. Recently, the council has shown clear recognition that change is required and it has made a number of significant changes over the last year.</p>		<p>Part 5</p>	

Source: Audit Scotland

A more systematic approach to self-evaluation is required

134. There has been inconsistency in the way the council has used self-evaluation since the previous Best Value report. The Public Service Improvement Framework was used as an evidence based self-assessment tool to help gauge performance and identify examples of best practice, benchmarking opportunities and areas for improvement. However, it is not clear whether this was used consistently across services. Furthermore, performance has been poor in some priority areas for a number of years which indicates that efficiencies were not being realised through this approach.

135. The council recognised that a more effective approach was required and introduced the redesign of Highland Council in March 2016. This was designed to challenge how services were delivered and to drive change across the organisation at a time of financial pressure. As part of this, a Redesign Board was established, consisting of 16 elected members and two trade union representatives. The board was established to lead and oversee the programme of redesign and transformation. During the summer of 2016, Redesign Board members considered all statutory and discretionary functions carried out by the council. Alternative options for service delivery were considered. The council carried out peer and 'lean' reviews of services before deciding on the most appropriate options to take forward. Redesign work has continued through the second half of 2018 and 2019, and several new reviews have been undertaken and concluded.

136. While the redesign and ‘lean’ review process has led to improvements in some services, there is still scope for the council to implement a more systematic, organisation-wide self-evaluation programme. The recently developed peer review framework provides a good starting point for this. It is important for the council to establish a culture of improvement. It should introduce arrangements to ensure the results of self-evaluation exercises are understood and used consistently to trigger improvement activity.

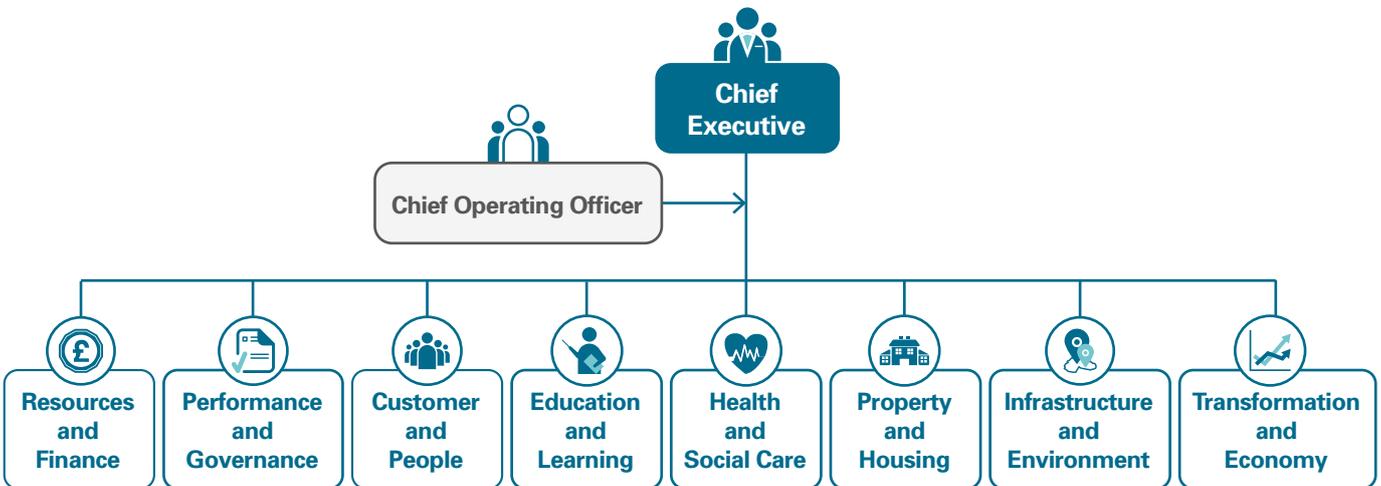
The council has redesigned its senior leadership structure. It is too early to determine the effectiveness of these arrangements

137. During 2018/19 the council undertook a review of senior level organisational design. The focus of the review was linked to the council’s strategic theme of ‘a connected Highland’ by ensuring that not only was the senior level of the organisation delivering clear leadership and oversight but enabling services to align to local priorities and enable continuous improvement. The redesign of the senior-level of the organisation creates a Chief Operating Officer role and eight Executive Chief Officer posts, supported by Heads of Services ([Exhibit 9](#)). The majority of new posts will be filled by 31 October 2019.

Exhibit 9

The council has redesigned its senior leadership structure.

A Chief Operating Officer role has been created along with eight Executive Chief Officer posts.



Source: Highland Council

138. The new arrangements will take time to embed within the organisation. The restructure has introduced a number of new roles and a significant change across the senior level of the organisation. Below the senior level of the organisation, it is likely that change will be required across services as they feed into the new structure. While we recognise the rationale for the restructure, it is important that the council takes time to monitor the effectiveness of the new arrangements as they embed in supporting the organisation to deliver its strategic objectives.

139. The council has used its change fund to support further transformation by taking a new approach in education, health and social care. It has appointed interim Heads of Service, leading on improving performance outcomes. An interim Chief Officer Resources post has also been created to focus on improved outcomes in budget and resource management in the Care and Learning service. Budget projections for 2019/20 within this area have improved.

The council's approach to continuous improvement has been inward looking and requires fresh impetus. However, action has been taken recently to address this

140. The council recognises that previously, arrangements for continuous improvement were inward looking. This restricted opportunities for development and learning from others and may have contributed to the lack of consistent performance improvements in some key services. Steps have been taken to address this in recent years. The council is now more open to engaging with other local authorities to learn from good practice in place elsewhere and has demonstrated a desire to use this information to shape future decision-making. As part of the redesign process, a review of how councils elsewhere coped with budget reductions was produced to identify lessons for the council. This helped identify the ten options for service delivery used for all peer reviews. Peer review teams were deliberately set up to bring fresh eyes and new challenge to service delivery and to counter 'silo' approaches.

141. The council also recognises that greater use of benchmarking, targets and family grouping data will enhance its approach to continuous improvement. This has been included as a feature of the developments to the performance management framework which are currently ongoing.

Some progress has been made in making the transformational changes required

142. Over the last five years the council's performance against national LGBF indicators ([Part 2](#)) indicates that performance relative to other local authorities has deteriorated. Over the same period the council's financial position has deteriorated to the extent that it has a limited level of reserves available to support unforeseen costs or to support strategic transformation and improvement activity.

143. 'A Sustainable Highland', the council's change programme, is aimed at delivering the transformational change required. The programme has been informed through staff and public engagement and focuses on:

- Making the council more efficient
- Commercialism and income generation
- Redesign and improvement
- Flexible and well managed workforce.

144. The change programme aims to deliver £37.5 million of savings over the three-year period to 2021/22 and the council established a change fund of £2.5 million to support this. The programme covers 16 major transformational projects. A report to council in June 2019 summarises the progress that is being made to achieve the

2019/20 savings target of £24.58 million, as well as an analysis of the opportunities, challenges and risks presented by each of the 16 transformational projects. The council reports that good progress is being made, with £16.85 million (68 per cent) of the 2019/20 savings target already achieved and project plans in place for the remainder. The report also identifies where there are risks to savings delivery that require mitigation, including closer scrutiny and oversight. This demonstrates that a total of £4.13 million falls within this category, or 17 per cent of the overall total. Some of these savings have now been established as formal projects within the change programme and, while there are challenges to the delivery of the savings, there are plans in place for all of the outstanding areas. These plans will be monitored by the Change Programme Board.

Consultation with staff has been inconsistent and levels of engagement have varied. A staff survey has not been carried out for a number of years. However, improvements have been made recently

145. The council has not carried out a staff survey since 2015. Although some initiatives were in place to keep staff informed and provide opportunities for them to share their views, the lack of direct engagement with staff made it difficult for them to provide feedback to the council's leadership team. The council has recognised that staff consultation is an important issue and has made improvements in this area recently. In the past year there has been extensive staff engagement which involved the Chief Executive, elected members and leadership team. This covered the full Highland region and involved face-to-face engagement sessions at various council sites.

146. Feedback from staff forum meetings has resulted in a new staff web page being created to improve access to information. A new Communications and Engagement Strategy has also been developed. The council's new management structure has been designed with a view to improving the visibility of the leadership team for staff. Each of the eight Executive Chief Officers will have responsibility for a defined geographical area and this will provide staff located in each area with a direct contact to the leadership team.

Levels of scrutiny and challenge could be improved

147. The council's committee structure consists of four strategic committees, five regulatory committees and eight area committees. This is appropriate for a council the size of Highland and provides strategic and local oversight for elected members and the public. The strategic committees are the Audit and Scrutiny Committee; the Corporate Resources Committee; the Care, Learning and Housing Committee; and the Environment, Development and Infrastructure Committee.

148. The level of scrutiny across strategic committees varies. The council has recognised this as an area for improvement and has taken steps to address scrutiny levels as part of the ongoing governance review. The review included a seminar, at which elected members raised concerns about the very large remits of the strategic committees, particularly the Care, Learning and Housing Committee and the Environment, Development and Infrastructure Committee. Elected members also discussed the size of agendas and the short time available to read and digest large numbers of detailed lengthy reports. The council could improve scrutiny by streamlining agendas where possible and ensuring that reports 'for action' are given priority at meetings, as opposed to those that are presented 'for noting' only. It is too early to draw conclusions on the effectiveness of the new arrangements.

A more structured approach to member training is required

149. It has been over two years since the 2017 local government elections, which saw 31 councillors newly elected. Elected members should review their personal training and development needs, to ensure they have the skills required to effectively fulfil their roles. They should further consider the 2016 report [*How councils work: roles and working relationships in councils – are you still getting it right?*](#) , which stresses the importance of training and development to support councillors with the skills and tools required to carry out their complex and evolving roles.⁸

150. An extensive induction training programme is in place for newly elected members. However, there is limited evidence of continuous development and further training. A more structured approach to member training is required, including the establishment of mandatory training courses and development of a training register to monitor uptake. Training offered to elected members has previously not been tailored to individual needs. However, the council has recognised this as an issue that needs to be addressed and has included it as a key part of the ongoing governance review.

151. The council has proposed to introduce a continuing professional development approach for elected members. This involves elected members carrying out an initial self-assessment to identify training needs at an individual level. The council will then be able to carry out a comparison with available training courses and establish any gaps where training is not yet in place. This is designed to facilitate a more targeted approach to ensuring elected members have the skills required to fulfil their roles effectively. An important part of this development is ensuring that appropriate feedback arrangements are in place, in relation to both identifying the training that elected members need and the overall effectiveness of the courses offered. The early signs are that engagement with elected members on training opportunities has improved.

Recommendations



The council needs to seek to ensure that all staff are fully engaged in the transformation programme and that budget holders are clear on expectations to deliver the planned savings set out in ongoing transformation work. The council should continue to develop and implement a longer-term delivery model which is affordable and achievable ([paragraph 144](#)).

The council should increase the use of family grouping data, benchmarking and targets to enhance performance reporting ([paragraphs 36–43](#)).

The council's approach to performance management can be further improved through sharing of practices between services and council teams in order to fully embrace and support effective self-assessment and a culture of continuous improvement ([paragraph 19](#)) ([paragraph 44](#)).

Once the council has implemented the revised governance arrangements, it should seek to monitor the effectiveness of these changes to ensure they deliver the improvements anticipated, including the intended enhanced scrutiny and decision-making ([paragraph 24](#)) ([paragraphs 29–32](#)).

Once the new leadership team is in place, it will be key that they look to successfully manage the need for increased pace of change alongside continued engagement across officers to achieve the strategic objectives and this should be reviewed and evaluated on an ongoing basis ([paragraphs 22–24](#)) ([paragraph 138](#)).

The CPP should increase the pace in developing the remaining locality action plans in line with the requirements of the Community Empowerment Act ([paragraph 88](#)).

The council should continue to work with elected members to understand reasons for variable uptake of training and agree how this can be improved alongside a programme of ongoing elected member development. In particular, elected members' knowledge of and involvement in the performance management process needs to be improved to enhance scrutiny and help drive improvement ([paragraph 63](#)) ([paragraphs 150–151](#)).

Endnotes



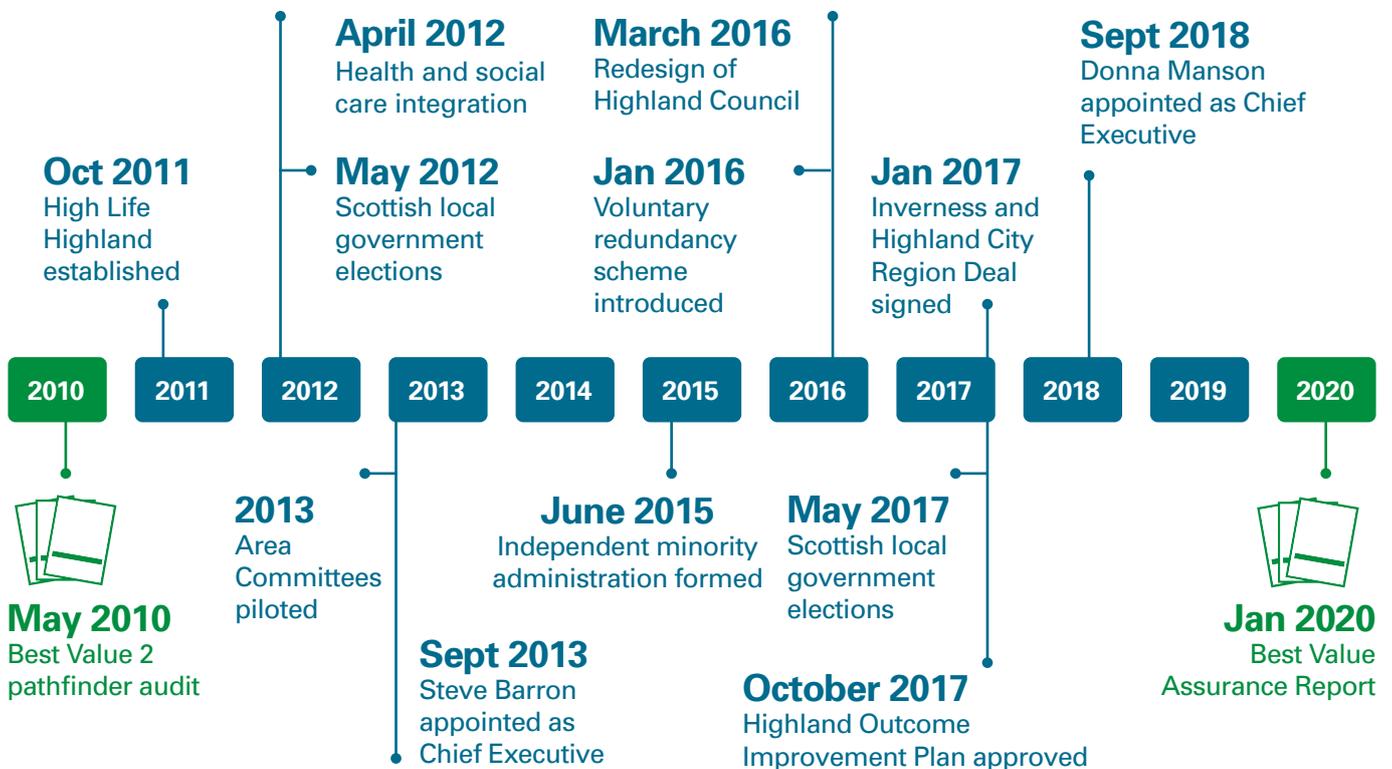
-
- 1 Scottish Housing Regulator Landlord Report – How your landlord told us it performed in 2018/2019 - Highland Council.
 - 2 Statutory partners in the Highland CPP are Highland Council, NHS Highland, Police Scotland, Scottish Fire and Rescue and Highlands and Islands Enterprise.
 - 3 *Community learning and development in The Highland Council*, Education Scotland, 14 January 2019.
 - 4 Scottish Government: Community Empowerment (Scotland) Act 2015, part 2 Community Planning: guidance.
 - 5 *Strengthening Community Councils: Exploring how they can contribute to democratic renewal in Scotland*, Andrew Paterson & Paul Nelis, SCDC / Oliver Escobar, What Works Scotland, April 2019.
 - 6 Ministerial Strategic Group for Health and Community Care - Review of Progress with Integration of Health and Social Care, Scottish Government, February 2019.
 - 7 [Councils' use of arm's-length organisations](#) , Audit Scotland, May 2018.
 - 8 [How councils work: roles and working relationships in councils – are you still getting it right?](#) 
Audit Scotland, November 2016.

Appendix

Best Value audit timeline



Council timeline



May 2010 – Best Value 2 pathfinder audit

The Commission found the council benefited from strong political and managerial leadership and worked well with its partners at a strategic level.

October 2011 – High Life Highland established

The council established HLH as an ALEO for developing and promoting opportunities in culture, learning, sport, leisure and health and wellbeing.

April 2012 – Health and social care integration

The council established a lead agency model for the delivery of health and social care services with NHS Highland. This model is unique to Highland and was established three years ahead of the Scottish Government's schedule for full integration.

May 2012 – Scottish local government elections

A new coalition was formed to run the council. This involved the SNP group, Liberal Democrat group and Scottish Labour group.

September 2013 – Previous Chief Executive appointed

Steve Barron was appointed as Chief Executive.

2013 – Area committees piloted

The council piloted area committees during this period, in response to recognising the need for more local decision-making. Area committees are now an integral part of the council's committee framework and provide an effective means of highlighting issues, sharing information and cross-partner action.

June 2015 – Independent minority administration formed

A new minority administration was formed. Councillor Margaret Davidson was appointed as the new Council Leader.

January 2016 – Voluntary redundancy scheme introduced

The council's first ever voluntary redundancy scheme for staff was introduced. Although designed to generate efficiencies, this process lacked strategic focus.

March 2016 – Redesign of Highland Council

The redesign of Highland Council was introduced to challenge how services were delivered and drive change across the organisation at a time of financial pressure. The council carried out peer and 'lean' reviews of services before deciding on the most appropriate options to take forward.

January 2017 – Inverness and Highland City Region Deal signed

The CRD was signed on 31 January 2017 and is being led by the council. The council estimates that the deal will bring £315 million of investment to the region.

May 2017 – Scottish local government elections

A new political administration was formed to run the council – a coalition of the Independent group, Liberal Democrat group and Scottish Labour group.

October 2017 – Highland Outcome Improvement Plan approved

The HOIP was approved in line with the statutory requirements of the Community Empowerment Act. This sets out the CPP's vision to 'work together to reduce inequality in Highland'.

September 2018 – Current Chief Executive appointed

Donna Manson was appointed as Chief Executive and instigated a new vision for the council to be 'Ambitious for a Sustainable, Connected Highland'.

January 2020 – Best Value Assurance Report

Best Value Assurance Report Highland Council

This report is available in PDF and RTF formats,
along with a podcast summary at:

www.audit-scotland.gov.uk 

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: info@audit-scotland.gov.uk 

www.audit-scotland.gov.uk 

ISBN 978 1 913287 14

MEETING: 9 JANUARY 2019

REPORT BY: SECRETARY TO THE COMMISSION

STATUTORY REPORT: GLASGOW CITY COUNCIL

Purpose

1. The purpose of this paper is to introduce for the Commission's consideration the Controller of Audit's Statutory Report on a matter arising from the 2018/19 audit of Glasgow City Council.

The Controller of Audit report

2. The attached statutory report is made by the Controller of Audit on a matter arising from the 2018/19 audit of Glasgow City Council. The external auditor's Annual Audit Report for the year refers to the equal pay settlement and associated funding arrangements entered into by the Council.
3. The Controller of Audit previously reported on this matter in August 2018 as part of the Council's Best Value and Assurance Report (BVAR). In its findings on the BVAR, the Accounts Commission asked the Controller of Audit to report back at an appropriate time on the progress and impact on the Council. The Controller of Audit has therefore decided to use the reporting powers available to him to bring this issue and subsequent developments to the Commission's attention.
4. This report is made by the Controller of Audit to the Commission under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
5. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
 - the accounts of local authorities audited under the Act;
 - any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public; and
 - the performance by a local authority of their statutory duties in relation to best value and community planning.
6. 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.

Procedure

7. 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:
 - direct the Controller of Audit to carry out further investigations

- hold a hearing
 - state its findings.
8. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
 9. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence and judgements presented in the report. This is done in the public part of the Commission meeting.
 10. The Commission is then expected to consider in private how it wishes to proceed. Subsequently, the Commission is obliged by statute to inform the council of its decision, which the Commission does before making the decision public.

Conclusion

11. The Commission is invited to:
 - a) consider the Controller of Audit's Statutory Report on a matter arising from the 2018/19 audit of Glasgow City Council; and
 - b) decide in private how it wishes to proceed.

Paul Reilly
Secretary to the Commission
16 December 2019

Glasgow City Council - 2018/19 Audit

Update on Equal Pay Settlement

ACCOUNTS COMMISSION 

Prepared by the Controller of Audit for the Accounts Commission

December 2019

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

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Executive Summary

Introduction

1. The Code of Audit Practice requires auditors to produce a report summarising the significant matters arising from their work at the conclusion of each year's audit. For local authorities, these reports are addressed to elected members and the Controller of Audit.
2. I have received the 2018/19 annual audit report for Glasgow City Council (the Council) from Audit Scotland, the appointed auditor. The most significant issue in their report relates to the conclusion of the equal pay settlement that the Council has been dealing with since early 2018. I previously reported on this matter in August 2018 as part of the Council's Best Value and Assurance Report (BVAR). In their findings on the BVAR, the Accounts Commission asked me to report back at an appropriate time on the progress and impact on the Council. I have therefore decided to use the reporting powers available to me to bring this issue and subsequent developments to the Commission's attention.
3. Following the decision by the Council's City Administration Committee (CAC) in January 2018 to address outstanding equal pay claims through negotiations, the Council established a number of workstreams covering both the proposed settlement and a funding strategy to meet both the historical obligations and future cost implications of the funding strategy. The terms negotiated with, and agreed by, the Claimants' Representatives for the settlement of the claims, for which the Representatives act, were reported to CAC in February 2019. At that meeting CAC approved the funding strategy for equal pay and, subject to securing appropriate funding, approved the settlement proposal estimated at £548m.
4. This report provides an update on the position highlighted in the auditor's Annual Audit Report, which is included as Appendix 2.

Annual Audit Report 2018/19

5. The auditor's Annual Audit Report was considered by the Council's Finance and Audit Scrutiny Committee (FASC) on 11 September 2019 and again by CAC on 26 September 2019. The report has also been published on Audit Scotland's website.
6. I draw the Commission's attention, under s102(1) of the Local Government (Scotland Act) 1973, to the following points in relation to the Equal Pay Settlement.

Settlement of historic liabilities

7. In their report, the auditor details the findings of their work during 2018/19 and outline the settlement position at the point at which their report was finalised on 26 September 2019. In summary this was:
 - Following CAC approval in February 2019 the Council applied the agreed settlement methodology to approximately 15,500 claims and each claim was assessed up to 31 March 2018.
 - Any outstanding debts owed to the Council by claimants, for example Council Tax arrears, were offset against the settlement sums. Additionally, a central settlement was also negotiated with HMRC to determine rates of Tax and National Insurance contributions to be deducted.
 - Following the individual claim calculations, the final settlement cost to the Council reduced to £505m, from the estimated £548m approved by CAC in February 2019. Individual settlement offers were issued to claimants in May 2019 and following receipt of signed agreements from claimants the settlement payments commenced in June 2019. By the end of August 2019 over 98% of claims had been settled and payment made.
8. Since the auditor finalised their report at the end of September 2019 the Council has continued to progress the equal pay settlements. At the end of November 2019 there were approximately 150 equal pay settlements still outstanding and these all related to specific instances where the case has been difficult to finalise, for example, where claimants have not returned signed agreement forms, or, where the claimant is now deceased, and the Council is working with their Estate/Executor to finalise the settlement. The Council is committed to finalising all outstanding settlements insofar as it reasonably can.

Residual liability

9. The settlement proposal outlined above does not fully extinguish the Council's equal pay liability. There remains a potential ongoing risk of an equal pay claim in respect of any claimant who is in employment during the period from 1 April 2018 up to the point at which the Council implements a new pay and grading structure. The Council is working to implement its new pay and grading structure by April 2021.
10. There are also approximately 480 claimants with existing equal pay claims, but who are not represented by the Claimants' Representatives. The settlement proposal previously outlined does not include these claims.

Funding strategy

11. Again, the auditor details the findings of their work during 2018/19 and outlines the funding position at the point at which their report was finalised on 26 September 2019.

12. At the time of the auditor's report the Council's proposed funding strategy for the equal pay settlements comprised two main elements:
- City Property Glasgow (Investments) LLP (CPGI), a Council owned Arm's Length External Organisation (ALEO) refinanced an existing loan with Barclays Bank through new borrowing. After settling the outstanding liability on the original loan, the remaining balance from the new borrowing has been remitted to the Council as a member distribution to part-fund the equal pay settlement. Following issue of the auditor's report, the Council reported to CAC that the borrowing to refinance this loan formed part of a wider funding agreement with LGIM Commercial Lending Limited (detailed in paragraphs 13 and 14 below) which also includes funding for the purchase of 3 properties.
 - City Property entered into a sale and leaseback arrangement with the Council whereby the Council disposed of a number of properties to City Property and then leased them back under commercial terms. The Council was able to use the capital receipt from the sale of the property to complete the funding of the equal pay settlement. The properties involved in this transaction are predominantly culture and leisure facilities, none of which are common good or heritage assets. City Property secured their funding (borrowing) through a competitive procurement exercise which identified three preferred bidders. The auditor notes that contracts with two of the three preferred bidders had been finalised at the date of writing their report and that the third contract, which is subject to a more complex structure, was due to be finalised by the end of September 2019.

Financing Arrangements

13. Since the auditor finalised their report at the end of September 2019 the Council and City Property have completed on the remaining funding arrangements and all contracts have been signed. The sums borrowed by City Property reflected the different commercial terms of each agreement and are noted below:

Borrowing by City Property

Bidder	Value	Date funding drawn down
LGIM Commercial Lending Limited (L&G)	£285m	2 July 2019
Canada Life Asset Management Limited (CL)	£166m	19 July 2019
Assured Guaranty (Europe) plc / Assured Guaranty Municipal Corp (AG)	£195m	30 October 2019
Total borrowing by City Property	£646m	

14. The agreement with L&G also includes refinancing the commercial portfolio of CPGI, including the termination of the loan with Barclays and the purchase by City Property of three of the Council properties. The funding agreements with CL and AG allow the purchase of the

remaining eight properties. Appendix 1 provides the detail of the properties included within these arrangements. The total income to the Council from the Funding Strategy is £549m. City Property retained sufficient funds to repay the Barclays Loan, cover fees and charges associated with the funding and to ensure the organisation retained the levels of cash reserves required by the funding agreements.

15. Therefore, the total income to the Council is sufficient to cover the £505m of equal pay liabilities outlined previously. The Council has ear-marked the residual balance of £44m for the potential future equal pay obligations outlined in paragraphs 8 and 9 above.
16. The Council has finalised terms with City Property for the sale and leaseback of the eleven properties covered by the arrangement. The lease is for a period of 32 years with a rent-free period after 1 April 2050 and is on a full repairing and insuring basis. The total rent payable to City Property by the Council is £20.4m per annum with annual inflation of 2.75%.
17. The full cost annual cost of £20.4m to the Council for 2019/20 was included in its budget for the year. However, due to the timing of the lease start dates there will be an underspend against budget in the current financial year. The Council plans to add this underspend to the ear-marked reserves outlined in paragraph 15 for any potential future equal pay obligations.
18. The arrangements that the Council has entered will require changes to its treasury Prudential Indicators to reflect the requirement of the Prudential Code to incorporate future lease payments as part of the Council's overall liabilities. Additionally, as part of the funding agreements the Council has committed to guaranteeing some of the debt repayments to be paid by City Property.
19. There was an existing guarantee provided by the City Council to CPGI in respect of the Barclays Bank loan which is no longer required.
20. The auditor will consider the ongoing impact of the equal pay settlements and the associated funding arrangements as part of the current (2019/20) and future years audits. This will include, but is not limited to, consideration of
 - The impact of future equal pay obligations;
 - Changes to the Council's Treasury Management Strategy and Prudential Indicators;
 - Obligations to the Council under the guarantees provided to City Property; and
 - Appropriate accounting treatment and the adequacy of disclosures in the Council's annual financial statements in relation to the above.

Project Governance

21. The scale and complexity of settling historic equal pay obligations has presented the Council with significant financial, operational and reputational risks. The Council acknowledged these challenges at an early stage and undertook a dedicated and recognisable project management approach to oversee both the settlement and funding elements of the scheme. Key to this was the action taken to bring together, in a single team, appropriate numbers of

staff with the skills and experience necessary to advance the project with sufficient grip and pace.

22. Reports have been presented to the City Administration Committee at key stages during the project to inform progress and to seek approval from members for proposed actions. This included approval of the settlement proposal in February 2019, and delegation of authority to the Chief Executive and Executive Director of Finance to conclude the legal and financial agreements.
23. The settlement process has been overseen by an Equal Pay Board, which met every 3 weeks up to the point at which the settlement letters were issued to claimants in June 2019. The board was chaired by the Chief Executive, and included the Director of Governance, the Head of Human Resources, the Executive Director of Finance, the Project Manager and the Equal Pay Operational Team representatives.
24. The process for the funding arrangements was overseen by a separate group which met weekly and consisted of the Chief Executive, the Executive Director of Finance, the Director of Financial and Business Services, the Head of Legal and Administration Services and Managing Director of City Property.
25. The level of public reporting was restricted during the process due to the levels of confidentiality required during negotiations. However, cross-party elected member working group meetings were held on a fortnightly basis during the project, to keep members informed of progress.
26. The Council has engaged effectively with key stakeholders and partners during the process and where appropriate has sought, acted on and, when necessary, challenged external professional advice. Senior Officers within the Council have actively engaged with the auditor throughout the process ensuring a "no surprises" approach both from the Council and audit perspective.
27. The Council's internal audit team has also reported on its review of the equal pay settlement process, concluding that a reasonable level of assurance could be placed upon the control environment.

Conclusion

28. Overall, the Council has successfully delivered a challenging and complicated project within a relatively short period of time. Key to this were the governance and management arrangements that the Council put in place around the project. I agree with the auditor's conclusion that the Council developed and applied appropriate overarching governance arrangements to the equal pay project and applied appropriate controls to the calculation and payment of settlements. I am satisfied that the Council has taken appropriate action to mitigate the key risks arising from both the settlement and funding arrangements and that it responded in a fast, transparent and comprehensive way to the challenges it faced.
29. The auditor has concluded that they are satisfied with the reasonableness of the equal pay accounting estimates and disclosures in the Council's 2018/19 Financial Statements. Nevertheless, I acknowledge that the auditor will continue to assess the impact of the equal pay funding arrangements and potential future equal pay liabilities as part of the current and future years audits at the Council.

Appendix 1 - Sale and leaseback properties

The City Council has entered into sale and leaseback contracts with City Property for the properties listed below:

L&G

SEC Armadillo

City Halls

Glasgow Museums Resource Centre

CL

Emirates Arena

Scotstoun Leisure Centre

Bellahouston Leisure Centre

AG

Riverside Museum

Tollcross International Swimming Centre

Glasgow Royal Concert Hall

Gorbals Leisure Centre

Toryglen Football Centre

Appendix 2 - Glasgow City Council

2018/19 Annual Audit Report

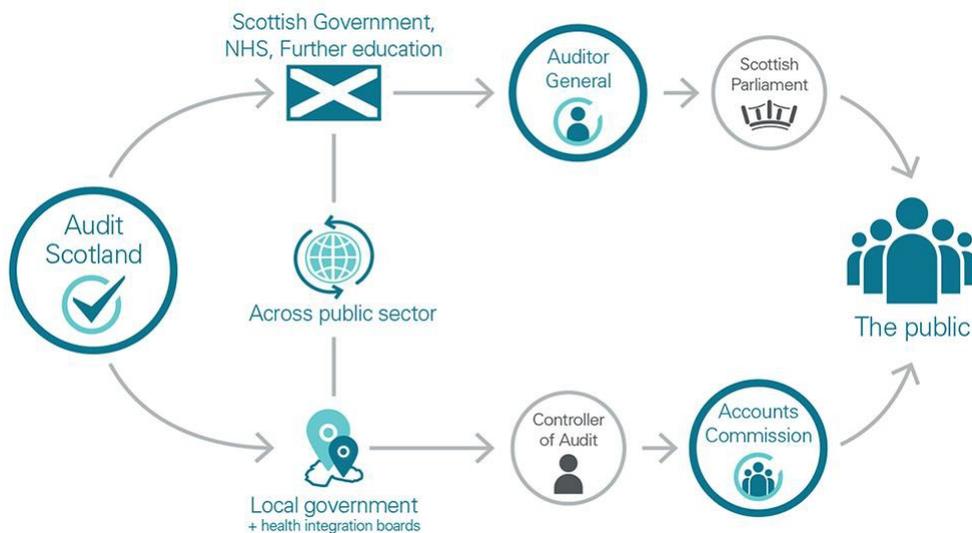


 AUDIT SCOTLAND

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2018/19 annual accounts

- 1** Glasgow City Council's (the council's) financial statements for 2018/19 give a true and fair view of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended, and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

Financial management

- 3** The council continues to demonstrate a good track record of strong and effective financial management. The budget process remains focused on the council's priorities and the council consistently delivers services within agreed budgets.
- 4** Controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial sustainability

- 5** The council has a forecast spending gap of £159 million over the next three years (2019/20 to 2021/22). Given the scale of savings in recent years, it will be increasingly difficult for the council to identify efficiencies in current service delivery arrangements. This will put a significant strain on the council's capacity to maintain current service delivery levels.
- 6** The council has implemented a funding strategy to address the cost of settling equal pay claims. This strategy spreads the cost of settlement over the long term, minimising the immediate budget pressures on service delivery.

Governance and transparency

- 7** Appropriate governance arrangements are in place to support the scrutiny of decisions made by the council.
- 8** The council is open and transparent in the way it conducts its business and the public can attend meetings of the council and its standing committees.

Value for money

- 9** The council continues to demonstrate steady progress in a number of areas. It has improved its performance management arrangements through the development of outcome-based performance measures.
- 10** Milestones have been reached in addressing a number of longer-term recommendations made in our 2017/18 Best Value Assurance Report.

However, in a number of key areas, for example, homelessness, this has yet to result in the desired improvement in service attainment levels.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of Glasgow City Council (the council) and its group.

2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 13 March 2019 meeting of the Finance and Audit Scrutiny Committee. This report comprises the findings from:

- an audit of the annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2018/19 have been:

- an audit of the council and group 2018/19 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of the council's key financial systems
- follow-up work on our 2017/18 Best Value Assurance Report (BVAR)
- consideration of the four audit dimensions.

Added value through the audit

4. We add value to the council through the audit by:

- engaging at an early stage on equal pay matters, including arrangements for governance, financial management and reporting, and the proposed accounting treatment of funding options
- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements and financial position
- the arrangements for securing financial sustainability
- best value arrangements.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

11. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £633,650 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

Glasgow City Council's financial statements for 2018/19 give a true and fair view of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended, and were properly prepared.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

The council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit opinions on the annual accounts

16. The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the City Administration Committee (CAC) on 26 September 2019. We reported, within the independent auditor's report that the:

- financial statements give a true and fair view of the state of affairs of the council and its group and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

17. We are also required to report on a number of other matters by exception. We have nothing to report in respect of

- misstatements in information within the financial statements
- the adequacy of accounting records
- the information and explanations we received
- the achievement of prescribed financial objectives.

Submission of the council and its group annual accounts for audit

18. We received the unaudited annual accounts on 13 June 2019 in line with the agreed timetable set out in our 2018/19 Annual Audit Plan.

19. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

Whole of Government Accounts

20. We received the whole of government accounts consolidation pack from the council in sufficient time allow us to conclude our audit work in this area by the required deadline of 27 September 2019.

Risk of material misstatement

21. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

22. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan. Our plan also identified risks from our wider responsibility under the Code of Audit Practice relating to:

- financial sustainability
- accounting for council funding strategies
- delivery of digital and strategic objectives.

23. We have commented on these in [Part 3](#) of this report and updates are included in the action plan at [Appendix 2](#).

Materiality

24. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

25. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

26. On receipt of the unaudited annual accounts we reviewed our planning materiality calculations and concluded that they required to be updated to reflect the increased cost of services due to the transfer of Cordia and the provision of equal pay. The updated materiality levels are summarised in [Exhibit 2](#). The updated materiality for our audit of the financial statements had no impact on our planned audit approach.

Exhibit 2

Materiality values

Materiality level	Amount
Glasgow City Council Financial Statements	
Overall materiality	£33.750 million
Performance materiality	£16.875 million
Reporting threshold	£250 thousand
Group Financial Statements	
Overall materiality	£34.750 million
Performance materiality	£17.375 million
Reporting threshold	£250 thousand

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260

27. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

28. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 has](#) been included. The findings include our views about significant qualitative aspects of the council's accounting practices (e.g. accounting policies, accounting estimates / judgements, significant financial statements disclosures, impact of uncertainties etc).

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Equal Pay Provision</p> <p>The council has made a provision of £504.789 million in relation to the assessment of equal pay obligations. This includes £35.055 million provided for pay protection settlement costs in 2017/18.</p> <p>There is a risk of misstatement if the provision is not properly determined.</p>	<p>We assessed whether:</p> <ul style="list-style-type: none"> the amount is the council's best estimate of the expenditure required to settle the obligation at 31 March 2019 the estimates of outcome and financial effect are reasonable, have been determined by the judgement of the authority's management, taking account of the agreement reached with claimants' representatives, supplemented by experience of similar transactions and, where appropriate, reports from independent experts the estimate reflects additional evidence provided by any events after 31 March 2019. <p>We determined that the provision was a reasonable estimate based on the information available to the council, and reflects the post financial year end settlement experience.</p>
<p>2. Pension scheme valuation – amendments arising from legal judgements</p> <p>The council accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19) based on valuations of pension fund assets and liabilities by the actuary.</p> <p>At the end of June 2019, the UK government were refused the right to appeal an age discrimination legal ruling (commonly referred to as the McCloud Ruling) relating to the transitional arrangement within firefighters and judges pension schemes. This ruling will impact on other public sector pension schemes, including LGPS, which have seen similar changes in their pension schemes.</p> <p>Following the decision, the council requested a revised IAS19 report from the actuary in order to quantify the increase in estimated liabilities as a result of the ruling. This revised report estimated the actuarial present value of promised retirement benefits as £1.449 billion, an increase of £49 million.</p>	<p>The accounts have been adjusted to reflect the increased estimate of council liabilities based on the revised valuation at 31 March 2019. This has the impact of increasing the pension fund liability and decreasing unusable reserves on the balance sheet by £49 million. This also results in a £49 million increase in the pension cost charges within the Comprehensive Income and Expenditure Statement. As this adjustment is fully mitigated by a statutory adjustment, it has no impact on the reported general fund reserve balance.</p> <p>We reviewed the adjustments and were satisfied that the updated net pension liability reflected in the audited financial statements was properly stated.</p>

How we evaluate misstatements

29. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality.

30. The council advised us of two adjustments required to the unaudited financial statements relating to the non-domestic rates income account. Firstly, a Business Rates Incentivisation Scheme (BRIS) accrual of £1,513,758 had been omitted from the account, and secondly £15,105 of discretionary relief had been incorrectly classified within the account. The council corrected these errors in the non-

domestic rates income account which also resulted in a reduction of £1,528,863 in the deficit on the provision of services in the comprehensive income and expenditure statement (CIES). The net assets and general fund reserve on the balance sheet increased by the same amount.

31. The council also highlighted amendments were required to the group disclosure note on property, plant and equipment. This note sets out the detailed movements during the financial year that support the group asset net book value of £3,366.377 million at 31 March 2019. The opening values of both the gross assets and the accumulated depreciation and impairment in the disclosure note presented for audit were understated by £98.598 million. In addition, asset disposals during the financial year, and the associated reversal of depreciation, were understated by £2.195 million. The council reflected these amendments in the audited accounts and updated the closing balances disclosed in the note. As the net impact on the carrying value of assets at 31 March 2019 is nil, there was no change required to the group CIES or balance sheet arising from this amendment.

32. We identified two further errors in the council's unaudited financial statements, one of which the council has corrected and the other has not been corrected.

33. The error which has been corrected relates to disclosures within the cashflow statement where net cash flows arising from investing activities were overstated by £4.234 million and net cash flows arising from operating activities were understated by £4.234 million. There is no impact on the CIES or Balance Sheet.

34. The error which has not been corrected relates to an education asset mistakenly revalued from £845,000 to nil. Correcting this error would result in an £845,000 increase in the value of assets within the balance sheet, and a corresponding reduction in the deficit on provision of services within the CIES. As this amendment would be mitigated by an adjustment between the accounting and funding basis, it would have no impact on the reported general fund balance. Therefore, the council intends to address it during the preparation of the 2019/20 accounts.

Follow up of prior year recommendations

35. We have followed up the four actions raised in our 2017/18 annual audit report and assessed progress with implementation, these are reported in [Appendix 1](#). All four of these recommendations have been implemented.

Integration Joint Board

36. The council reflects its share of the financial transactions of Glasgow City Integration Joint Board (the IJB) within its group financial statements. Our work on group disclosures included testing the accuracy and reliability of the IJB figures used in the group consolidation process. We also considered whether the council's share of the IJB's financial transactions had been properly accounted for. This provided us with the required assurances on the accuracy and completeness of IJB figures included in the accounts. Further information regarding the performance of services transferred to the IJB is included in [Part 4](#) of this report.

Other findings

37. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Objections

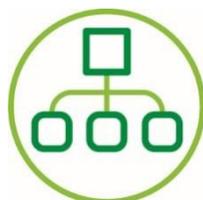
38. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations.

39. Three objections were received for the 2018/19 financial statements of Glasgow City Council, all relating to Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long-term loan where the interest rate is initially fixed, but the lender has the option to propose or impose, on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.

40. We determined that the points raised did not meet the criteria to be considered as an objection to the accounts and have therefore treated the matter as correspondence received. Our consideration of this correspondence and our findings are documented at paragraph [121](#).

Part 2

Financial management



Main judgements

The council continues to demonstrate a good track record of strong and effective financial management. The budget process remains focused on the council's priorities and the council consistently delivers services within agreed budgets.

Controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

Financial performance in 2018/19

41. In February 2018 the council approved its 2018/19 net service revenue budget of £1,372 million, which was aligned to the council's main priorities as set out in its Strategic Plan 2017-22. The budget included additional revenue investment of £20.6 million, along with an identified spending gap of £20.8 million.

42. As part of the budget process to address the revenue investment and spending gap, the council agreed a range of savings options totaling £29.2 million, a three percent increase to council tax rates to generate additional income of £6.3 million, and the application of £5.9 million pensions auto-enrolment funding.

43. During the year, a number of budget revisions were made to reflect changes in commitments and funding, resulting in a revised service revenue budget of £1,358 million for the year.

44. In recent years the council has had a strong track record in delivering services within budget. At 30 May 2019, the council was forecasting an underspend at year-end of £0.8 million against the revised budget. This was in line with the annual budget and expected expenditure (i.e. provisional outturn) submitted to the Scottish Government which projected a £0.5 million underspend.

45. While the council's spending has remained in line with its overall budget, there are variations in how different services have performed. The under and overspends are summarised in [Exhibit 4](#).

Exhibit 4

Summary of under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
Underspends		
Financial Services	£2.1	Lower level of commitment in respect of the Council Tax Reduction scheme and improved collection of housing benefit overpayments.
Overspends		
Neighbourhoods and Sustainability	£0.4	Lower commercial refuse and parking income offset by increased income in parks and open spaces due to events and underspends from vacancy management.
Education Services	£0.5	Employee costs and transport offset by savings in Additional Support for Learning external placements
Development and Regeneration Services	£0.4	Reflects overspends in the property and land services division due to overspends against repairs and utilities and within the building standards division due to additional costs incurred for emergency repairs on dangerous buildings. These overspends are partly offset by an underspend in relation to the Glasgow Guarantee scheme and increased income from planning fees and building warrants.

Source: Glasgow City Council 2018/19 Outturn Report

Reserves

46. One of the key measures of the financial health of a local authority is the level of reserves held. The council has increased its general reserves from £47.8 million in 2017/18 to £71.0 million in 2018/19. The general fund is the largest reserve and is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

47. The council reviews the level of its uncommitted reserves when setting the budget each year. The council's approved reserves strategy specifies that uncommitted reserves should be maintained at 2% of net budgeted expenditure over the medium term. The level of uncommitted general fund reserves as at 31 March 2019 was £25.0 million which is 1.6% of net budgeted expenditure.

48. [Exhibit 5](#) shows that the level of uncommitted general fund reserves has been below the council's stated target of 2% in four of the last six years. The council's financial forecast assumes an annual contribution of £1 million to unearmarked reserves from 2019/20 onwards, to help build it back up towards the target. The council's planned annual contribution to reserves demonstrates its commitment to taking a prudent and sustainable approach to managing its uncommitted reserves.

Exhibit 5

The council's general fund reserve, 2013/14 to 2018/19



Source: Glasgow City Council financial statements

Efficiency savings

49. With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments. There are two types of savings: recurring and non-recurring. Recurring savings are savings that, once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years. The reliance on non-recurring savings is unsustainable in the medium/long term.

50. The council had planned to secure recurring efficiency savings of £29.2 million in 2018/19. The council achieved actual savings of £20.9 million (72% of this total). Although the shortfall in savings was offset by underspends elsewhere in the budget, the failure to fully deliver planned efficiency savings puts additional pressure on future year budgets.



Recommendation 1

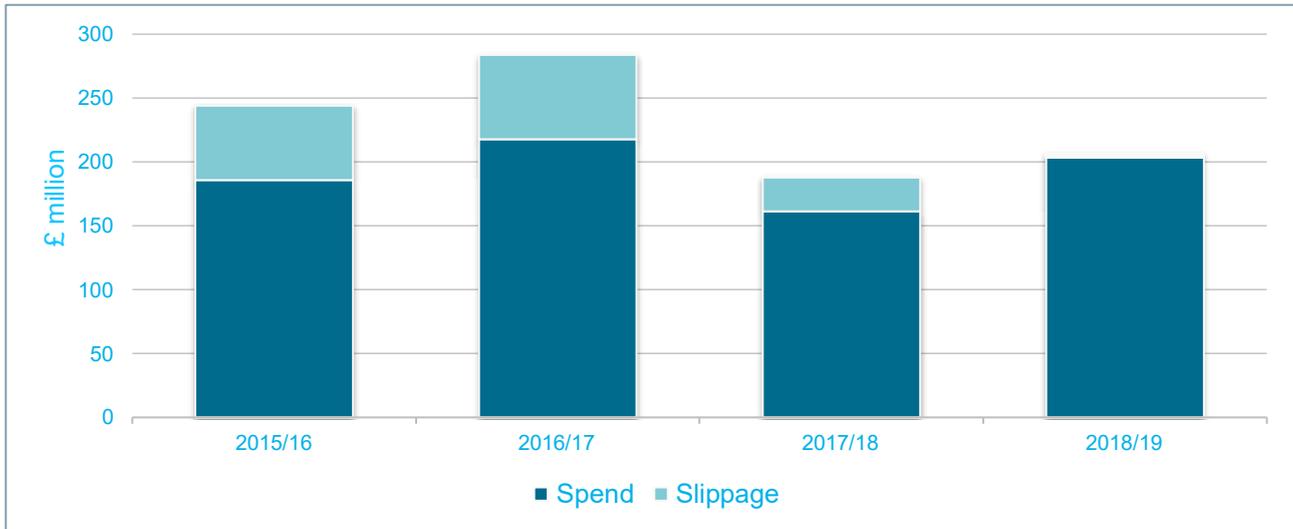
The council should ensure that future savings targets are underpinned by robust and risk-assessed action plans. These should be reviewed regularly to ensure remedial action is taken where necessary ([Appendix 1](#))

Investment programme 2018/19

51. Total investment programme expenditure in 2018/19 was £203.5 million which was in line with budget of £200.6 million. The council's record of capital spend in the last four years is outlined in [Exhibit 6](#). While slippage has occurred in recent years the council has managed the programme effectively and this year actual spend is in line with planned expenditure.

Exhibit 6

Capital slippage compared to planned expenditure



Source: Glasgow City Council financial statements

52. The council's 2018/19 Investment Programme expenditure was met through a combination of government grants and other receipts (£119.9 million), finance leasing (£0.8 million), revenue contributions (£1.2 million), and borrowing (£81.5 million).

Borrowing in 2018/19

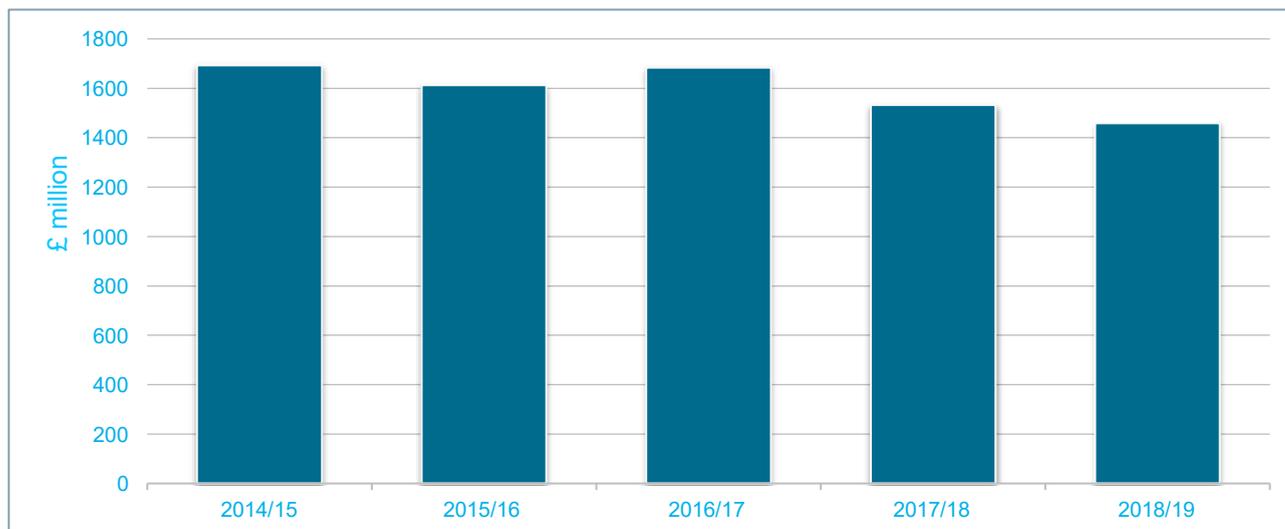
53. The council's level of indebtedness remains relatively constant in recent years. Outstanding debt as at 31 March 2019 was £1,458.7 million, a decrease of £73.8 million from the previous year.

54. Total external debt (which includes the council's long-term liabilities) is managed in line with the council's treasury management strategy. The council's policy is to borrow only for capital investment purposes and to meet short-term cash flow requirements. A total of £61.7 million of long-term loan repayments were made during 2018/19, with £100.0 million of new long-term loans taken out. [Exhibit 7](#) shows the council's debt levels since 2014/15. The council will continue to review the affordability of future borrowing.

55. Having reviewed the council's treasury management strategy and considered its approach to borrowing in light of guidance and good practice, we have concluded that the council continues to have a prudent approach to borrowing.

Exhibit 7

The council's debt levels since 2014/15



Source: Glasgow City Council financial statements

Budgetary process

56. The *Local Government in Scotland: Financial overview 2017/18* (November 2018) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on. The council's budget and financial plans are clearly aligned to the council priorities as set out in its Strategic Plan and this is consistent with good practice.

57. In May 2019 the council agreed to settle outstanding equal pay claims at a total cost of around £505 million and have developed a funding strategy which will spread the cost of settlement over a number of years. This cost has been built into the council's baseline budget from 2019/20 onwards. We consider the impact of this on the council's strategic objectives in [Part 3](#) of this report.

58. Financial forecasting remains an embedded part of the council's financial management arrangements. The council continues to develop the use of scenario planning in its strategic financial forecasts to help ensure it is adequately prepared for different levels of income and expenditure over the longer term.

59. Within the council the detailed scrutiny of financial performance is delegated to the Finance and Audit Scrutiny Committee which receives bi-monthly revenue reports, quarterly capital monitoring reports and an annual outturn report. From our review of these reports and attendance at committees we concluded that they provided a good overall picture of the budget position at service level. The reports forecast outturn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of the council's finances.

Systems of internal control

60. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

61. Our findings were included in our management letter that was presented to the Finance and Audit Scrutiny Committee on 8 May 2019. We concluded that the key controls were operating effectively. No significant internal control weaknesses were identified which could affect the council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

ICT controls

62. As part of our audit work in 2018/19, we have reviewed the ICT control environment within the council. This work included a review of access controls, SAP feeder system reconciliations and consideration of the business continuity and disaster recovery plans. We concluded that the council had adequate arrangements in place.

Internal audit

63. We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could make use of the work of internal audit. For our 2018/19 financial statements audit we have used the work of internal audit in relation to SAP feeder system reconciliations and grants. We also planned to use Internal Audit's work on system user access controls and controls over NDR changes. However their work focused on different controls therefore we undertook our own testing in this area.

64. In respect of our wider dimension audit responsibilities we considered the findings of the work of internal audit in the following areas:

- Data Matching
- Risk Management
- Capital Project Management
- Effectiveness of SIT Team
- Service Governance Reviews
- Information Security.

Standards of conduct for prevention and detection of fraud and error

65. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

66. We concluded that the council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

National Fraud Initiative

67. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

68. NFI activity is summarised in [Exhibit 8](#). The council has made a good start in reviewing the matches from the 2018/19 exercise with 3,403 matches having already been processed during the year. This number will continue to increase as the year progresses and the outcomes of investigations will be recorded within each match. The council remains pro-active in investigating matches and reporting the outcomes of NFI activity.

Exhibit 8 NFI activity



25,447

Matches



23,183

High Priority



3,403

Processed / In progress

Source: NFI secure website: www.nfi.gov.uk

69. Regular reports on NFI progress and outcomes are taken to the Finance and Audit Scrutiny Committee. This helps to ensure that members and senior managers are well informed on the progress and findings arising from the National Fraud Initiative. So far one fraud has been found, 110 errors identified and savings of £158,000 made from the 2018/19 exercise.

70. In addition to those matches identified in Exhibit 8, the council has also carried out checks of single person discount matches. This has resulted in the removal of 172 single person discounts and a £136,000 increase in council tax receipts for the council.

Dependency on key suppliers

71. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts, or disruption in the continued provision of vital services.

72. The council has identified a number of key suppliers, particularly around social care services and information technology. The risk of failure of these suppliers is identified in the council's corporate risk register as a high risk and reported regularly to members as part of the council's risk management arrangements.

73. The risk register itself highlights a number of arrangements to help mitigate the issue around key suppliers including:

- implementation of the council's procurement strategy
- oversight of contracts at strategic and operational level
- contract management and governance arrangements.

74. We concluded that the council has appropriate arrangements in place to manage the risk of a failure of a key supplier.

Part 3

Financial sustainability



Main judgements

The council has a forecast spending gap of £159 million over the next three years. Given the scale of savings in recent years, it will be increasingly difficult for the council to identify efficiencies in current service delivery arrangements. This will put a significant strain on the council's capacity to maintain current service delivery levels.

The council has implemented a funding strategy to address the cost of settling equal pay claims. This strategy spreads the cost of settlement over the long term, minimising the immediate budget pressures on service delivery.

Financial sustainability looks forward to the medium and long term to consider whether the Council has effective planning arrangements in place to support the delivery of its services and to consider the way in which they should be delivered.

Financial planning

75. The council's financial management arrangements remain strong. Last year we noted the recent improvements to these arrangements with the introduction of a five-year financial framework and more detailed three-year financial forecast. The council continues with development of scenario planning within these medium to longer-term financial plans.

76. It is important, however, that bodies have longer-term financial strategies (typically covering five to ten years) in place which link spending to the body's strategies, and which reflect the impact of future pressures on the organisation.

77. An example of where the council achieves this is through its ten-year property and land strategy which was approved in February 2019. This strategy aims to rationalise the council's current estate and deliver a more efficient, sustainable estate that supports the council's strategic objectives, whilst also delivering cost reductions and generating receipts.

78. In February 2019 the council's updated three-year financial forecast projected a total spending gap of £159 million for the period 2019/20 to 2021/22. This includes the financial impact of the equal pay settlement for 2019/20 and future years.

Funding position and savings plans

79. The council is facing several challenges in maintaining a sustainable financial position over the medium to long term. These include rising demands for services, increasing cost of services and reductions in local government funding. The funding of the equal pay settlement places additional financial pressure on the council's ability to deliver its strategic objectives.

80. As in prior years, the council plan to bridge the spending gap through a combination of efficiency savings, income generation, partnership working, use of reserves and management of the investment programme. The council has also

taken the opportunity to reprofile its internal loan fund repayment schedule from 2019/20 onwards. In the shorter term, this will result in the council being required to set aside a smaller amount of revenue than planned to repay its debt, leaving them funds to utilise elsewhere. However in the medium to longer term, the amount of set aside required will increase beyond that currently budgeted, putting increased pressure on future funding plans.

81. Over the last six years the council has successfully delivered total savings of over £250 million. Having delivered these savings it will be much more difficult for the council to make similar savings in the future while maintaining the same level of service provision. It is likely that alternative solutions will be required to address identified funding gaps, and this may include taking some difficult decisions around service provision.



Recommendation 2

The council should ensure that its longer-term financial strategy and plans support the development of future savings programmes ([Appendix 1](#))

Equal pay settlement

82. Following the decision by the City Administration Committee (CAC) in January 2018 to address equal pay claims through negotiations, the council established a number of equal pay workstreams, covering both the proposed settlement and a funding strategy to meet the obligations. The project has been overseen by an Equal Pay board, chaired by the Chief Executive and comprising key officers including the Director of Corporate Governance and Solicitor to the council, the Executive Director of Finance and the Head of Human Resources. Cross-party group meetings have also been held on a fortnightly basis to keep members updated with progress.

83. In early 2018, the council reached an agreement in principle for settling the pay protection element of equal pay claims, and a provision of £35 million was included in the 2017/18 financial statements towards the cost of settling this aspect. Following ongoing negotiation between officers and claimants' representatives, terms were agreed for settling the main element of the claim and approved by CAC in February 2019.

84. After sign-off on the proposal by CAC, officers applied the methodology to circa 15,500 claims. Each claim was assessed up to 31 March 2018 on the agreed methodology, including payments for injury to feelings and backdated interest. Any outstanding debts owed to the council by claimants, such as council tax arrears, were offset against the settlement sums. A central settlement was also negotiated with HMRC to determine the rates of tax and national insurance contributions to be deducted.

85. Individual offers were then issued to claimants in May 2019, and, following receipt of signed agreements from claimants, settlement payments commenced at the end of June 2019. By the end of August 2019, over 98% of claims had been settled and payment made. The council anticipates the small number of ongoing settlement claims will be resolved by October 2019.

86. The February 2019 report to committee estimated the total cost of settling the claims at £548 million, although it also noted this could change when the methodology was applied on a case by case basis. Following the individual claim calculations, the final settlement cost to the council has reduced to £505 million.

87. The settlement does not fully extinguish the council's equal pay liability. The council is currently working towards implementation of a new pay and grading system by April 2021, and a liability may remain until the new system is in place.

Equal pay funding strategy

88. In parallel to negotiations with claimants' representatives, the council developed a separate funding strategy to allow it to meet the obligations arising from settlement.

89. The funding strategy comprises two main elements to generate the revenue required to make settlement payments in 2019. Firstly, City Property, a council ALEO, is refinancing an existing loan with Barclays Bank that was taken out in 2010. The loan value has been increased and after settling the Barclays liability, the remaining balance has been remitted to the council, who is the sole shareholder, as a member contribution. The savings to City Property from refinancing the original loan will be offset by the costs of servicing this increased loan.

90. The second element of the funding strategy involves a sale and leaseback arrangement with City Property. The council is disposing of a number of existing assets to City Property to generate a capital receipt that can be applied to the equal pay settlement. The assets involved are predominantly culture and leisure properties that are currently leased to Glasgow Life for a nominal rent. None of the identified properties are common good or heritage assets. City Property will lease the purchased properties back to council, who will make annual rental payments on commercial terms to City Property over the length of the lease. This effectively spreads the costs of funding the settlement over a period of 30 years

91. City Property is securing the funding through three separate funding agreements. The largest of these, for £285 million, was agreed with Legal & General at the end of June 2019. A second deal with Canada Life for funding of £166 million was finalised in July 2019. The third deal has the most complex legal structure and the council has been working through due process with a view to finalisation in September 2019.

92. We assessed the council's overarching governance arrangements around the equal pay project, along with the controls in place around the calculation and payment of settlements and considered them to be appropriate.

93. We will further review the funding arrangements, including accounting requirements, as part of our 2019/20 audit.

Changing landscape for public financial management and medium to long term financial planning

94. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

95. Last year a new Scottish budget process was introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of this process, the Scottish Government publish a five-year Medium-Term Financial Strategy (MTFS), which is updated every year. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

96. The council uses the MTFS to help inform assumed changes to the future levels of Scottish Government funding settlement that are included in its financial plans.

EU Withdrawal

97. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have

implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

98. The council has set up a Brexit working group that reports every month to the corporate management team (CMT). A Brexit action plan and a corporate Brexit risk register have been established and updates are included in the reports to the CMT. The council has also set up a separate Brexit Preparation Forum, attended by the Leader and Depute Leader of the Council, the Lord Provost, and the leaders of other party groups as well as the Chief Executive and relevant officers with the aim of providing cross-party oversight and planning input.

99. The council has considered Brexit within its Strategic Plan, Treasury Management Strategy and its Corporate Procurement and Commercial Improvement Strategy. In compiling the council's financial forecasts the implications of Brexit were considered but due to uncertainty were not specifically incorporated. The medium to longer-term financial position of the council is difficult to predict given the uncertainty of the factors likely to have a financial impact on the council.

100. The council provides updates on the impact of Brexit to its employees through the staff intranet service. On its web pages the council provides information for the public that includes information for EU nationals that work, study and live in Glasgow, equality and human rights and wider issues such as the risks of Brexit to the local economy.

101. It is clear that the council recognises the risk that Brexit will have on its ability to deliver its strategic objectives and the impact this may have on EU citizens that live and work in Glasgow. The council has taken appropriate steps to ensure it is prepared for EU withdrawal.

Part 4

Governance and transparency



Main Judgements

Appropriate governance arrangements are in place to support the scrutiny of decisions made by the council.

The council is open and transparent in the way it conducts its business and the public can attend meetings of the council and its standing committees.

Governance and transparency are concerned with the effectiveness of the Council's scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Governance arrangements

102. In our August 2018 BVAR report we concluded that the council's new committee structure and scrutiny arrangements were effective.

103. In September 2018 the council considered an independent, external review of its governance, decision making and scrutiny arrangements. The review found that the council's new committee structure and remits are sensible but had been introduced quickly with little preparation time and support and an investment was required to make sure the new system works well.

104. The report made a number of improvement recommendations and the council agreed an action plan to deliver these. A short life working group has been established to oversee the implementation of the action plan.

105. During 2018/19 we reviewed the council's governance arrangements including committees, schemes of delegation, standing orders, statutory officer roles, financial scrutiny and internal audit. We found committee papers to be of a good standard and that members provide effective scrutiny and challenge.

106. Overall, we have found that the governance arrangements are appropriate and effective and support good governance and accountability.

Openness and transparency

107. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

108. A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

109. There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full council, city administration and scrutiny committees. Minutes of these committee meetings and supporting papers are readily available on the council's website.

110. The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. Since 2014 the council has webcast council meetings and since September 2018 all the main committee meetings have been made available to view online.

111. Overall, we conclude that the council has demonstrated a commitment to openness and transparency.

Transparent reporting of financial performance

112. The management commentary that accompanies the financial statements should explain the financial position of the council in simple terms and, provide clarity to readers in order to help them understand clearly how the council has performed against its budget and how this is reconciled to the financial statements.

113. The financial review within the 2018/19 management commentary clearly explains to readers how the council has performed against its revenue budget: showing the outturn against budget position for the year with the reason given for variances. In addition there is a reconciliation between the net expenditure and movement in the general fund balance.

Integration of health and social care

114. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

115. The Glasgow City Integration Joint Board (the IJB) is provided in partnership with NHS Greater Glasgow and Clyde and became fully operational on 1 April 2016. The IJB allocates the resources it receives from the health board and the council in line with its strategic plan. The IJB considered partner body financial allocations and budgets for 2019/20 in March 2019.

116. In September 2018, Glasgow City Council transferred services from Cordia LLP back into council services. The council funding offer of £433 million for 2019/20 did not include additional funding to address the cost pressures within homecare services associated with this transfer. However, in this funding offer, the council confirmed it would continue to engage with the IJB to identify a financially sustainable solution to address these cost pressures going forward.

117. Negotiations are still ongoing between the council and the IJB to ensure an appropriate resolution is identified to address the in-year pressures within homecare services during 2019/20, and to agree a longer-term solution that can be built into baseline budgets for 2020/21 onwards.

118. Since becoming operational, the IJB has made various developments to help move towards new models of care, including:

- agreement of transformational change programmes for Sexual Health services
- review of Learning Disability services to consider ways to improve joint working across health and social care learning disability teams and how to deliver services within an integrated model

- pilot of Glasgow Together Consortium which involves interacting with families when they are first referred to Social Work services to agree which services would be most appropriate to help them
- approval of a five-year Rapid Rehousing Transition Plan in response to the Scottish Government's Homelessness and Rough Sleeping Action Group's recommendations
- introduction of Glasgow Alcohol Court which aims to deliver sentences which are tailored to influence an individual's behaviour and hold them accountable, with progress being subsequently rigorously monitored.

119. In November 2018, Audit Scotland published a report [*Health and Social Care Integration - Update on Progress*](#). This report set out six areas it considers need to be addressed nationally to demonstrate integration is making a meaningful difference to the people of Scotland. The IJB has worked with its key partners to undertake a self-assessment against these areas and identify improvement actions.

120. Overall, we concluded that the council and its partners have realistic plans in place to make health and social care integration work effectively.

Correspondence referred to the auditor by Audit Scotland

121. During the year we received correspondence on the council's use of Lender Option Borrower Option (LOBO) loans, highlighting matters similar to those raised in correspondence in previous years.

122. A LOBO loan is typically a longer-term loan at an initial fixed rate of interest, but with an option for the lender to propose or impose a new fixed interest rate on pre-determined future dates. The borrower has the option to either pay the revised interest rate or to repay the loan.

123. The council has around £449 million of LOBO loans within its market debt portfolio. These LOBOs were taken out during 2004-2007 in line with the council's treasury management strategy to mitigate the council's exposure to potential rising interest rates.

124. In following up the LOBO correspondence we considered our work in previous years and discussed the matter with officers. We also considered our current year's audit work on the council's current treasury management arrangements including the updated treasury management strategy and our financial statements audit work on financial instruments.

125. Based on this work we concluded that:

- the use of LOBOs has been undertaken in line with the council's treasury management policy, which has been reviewed and approved annually by councillors
- the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time, and the council's interest costs to date on these loans have been less than the PWLB equivalent
- the option to propose or impose a new fixed interest rate has never been exercised by the lenders
- the potential for debt restructuring is kept under regular review by the council as part of its treasury management arrangements.

126. There are no further issues for us to raise in this report.

Part 5

Value for money



Main judgements

The council continues to demonstrate steady progress in a number of areas. It has improved its performance management arrangements through the development of outcome-based performance measures.

Milestones have been reached in addressing a number of longer-term recommendations made in our 2017/18 Best Value Assurance Report. However, in a number of key areas, for example, homelessness, this has yet to result in the desired improvement in service attainment levels.

Value for money focuses on how the council uses resources effectively and drives continuous service improvement.

Best value

127. Best value is assessed over the five-year audit appointment, as part of the annual audit work and in August 2018 we published our BVAR report on the council. Overall, we reported that, over a period of substantial change, the council had made steady progress since our previous best value report in 2009.

128. Our BVAR made seven recommendations across a range of areas including performance management, homelessness, equal pay and partnership working. This year our best value audit work was focused on following up the progress made by the council in response to our recommendations.

129. In September 2018 the council established an action plan to address our BVAR recommendations. It agreed that delivery of the actions would be progressed by lead officers and through the Extended Council Management Team, with progress reported to the Finance and Audit Scrutiny Committee (FASC).

130. Progress reports were submitted to FASC in March 2019 and September 2019. [Exhibit 9](#) summarises the latest position reported by the council.

Exhibit 9

Progress against BVAR Recommendations

Recommendation	Council update September 2019
<p>The council should continue to refine its corporate performance framework to help measure the long-term outcomes in its Strategic Plan.</p>	<p>Status: Complete</p> <p>A suite of outcome-based performance measures has been developed to monitor progress against the priority themes and commitments set out in Council Strategic Plan 2017 to 2022.</p>
<p>The council should agree its homelessness improvement plan with the Scottish Housing Regulator (SHR). It should also continue to work with partners to implement its homelessness strategy. This includes monitoring and reviewing the impact of its homelessness interventions on the homeless population.</p>	<p>Status: Work is progressing to deliver this recommendation</p> <p>The SHR Improvement Plan and the Rapid Re-Housing Transition Plan 2018/19 to 2023/24 are being implemented. A performance framework for the plans is being considered and will be based upon guidance from the SHR and the Scottish Government which is expected by the end of 2019.</p> <p>Performance of interventions are monitored through a number of multi-agency structures e.g. the Housing Access Board, the IJB, and the IJB Performance Scrutiny Committee. Updates will be reported to the Operational Performance and Delivery Scrutiny Committee (OPDSC) as part of the annual thematic reports on A Healthier City.</p>
<p>The council should consider the impact of resolving equal pay claims and include this within its financial plans. More widely, it should consider the potential impact on service delivery.</p>	<p>Status: Complete</p> <p>In February 2019 the City Administration Committee approved the Equal Pay settlement proposal and funding strategy.</p> <p>The financial implications were incorporated into the 2019/20 Budget approved by Council on 21 February 2019.</p>
<p>The council should review lessons learned from its 2016-2018 Transformation Programme and ensure that it has appropriate monitoring arrangements in place to measure the non-financial benefits and long-term outcomes for its transformation activity.</p>	<p>Status: Complete</p> <p>In October 2018, a report was presented to the Finance and Audit Scrutiny Committee setting out the outcomes of the Transformation Programme.</p> <p>The suite of outcome-based performance measures that monitor progress against strategic themes and commitments will also measure non-financial benefits and long-term outcomes.</p>
<p>Building on the success of its third-sector summit, the council should continue to work with third-sector partners to help strengthen relationships.</p>	<p>Status: Work is progressing to deliver this recommendation</p> <p>Third Sector Concordat: The final plan, and arrangements for implementation, were endorsed by the Wellbeing, Empowerment, Community and Citizen Engagement City Policy Committee (WECCE) on 30 May 2019</p> <p>New Grants Fund: Following three stakeholder engagements in early 2019 the council has developed proposals for the new fund and in August 2019 CAC approved of the aims of the fund together with a three-year budget.</p>

Recommendation**Council update September 2019**

The council and its partners should apply lessons learned from its Thriving Places initiative to help make locality planning a success more widely. This would include encouraging communities to be more involved and considering the longer-term funding of staff and initiatives to support community engagement.

Status: **Work is progressing to deliver this recommendation**

Thriving Places / Locality Planning: The results of the review of locality planning will be shared initially with the HSCP and the Locality Planning Steering Group before being reported to WECCE in September 2019 and the Community Planning Partnership Executive Group and Strategic Partnership in October and December 2019 respectively.

Participatory Budgeting (PB): A number of local PB events have taken place during 2019 and these will be evaluated with the aim of improving the process before expanding across other areas.

The council should closely monitor the financial and service implications of changes to its Council Family structure to ensure it delivers the anticipated benefits and to help it demonstrate best value.

Status: **Work is progressing to deliver this recommendation**

The operational performance of former ALEOs is now reported as part of the ongoing performance monitoring of merged Services.

New Annual Service Plan and Improvement Reports (ASPIRs) also cover the former ALEOs transferred to council services. OPDSC monitors operational performance and impact and relevant Policy Development Committees consider ASPIRs, including annual planning and operational priorities.

Source: Glasgow City Council

131. Our follow-up work on our 2017/18 BVAR included discussions with officers and review of supporting documentation. Overall, we have concluded that the council has made reasonable progress in addressing our BVAR recommendations. We note that work is ongoing around the implementation of the homelessness strategy, partnership working with the third sector and community engagement. In relation to homelessness, the Scottish Housing Regulator has previously noted concerns around the pace of improvement being delivered by the council.

132. We will continue to monitor the council's progress in these areas.



Recommendation 3

The council should continue to engage with the Scottish Housing Regulator and other stakeholders on the implementation of its homelessness strategy and plans ([Appendix 1](#))

Following the public pound

133. Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

134. The council uses Arm's Length External Organisations (ALEOs) to provide many of the council's services. It is therefore essential that the council operates effective governance and performance management arrangements over its ALEOs.

135. The council continuously reviews its service/ALEO model (Council Family) to ensure it remains fit for purpose and delivers Best Value and takes account of new

and emerging issues. As a result of this process Cordia services transferred to the council in September 2018 and Community Safety Glasgow services were transferred to the council in February 2019. Our testing of the financial statements did not identify any issues with the financial reporting aspects of these transfers.

136. The council closely monitors ALEO budgets and performance through its financial governance and performance management arrangements. Any risks around ALEOs' failure to deliver services or return planned surpluses are managed through the council's risk management arrangements and financial reporting frameworks.

137. The council's 2018/19 savings target of £29.2 million included a total ALEO savings target of £5.3 million. ALEOs achieved savings of £3.0 million during 2018/19, £2.3 million less than planned. The main reason for this was shortfalls in Glasgow Life, City Parking and Cordia.

138. The actual ALEO contribution for 2018/19 was £10.4 million. This is £3.6 million below budget. The shortfall was mainly due to homecare costs within Cordia.

139. We concluded that the council has appropriate arrangements for ensuring monitoring of the performance of its ALEOs and ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

Performance management

140. The council's performance management arrangements were considered in our BVAR issued in August 2018. We identified that the council has well-developed public performance reporting arrangements and continues to refine them, particularly around measuring progress against strategic objectives. In our follow-up of our BVAR recommendations we noted the council's progress in making improvements for measuring longer-term outcomes.

141. The Operational Delivery and Performance Scrutiny Committee (OPDSC) receives regular performance reports throughout the year. The annual performance report, that provided the basis for updating on progress against the council's Strategic Plan, has recently been replaced by the Council Strategic Plan Progress Report. This new report provides detailed performance against the 105 priorities under the council's seven strategic themes and the 233 commitments supporting these priorities. The first new report was submitted to committee on 21 August 2019 where members were asked to consider the adequacy and clarity of the new report.

142. In addition the council is developing a Public Performance report which will be a web publication in a graphic format providing a page per theme snapshot drawn from the Council Strategic Plan Progress Report.

143. The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

144. Overall, we considered the council's performance management arrangements to be adequate, including their approach to reviewing and refining these.

Overview of performance targets

145. The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service shows that the council compares favourably with other councils across a range of areas. However educational attainment is an area where council performance was below the Scottish average, although levels have been improving in recent years.

146. In August 2019 a report to the OPDSC showed that the council is on track to deliver its Strategic Plan 2017-22. Of the total of 233 commitments, 11 (5%) have been completed and 202 (87%) on target for completion.

147. Areas where progress has fallen short of planned outcomes include:

- Ongoing review of the City's Independent Living Strategy
- sustainable transport
- neighbourhood empowerment
- engaging with citizens on the City Charter
- rollout of superfast broadband
- delivery of a Glasgow Airport access link.

148. Overall, we have concluded that the council has made good progress with the delivery of its strategic priorities. As part of our BVAR follow-up work we will continue to monitor how the council measures its progress on strategic objectives.

Statutory performance indicators (SPIs)

149. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

150. For 2018/19 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the [*Local Government Benchmarking Framework*](#).

151. We reviewed the council's arrangements for collection, verification and reporting of the 2018/19 SPIs and concluded that these arrangements continue to be satisfactory.

National performance audit reports

152. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports which are of direct interest to the council. These are outlined in [Appendix 3](#).

153. The council has well established and effective arrangements in place to ensure that our national reports and their impact on the council are considered by members.

Appendix 1

Action plan 2018/19



No. Issue/risk



Recommendation



Agreed management action/timing

<p>1</p> <p>Efficiency savings</p> <p>The council achieved actual savings of £20.9 million in 2018/19, 72% of target.</p> <p>Risk - the failure to fully deliver planned efficiency savings puts additional pressure on future year budgets.</p>	<p>The council should ensure that future savings targets are underpinned by robust and risk-assessed action plans. These should be reviewed regularly to ensure remedial action is taken where necessary.</p> <p>Paragraph 50</p>	<p>The council's financial management and reporting arrangements already provide for detailed scrutiny of savings options, reporting of progress and identification of mitigating actions. This process will continue to be applied in future years.</p> <p>Responsible officer</p> <p>Executive Directors / ALEO Managing Directors</p> <p>Agreed date</p> <p>Ongoing</p>
<p>2</p> <p>Financial sustainability</p> <p>The council has implemented an equal pay funding strategy that spreads the cost of settlement into the future and helps to minimise the impact on service delivery. However the scale of required savings within the annual budget continues to grow, making it increasingly challenging to maintain current service delivery levels.</p> <p>Risk - The council's medium/longer-term financial planning may not support the management and delivery of its strategic objectives.</p>	<p>The council should ensure that its longer-term financial strategy and plans support the development of future savings programmes.</p> <p>Paragraph 81</p>	<p>As part of the council's financial planning spending gaps have been identified for the next three years. Work is currently ongoing to identify savings proposals to meet this challenge. Approved proposals will be incorporated within the council's annual budget process.</p> <p>Responsible officer</p> <p>Executive Directors / ALEO Managing Directors</p> <p>Agreed date</p> <p>March 2020</p>



No. Issue/risk

Recommendation

Agreed management action/timing

3 Homelessness

Although the service has made progress in developing and implementing its improvement plan and rapid re-housing transition plan, this has yet to translate into desired improvement in service attainment levels.

Risk - the pace of service improvement may be insufficient to meet the ongoing needs of service users.

The council should continue to engage with the Scottish Housing Regulator and other stakeholders on the implementation of its homelessness strategy and plans.

Paragraph [132](#)

The council will continue to engage with the Scottish Housing Regulator and other stakeholders on the implementation of its homelessness strategy and plans. Quarterly progress meetings are in place with the Scottish Housing Regulator as part of the implementation plan which is targeted to complete in March 2024. Monitoring and reporting framework arrangements have still to be finalised with the Scottish Government as part of the Rapid Rehousing Plans, but are expected to be the subject of at least annual updates.

Responsible officer

Chief Officer, Glasgow's Health and Social Care Partnership

Agreed date

31 March 2024

Follow up of prior year recommendations

4 Pension Scheme Valuation

The current timetable for producing IAS19 reports means the council's report does not reflect the most up to date estimate of Strathclyde Pension Fund's investment assets at the financial year end. Where there is volatility in the markets towards year end, this can lead to a material difference between values used to produce unaudited financial statements, and the most up to date estimates.

Risk - The pension fund assets and net liability disclosed in the financial statements are materially incorrect.

The council should review the current financial statements closure timetable, and engage with the actuary and external auditors, to agree an approach to producing IAS19 reports for future financial statements.

Complete: The council has engaged with the actuary and Audit Scotland and agreed an approach to producing IAS19 reports for future financial statements.


No. Issue/risk
Recommendation
Agreed management action/timing
5 Funding pressures

The council is facing unprecedented financial pressure. In addition to projected funding gaps over the next three years (2018/19 to 2020/21) of £129.1 million, the council is facing the potential financial challenge arising from its commitment to settle outstanding equal pay claims.

Risk - The financial challenges result in the council being unable to deliver its strategic objectives.

The council should consider the impact of resolving equal pay claims and include this within its financial plans. More widely, it should consider any potential impact on service delivery.

Complete: The council has made provision for its outstanding equal pay claims and has included the funding of this within its financial plans.

6 Financial Planning

The medium to longer-term financial position of the council is difficult to predict given the uncertainty of the factors likely to have a financial impact on the council (e.g. new financial powers, Brexit, ending of public sector pay cap).

Risk - The council's longer-term financial planning does not support the management and delivery of its strategic objectives.

The council should use a range of scenario planning and modelling when developing longer-term financial plans aligned to its strategic objectives

Complete: The council's Financial Forecast 2019-22 includes scenario planning.

7 Best Value Assurance Report

The BVAR includes a number of recommendations based on the findings set out in the report.

Risk - The council fails to meet the Accounts Commission's expectations in addressing the findings and recommendations in the BVAR.

The council should develop an action plan to address the recommendations set out in the BVAR.

Complete: The full council agreed an action plan on 13 September 2018.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Assessment of the estimation methodology applied by the council and the reasonableness of the estimates contained within the financial statements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested a sample of journal entries.</p> <p>We reviewed the estimation methodology and assessed the reasonableness of the estimates.</p> <p>We tested a sample of transactions taken from both pre and post year end to confirm expenditure and income had been accounted for in the correct financial year.</p> <p>We tested a sample of accruals and prepayments and evaluated significant transactions that were outside the normal course of business.</p> <p>Our testing did not identify any evidence of management manipulating accounting records or overriding controls.</p>
<p>2 Risk of fraud over income</p> <p>Glasgow City Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Particular areas of concern include council tax, non-domestic rates and income from sundry debtors.</p>	<p>Analytical procedures on income streams.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Consideration of the work of the council's Corporate Fraud Section.</p>	<p>We carried out an analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income.</p> <p>We substantively tested a sample of income transactions to confirm occurrence and accuracy of amounts in the financial statements.</p> <p>We evaluated the council's accounting policies for income and tested a sample of journal entries.</p> <p>We considered the work of the council's Corporate Fraud Section.</p> <p>The council has appropriate arrangements in place to minimise the risk of fraud over income.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over expenditure</p> <p>Most public sector bodies are net expenditure bodies. Therefore the risk of fraud is more likely to occur over expenditure, due to the variety and extent of expenditure in delivering services. Specific fraud risks relevant to public sector audit include welfare benefits, grants and other claims made by individuals and organisations.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Consideration of the work of the council's Corporate Fraud Section.</p>	<p>We carried out an analytical review of expenditure streams to confirm completeness and identify any unusual transactions or variations in expenditure.</p> <p>We substantively tested a sample of expenditure transactions to confirm occurrence and accuracy of amounts in the financial statements.</p> <p>We evaluated the council's accounting policies for expenditure.</p> <p>We tested a sample of journal entries.</p> <p>We considered the work of the council's Corporate Fraud Section.</p> <p>The council has appropriate arrangements in place to minimise the risk of fraud over expenditure.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Evaluate the competence, capabilities and objectivity of both the professional valuer and professional actuary.</p> <p>Obtain assurances on the pension fund control environment.</p> <p>Assess the reasonableness and appropriateness of actuarial assumptions.</p> <p>Focused substantive testing of key areas of non-current assets and of provisions, including provisions for equal pay claims.</p> <p>Review and assess the carrying value of assets identified for sale and leaseback, to ensure they have been properly valued.</p> <p>Sample check accruals and provisions in the 2018/19 annual accounts.</p>	<p>We completed a 'review of the work of an expert' for the professional valuer.</p> <p>We completed a 'review of the work of an expert' for the professional actuary, and reviewed the appropriateness of actuarial assumptions.</p> <p>We assessed the effectiveness of the pension fund control environment.</p> <p>We carried out focused substantive testing of key areas of non-current assets and of provisions, including provisions for equal pay claims.</p> <p>We reviewed and assessed the carrying value of assets identified for sale and leaseback.</p> <p>We tested a sample of accruals and provisions in the 2018/19 annual accounts.</p> <p>Estimates and judgements disclosed in the financial statements are reasonable and evidence based.</p>
<p>5 Provision for the cost of the equal pay settlement</p> <p>The council has reached an agreement in principle to settle historic equal pay claims and the total cost of settlement is likely to exceed £500m. Payments to</p>	<p>Assess the methodology used in determining cost of the equal pay settlement.</p> <p>Assess the reasonableness of any judgements or estimations made.</p>	<p>We assessed the methodology used in determining cost of the equal pay settlement.</p> <p>We assessed the reasonableness of judgements or estimations made in relation to equal pay disclosures.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>claimants are likely to be made in 2019/20.</p> <p>Provision for the settlement will be reflected in the 2018/19 financial statements.</p> <p>The complexities of historic pay claims and volume of claims presents a significant challenge in determining the likely overall cost, particularly as this will involve a level of estimation and judgement.</p> <p>This represents an increased risk of misstatement in the financial statements.</p>	<p>Evaluation of equal pay disclosures within the annual accounts.</p>	<p>We evaluated the equal pay disclosures within the annual accounts.</p> <p>The provision for equal pay has been properly measured and information on equal pay has been properly disclosed in the financial statements.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>6 Financial sustainability</p> <p>The council faces significant financial challenges, including:</p> <ul style="list-style-type: none"> • a £129m funding gap for the period 2018/19 to 2020/21 • meeting the cost of the equal pay settlement (likely to exceed £500m) • adoption of a new pay and grading system • rising demands for services • increasing cost of services • reductions in local government funding. <p>In addition, there are a number of uncertainties that are likely to have a financial impact on the council e.g. EU withdrawal, ending of public sector pay settlement, new financial powers for the Scottish Government.</p> <p>Robust longer-term financial plans will be required to address the financial challenges the council faces and support the delivery of its strategic objectives.</p>	<p>Assessment of the adequacy of the council's longer-term financial management arrangements.</p> <p>Ongoing review of the financial performance and budget reports to assist in our assessment of the council's financial position.</p> <p>Meetings with officers.</p> <p>Ongoing consideration of the council's savings programme, including the robustness of future savings plans and the adequacy of progress reports to committee.</p> <p>Review and assessment of provisions and contingent liability disclosures as part of our financial statements audit.</p>	<p>We assessed the council's longer-term financial management arrangements.</p> <p>We reviewed the council's financial performance and budget reports.</p> <p>Our meetings with officers included discussions around the council's financial plans.</p> <p>We considered the council's savings programme and the robustness of future savings plans. We also considered the adequacy of progress reports to committee.</p> <p>As part of our financial statements audit, we assessed the provisions and contingent liability disclosures.</p> <p>The Council has strong financial management arrangements.</p>
<p>7 Accounting for council funding strategies</p> <p>The council has developed a separate funding strategy to address the cost of equal pay settlement. This includes:</p> <ul style="list-style-type: none"> • generating capital receipts through the sale and lease back of a number of council 	<p>Assessment of the proposed arrangements against legislative and accounting requirements.</p>	<p>We assessed of the proposed arrangements against legislative and accounting requirements.</p> <p>The council has complied with legislative and accounting requirements when accounting for the funding strategy to address the cost of equal pay settlement.</p>

Length External Organisation (ALEO), City Property Glasgow Investments LLP

- the use of shareholder contribution from City Property Glasgow Investments LLP, following refinancing of existing ALEO debt.

The council also intends to reprofile its internal loans fund repayment schedule to help address the wider medium-term financial challenges of the council.

There is a risk that the council does not comply with relevant financial or statutory regulations and guidance when implementing its funding strategies.

8 Delivery of digital and strategic objectives

On 1 April 2018 the council entered into a seven-year contract with CGI for the provision of ICT services.

In November 2018 the council agreed its Digital Glasgow Strategy which is aligned with its Strategic Plan.

It is currently developing its Strategic Innovation and Technology (SIT) Strategy.

The alignment of the SIT Strategy with the Digital Glasgow Strategy and Strategic Plan is key to the delivery of the council's strategic objectives.

There is a risk that these objectives are not delivered.

Consider reports submitted to committee on the Digital Glasgow Strategy and SIT strategy.

Assess the alignment of the SIT strategy with the council's strategic objectives.

Consideration of Internal Audit's work on the effectiveness of the SIT team.

We considered reports submitted to committee on the Digital Glasgow Strategy and SIT strategy.

We assessed the alignment of the SIT strategies with the council's strategic objectives.

We considered internal audit's work on the effectiveness of the SIT team.

The council's has developed SIT strategies which are aligned with both the Digital Glasgow Strategy and the Strategic Plan.

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Glasgow City Council

2018/19 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk