442nd meeting of the Accounts Commission for Scotland

Thursday 11 January 2018, 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 13 to 16 in private.

4. **Minutes of meeting of Financial Audit and Assurance Committee of 30 November 2017.**

5. **Minutes of meeting of 8 December 2017.**

6. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission.

7. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit.

8. **Equalities Sub-Group update:** The Commission will consider a report by the Secretary to the Commission.

9. **Briefing: Scottish Budget:** The Commission will consider a draft report by the Director of Performance Audit and Best Value

10. **New financial powers update:** The Commission will consider a draft report by the Director of Performance Audit and Best Value.

11. **Audit of Best Value Follow Up Report: Falkirk Council:** The Commission will consider a report by the Controller of Audit.

12. **Best Value Assurance Report: Clackmannanshire Council:** The Commission will consider a report by the Controller of Audit.

The following items are proposed to be considered in private:

13. **Audit of Best Value Follow Up Report: Falkirk Council:** The Commission will consider the action that it wishes to take.

14. **Best Value Assurance Report: Clackmannanshire Council:** The Commission will consider the action that it wishes to take.

15. **Scottish Government Consultation – Empowering Schools: Commission Response:** The Commission will consider a report by the Secretary.

16. **Commission business matters**: The Commission will discuss matters of interest.

* It is proposed that items 13 to 16 be considered in private because:

- Items 13 and 14 require 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 council in question of its decision, which the Commission does before making the decision public.
- Item 15 is a draft response to a Scottish Government consultation on which the Commission may wish to discuss 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.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of Financial Audit & Assurance Committee of 30 November 2017	AC.2018.1.1
Agenda Item 5: Minutes of meeting of 8 December 2017	AC.2018.1.2
Agenda Item 6: Report by Secretary to the Commission	AC.2018.1.3
Agenda Item 8: Report by Secretary to the Commission	AC.2018.1.4
Agenda Item 9: Report by Director of Performance Audit and Best Value	AC.2018.1.5
Agenda Item 10: Report by Assistant Director, Audit Services and Performance Audit and Best Value	AC.2018.1.6
Agenda Item 11: Report by Controller of Audit	AC.2018.1.7
Agenda Item 12: Report by Controller of Audit	AC.2018.1.8
Agenda Item 15: Report by Secretary	AC.2018.1.9

ACCOUNTS COMMISSION

AGENDA ITEM 4
Paper: AC.2018.1.1

MEETING: 11 JANUARY 2017

MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 30 NOVEMBER 2017

Minutes of the FINANCIAL AUDIT AND ASSURANCE COMMITTEE of the ACCOUNTS COMMISSION held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday 30 NOVEMBER 2017

PRESENT:	Pauline Weetman (Chair) Sheila Gunn Tim McKay 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 7) Russell Frith, Assistant Auditor General (Item 6) John Gilchrist, Manager, Appointments & Assurance Team (Item 6) Morgan Kingston, Senior Auditor, ASG (Item 8) Anne MacDonald, Senior Audit Manager, ASG (Item 4) Keith Macpherson, Head - Government & Public Sector Audit, Scotland, EY (Item 5) Ronnie Nicol, Assistant Director, PABV (Item 7) Paul O'Brien, Senior Manager, Professional & Support Team (Item 9) Michael Oliphant, Senior Audit Manager, ASG (Item 8) Owen Smith, Senior Manager, Appointments & Assurance Team (Item 6) Stephen Reid, Partner, EY (Item 5)

Item No	Subject
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 28 September 2017
4.	Current issues from the local authority audits
5.	The auditor perspective: EY
6.	Audit quality: first report 2017/18
7.	Local government overview – emerging messages
8.	Briefing: Non Domestic Rate and Business Rates Incentive Scheme
9.	Accounting and auditing update
10.	Any other business

1. Apologies for absence

It was noted that apologies for absence were received from Graham Sharp.

2. Declarations of interest

The following declaration of interest was made:

- Geraldine Wooley, in item 8, as a member of Fife Valuation Appeal Committee.

3. Minutes of meeting of 28 September 2017

The minutes of the meeting of 28 September 2017 were approved as a correct record.

Arising therefrom, the Committee:

- In relation to item 3, first bullet point, in response to a query from Tim McKay, noted advice from the Controller of Audit that he was yet to report to the Committee on how 'affordability' featured in the Aberdeen City Council's consideration of its capital bond.

- In relation to item 4, fourth bullet point, in response to a query from Pauline Weetman, noted advice from the Controller of Audit that he would report further on Aberdeen City Council's assessment of risk in relation to its joint venture with Hunchbuzz Limited.

Action: Controller of Audit

4. Current issues from the local authority audits

The Committee considered a paper by the Controller of Audit advising of emerging issues and recurring themes, as well as individual issues of interest, in Scottish councils.

During discussion, the Committee agreed:

- To recommend to the Commission that it advise council chief executives to stress to them the importance of councils ensuring the highest quality final accounts process, and that this be done following consideration by the Commission in February of the Controller of Audit's Annual Assurance and Risk Report.

- To continue its interest and receive information appropriately on the progress of councils' contracts with CGI for information technology services.

- That further information be provided on the arrangements in place around the masterplan for physical developments around Winchburgh, West Lothian.

- That further information be provided on Scottish Borders Council's review and 'lessons learned' activities around its cancelled waste management facility, including relating to the scoping of the contract.

Actions: Controller of Audit

Thereafter, the Committee noted the report.

5 <u>The auditor perspective: EY</u>

The Committee considered a paper by the Secretary on the latest in a series of presentations from auditors on the auditor perspective of audit work in the context of the first year's implementation of the new Code of Audit Practice and audit planning guidance.

The Chair welcomed Stephen Reid, Partner, and Keith Macpherson, Head - Government & Public Sector Audit, Scotland, EY, who undertook a presentation in this regard.

During discussion, the Committee agreed to recommend to the Commission that the strengths, challenges and risks set out by Stephen Reid and Keith Macpherson be considered in the development of the approach to audit, `including in relation to:

- Criticality of good auditor/client relationships
- Importance of the shared risk assessment process
- Alignment of strategic audit priorities, audit dimensions and Best Value requirements.

Action: Secretary

Thereafter, the Chair thanked Stephen Reid and Keith Macpherson for their presentation.

6. <u>Audit quality: first report 2017/18</u>

The Committee considered a report by the Assistant Director, Appointments and Assurance presenting the first Audit Quality report as part of the new Audit Quality Framework.

During discussion, the Committee agreed:

- That future versions of the report include:
  - Greater depth and coverage of reporting of quality issues beyond compliance matters.
  - More detail on the outcome of Financial Reporting Council audit quality inspection of audit service providers.
  - Clearer explanation in the introduction of responsibilities and lines of reporting of the report, including the role of the Appointments and Assurance Team.
  - More detail around modified opinions on accounts
  - More explanation around reporting of International Standard on Quality Control 1
  - More detail around material prior period errors.
- To note advice from the Assistant Director that further discussions with the Commission have to take place with regard to key performance indicators, with a view to reporting in this regard in the second audit quality report in Spring 2018.
- To note advice from the Assistant Director that further discussion will take place with the Commission in relation to ongoing development of:
  - Quality assurance in relation to performance audits and auditing Best Value

- Approaches to gauging stakeholder feedback.

Following discussion, the Committee agreed to endorse the Audit Quality First Report 2017/18.

7. Local government overview – emerging messages

The Committee considered a report by the Director of PABV proposing the emerging messages for the 2017/18 local government overview report.

During discussion, the Committee agreed:

- To endorse the emerging messages, subject to a small number of revisions and other points to be addressed by the report team in conjunction with the report sponsors, Ronnie Hinds and Christine May.

- That a draft report be taken to the Commission meeting in March, prior to publication in April.

- To endorse proposals for promoting the publication of the report, including:

    - The report be used as the basis for a round of engagement events with council leaders and chief executives in spring 2018, as previously agreed by the Commission

    - Reflecting the view of the Equalities Sub-Group, articulated by Christine May, that the messages of the report be targeted at individual groups.

    - Targeting the report's messages to newly elected members.

    - Considering any links between the report and the CIPFA/Institute for Government Performance Tracker publications.

    - Targeting professional conferences.

Actions: Director of PABV & Secretary

8. Briefing: Non Domestic Rate and Business Rates Incentive Scheme

The Committee considered a report by the Director of PABV providing the updated position in relation to Non-Domestic Rates (NDR) in Scotland.

During discussion, the Committee agreed:

- To note that on 29 November, the Scottish Government had announced that leisure and cultural venues currently run by council arm's-length bodies will continue to benefit from charity relief from non-domestic rates, and thus not accepting the recommendation of the Barclay Review to end this benefit.

- To continue to review audit implications in this policy area, including any matters arising from the Scottish Budget 2018/19.

Following discussion, the Commission noted the update.

9. Accounting and auditing update

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

During discussion, the Committee agreed to note advice from the Director of Audit Services that further information on proposed training and development around professional scepticism would be reported to the Commission.

Following discussion, the Commission noted the update.

10. Any other business

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

ACCOUNTS COMMISSION

AGENDA ITEM 5
Paper: AC.2018.1.2

MEETING: 11 JANUARY 2018

MINUTES OF PREVIOUS MEETING

Minutes of the 441st meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday 7 December 2017, at 10.15am

PRESENT:	Graham Sharp (Chair) Alan Campbell Sophie Flemig Sheila Gunn Ronnie Hinds Tim McKay Christine May 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 9] Neil Cartlidge, Audit Manager, PABV [Item 15] Antony Clark, Assistant Director, PABV [Item 9 and16] Patricia Fraser, Audit Manager, Audit Services Group (ASG) [Items 12 and 13] Russell Frith, Assistant Auditor General [Items 10 and 14] Anne MacDonald, Senior Audit Manager, PABV [Item 15] Tricia Meldrum, Senior Manager, PABV [Items 9 and 16] Katherine Sibbald, Audit Manager, PABV [Items 12 and 13] Rebecca Smallwood, Senior Auditor, PABV [Item 16] Owen Smith, Senior Audit Manager, Appointments & Assurance [Item 14] Claire Sweeney, Associate Director, PABV [Item 15] Gillian Woolman, Assistant Director, ASG [Items 12 and 13] Rikki Young, Business Manager, PABV [Item 9]

Item No	Subject
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 9 November 2017
5.	Minutes of meeting of PA Committee of 23 November 2017
6.	Audit Scotland Board Update
7.	Update report by the Secretary to the Accounts Commission
8.	Update report by the Controller of Audit
9.	Work programme refresh
10.	Audit Quality Framework
11.	Ethical Advice to the Commission
12.	Best Value Assurance Report: Orkney Islands Council
13.	Best Value Assurance Report: Orkney Islands Council
14.	2017/18 Audits – Local Government Fees
15.	Health & Social Care Integration: Briefing
16.	Performance Audit: Early Learning and Childcare – Draft report
17.	Commission business matters

1. Apologies for absence

It was noted that apologies for absence had been received from Sandy Cumming.

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in item 7, as Vice-Chair of the Wheatley Group, in relation to references to housing matters.
- Christine May, in item 12, as former Chair of Fife Cultural Trust, in relation to references to arm's-length external organisations.

3. Decisions on taking business in private

It was agreed that the following items be taken in private:

- Item 13 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 council in question of its decision, which the Commission does before making the decision public.
- Item 14 proposes a report from the Assistant Auditor General on the local government fees, in relation to which the Commission may wish to discuss confidential audit matters with the author.
- Item 15 is a briefing paper on which the Commission may wish to discuss confidential audit matters with the author.
- Item 16 proposes a draft audit report which the Commission is to consider in private before publishing.

No business was notified by members for item 17 and thus the Chair advised that the item would not require discussion.

4. Minutes of meeting of 9 November 2017

The Commission approved as a correct record the minutes of the meeting of 9 November.

Arising therefrom, in relation to item 6, second bullet point, the Commission noted advice from Sophie Flemig that her suggestion for the committee day speakers' programme related specifically to engagement with the third sector, both related to older people's care but also in a wider sense.

5. Minutes of meeting of Performance Audit Committee of 23 November 2017

The Commission approved as a correct record the minutes of the meeting of the Performance Audit Committee of 23 November, subject to noting that Geraldine Wooley was not in attendance at the meeting.

6. Audit Scotland Board Update

The Commission considered a report by the Secretary providing an update on the business of the Audit Scotland Board, including the minute of the meeting of the Board of 25 October 2017.

In relation to paragraphs 12 and 13 of the minute and in response to a query from Sophie Flemig, the Commission agreed that updates on the Audit Scotland Digital Audit Strategy and Audit Scotland Digital Services be made to the Commission at the appropriate opportunity.

Action: Secretary

Thereafter, the Commission noted the report.

7. Update report by the Secretary to the Accounts Commission

The Commission considered a report by the Secretary to the Commission 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 11, agreed that papers on the Audit Scotland staff conference be made available on the members' extranet.

Action: Secretary

- Noted advice from the Secretary that in paragraph 15 there should be inserted, after "consultation on the", "Practical Fire Safety Guidance for Existing Premises with Sleeping Accommodation".
- In relation to paragraphs 20 and 53, in response to a point made by Pauline Weetman, agreed to retain an interest in relation to equalities and diversity implications of the participatory budgeting initiative being taken forward by the Scottish Government.

Action: Director of PABV and Secretary

- In relation to paragraph 22, in response to a query from Stephen Moore, noted advice from the Director of PABV that he would be keeping a watching brief on the progress of the new General Practitioners' contract, and would report to the Commission as appropriate.

Action: Director of PABV

- In relation to paragraph 39, in response to a point made by Pauline Weetman, agreed to retain its interest in encouraging a more effective approach to local government financial returns to the Scottish Government.

Actions: Director of PABV and Secretary

Following discussion, the Commission agreed to note the report.

8. Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders.

During discussion, the Commission noted advice from the Controller of Audit that an error had regrettably been identified in the Local Government Financial Overview following its publication and in the evidence presented by him to the Local Government and Communities Committee on 29 November. He advised that the error had been rectified on the Commission website and appropriate stakeholders notified, including COSLA and the Scottish Government, and a letter to the Convener of the Local Government and Communities Committee.

The Commission noted that the Controller of Audit would be reviewing the matter further and would report back to the Commission accordingly.

Following discussion, the Commission noted the update.

9. Work programme refresh

The Commission considered a report by the Secretary introducing Audit Scotland's proposals for the annual refresh of the Commission's rolling work programme.

During discussion, the Commission:

- Approved a proposed draft work programme incorporating detailed proposals for 2018/19 and 2019/20, subject to the following being considered by the Chair in consultation with the Auditor General for Scotland, as a basis for consultation with stakeholders:

    - Reversing the phasing of the proposed performance audits on Innovative Financing (City Deals) (2018/19) and Value for money of NPD projects (2019/20).

    - In noting that the proposed draft work programme contain a commitment to a *How councils work* report in 2018/19, that further consideration be given to this matter following consideration of the first six Best Value Assurance Reports and the Controller of Audit's Annual Assurance and Risks Report.

    - In relation to community justice, and with reference to paragraph 7 of the minutes of the Performance Audit Committee of 23 November, that one performance audit be programmed in 2021/22, with a briefing paper in this regard to be considered by the Commission and Auditor General on progress as appropriate.

    - Consequently, that a proposed performance audit on the role of local authorities in economic development be phased earlier.

- To note advice from the Director that he would report as part of the review of auditing Best Value the resource allocation of Best Value Assurance Reports versus "other local government Best Value audit and intelligence activity" as referred to in the work programme proposals paper.

- Further in this regard, that more explanation of resource allocation be provided in future such reports.

- Noted advice from the Director that he was in discussion with the Secretary around further refining reporting of the progress of work programme to the Commission.

- Agreed that a degree of flexibility and responsiveness in the work programme is essential.

- Noted that the work programme proposals as presented incorporate post-publication promotion activity for all performance audits, to be considered by the Commission as appropriate.

- Agreed as part of the work programme a series of outputs beyond audit work, arising from programme development work, to be reported to the Commission.

- Noted the planned activities around the diversity and equality implications of the work programme.

- Approved the proposed consultation arrangements with stakeholders.

- Noted that the Secretary would report back on the outcome of the consultation.

Actions: Director of PABV and Secretary

10. Audit quality framework

The Commission considered a report by the Secretary to the Commission presenting the agreed Audit Quality Framework.

Following discussion, the Commission agreed to note the framework, subject to noting that it would include a reference to the role of Audit Scotland's ethics partner.

11. Ethical advice to the Commission

The Commission noted advice from the Chair that, following discussion with the Secretary, he had agreed to defer consideration of a report by the Secretary proposing how the Commission sources ethical advice, both in relation to the Financial Reporting Council Ethical Standard and the Ethical Standards in Public Life in Scotland.

12. Best Value Assurance Report: Orkney Islands Council

The Commission considered a report by the Secretary to the Commission presenting the Controller of Audit's Best Value Assurance Report on Orkney Islands Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

13. Best Value Assurance Report: Orkney Islands Council [*in private*]

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the Best Value Assurance Report on Orkney Islands Council.

Following discussion, the Commission agreed to make findings, to be published on 14 December 2017.

Actions: Secretary and Controller of Audit

14. 2017/18 audits - local government fees [in private]

The Commission considered a report by the Assistant Auditor General with details of audit fees for the local government sector for 2017/18 audit year.

During discussion, the Commission agreed:

- That the Financial Audit and Assurance Committee be kept apprised of the issues arising from the audit of integration joint boards

- To note advice from the Controller of Audit that he would include in the review of auditing Best Value consideration of Best Value in integration joint boards.

Actions: Controller of Audit

Thereafter, the Commission noted the report.

15. Briefing: Health and social care integration [in private]

The Commission considered a report by the Director of PABV providing an update on current issues in relation to health and social care integration, based on current intelligence.

During discussion, the Commission agreed:

- That the information in the briefing be shared by the Director with appropriate stakeholders as part of ongoing performance audit and programme development work

- That further briefings to the Commission be provided as appropriate.

Actions: Director of PABV

Thereafter, the Commission noted the report.

16. Performance Audit: Early learning and childcare – draft report [in private]

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

Following discussion, the Commission agreed:

- Note its continuing interest in encouraging a more effective approach to local government financial returns to the Scottish Government.

- Further in this regard, that the Secretary and Director consider how to articulate this interest to stakeholders.

- To approve the draft report, subject to the audit team considering points raised in discussion in conjunction with the sponsors of the report, Alan Campbell and Geraldine Wooley.
- To approve the publication and promotion arrangements for the report.

Actions: Director of PABV

17. Commission business matters and closing remarks

The Chair advised that this was Russell Frith's last meeting with the Commission before his retirement. The Chair thanked Russell for his support of the Commission during his career, and wished him well in his retirement.

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

ACCOUNTS COMMISSION

AGENDA ITEM 6
Paper: AC.2018.1.3

MEETING: 11 JANUARY 2018

REPORT BY: SECRETARY TO THE COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Accounts 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 Accounts Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee (FAAC) 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 Commission members' extranet portal, which provides more detailed news coverage of a range of local government related issues.

3. The information featured is also available on the Accounts Commission members' portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business

Publications

4. On 14 December, the Accounts Commission published Best Value Assurance Report: Orkney Islands Council. In its findings, the Commission stated that the council has a good understanding of the long-term challenges which are particular to the local area. It also said that the council needs to ensure robust, longer term financial planning, focusing on delivering the services needed for its changing population. The report attracted fair coverage in local radio and the Orcadian.

5. The download statistics (with the increase from last month) for the reports published by the Commission over the last 12 months (as at 15 December) are shown below:

Report	Date	Report downloads	Report podcasts
Orkney Islands Council Best Value Assurance Report	14 Dec 2017	58 (+58)	0
Local government in Scotland: Financial overview 2017	28 Nov 2017	990 (+342)	20 (+20)
West Lothian Best Value Assurance Report	23 Nov 2017	455 (+151)	81 (+33)
East Dunbartonshire Council Best Value follow-up audit 2017	16 Nov 2017	235 (+50)	51
East Renfrewshire Council Best Value Assurance Report	07 Nov 2017	688 (+82)	128
Equal pay in Scottish councils	7 Sep 2017	928 (+63)	197

Report	Date	Report downloads	Report podcasts
Best Value Assurance Report: Renfrewshire Council	31 Aug 2017	903 (+133)	0
Self-directed support: 2017 progress report	24 Aug 2017	2849 (+214)	78
Best Value Assurance Report: Inverclyde Council	1 Jun 2017	1244 (+42)	307
Accounts Commission annual report 2016/17	25 May 2017	937 (+21)	
Accounts Commission strategy and annual action plan 2017-22	25 May 2017	701 (+20)	
Accounts Commission engagement strategy and engagement plan 2017/18	25 May 2017	352 (+18)	
Accounts Commission engagement plan 2016/17	25 May 2017	149 (+0)	
Accounts Commission action plan 2016/17	25 May 2017	151 (+0)	
Local government in Scotland: Performance and challenges 2017	7 Mar 2017	5088 (+52)	45

Appointments

6. The Commission Chair has agreed with the Scottish Government the next round of appointments to the Commission. It is proposed to seek the appointment of four vacancies in the period to the end of 2018. Applications to this end from prospective candidates will be sought in the period 26 January to 23 February.

Auditor General for Scotland

7. On 7 December, the Auditor General for Scotland (AGS) published The 2016/17 audit of the Scottish Government's Non-Domestic Rating Account. It highlights that the balance on the account was £297 million in deficit at the end of 2016/17 and states that the Scottish Government needs to increase the transparency of its financial reporting on non-domestic rates.

8. On 8 December, the AGS published The 2016/17 audit of the Scottish Police Authority. It underlines that a series of governance failings and the poor use of public money at the Scottish Police Authority are unacceptable. It states that detailed strategies are needed to ensure the two organisations are able to achieve long-term financial sustainability and realise the vision outlined in Policing 2026 which set out their shared vision for the future of policing in Scotland.

Audit Scotland

9. On 20 December, Caroline Gardner, AGS, Ian Leitch, Chair of Audit Scotland Board, Russell Frith, Assistant Auditor General and Diane McGiffen, Chief Operating Officer, Audit Scotland, presented Audit Scotland's budget proposals for 2018/19 to the Scottish Commission for Public Audit. The official report of the meeting was not available at the time of drafting this report.

Issues affecting local government

Scottish Government

10. On 29 November, the National Council of Rural Advisers published its interim report

on the potential implications for rural Scotland of the UK leaving the EU. The key themes include labour and skills, trade and funding. The report identifies the key areas for consideration in advance of Brexit. A more detailed set of recommendations to Ministers will be due in spring next year.

11. On 1 December, the Scottish Government announced its intention to increase the number of General Practitioners in Scotland by at least 800 over the next decade and £7.5 million will be provided in 2018/19 to recruit and retain GPs, particularly in rural areas. Further details on how the GPs will be recruited will be in the Scottish Government's forthcoming Primary Care workforce plan which will be published in early 2018.

12. On 5 December, the Scottish Government published Council Tax Reduction in Scotland, July to September 2017. The statistics show that, in September 2017, there were 489,560 Council Tax Reduction scheme recipients in Scotland - 11.4 per cent (62,820 recipients) lower in June 2017 than it was at the beginning of the scheme in April 2013.

13. On 5 December, the Scottish Government published the Scottish House Condition Survey 2016. It shows that, in 2016, fuel poverty declined for the second consecutive year with around 99,000 fewer households living in fuel poverty compared to 2015. This was mainly as a result of the drop in the price of domestic fuels over this period.

14. On 6 December, the Scottish Government launched a consultation on a draft order extending coverage of the Freedom of Information (Scotland) Act 2002 to Registered Social Landlords (RSLs). Following consultation in 2016, the Scottish Government has a view that RSLs should be brought within the scope of Scotland's Freedom of Information legislation. It is proposed that a commencement date is 1 April 2019. It is proposed that the Commission does not respond to this consultation.

15. On 7 December, the Scottish Government and COSLA have jointly launched a Local Governance Review on service delivery. The Review is one of the actions in the Scottish Government's Open Government action plan and will involve local communities and business as well as councils and community planning partnerships. The engagement process will run throughout 2018 with people's views being used to inform new legislation that will be introduced within the lifetime of this parliament.

16. On 12 December, the Scottish Government published The 2018 National Improvement Framework and Improvement Plan. The annual report reviews the Scottish education system and sets out the improvement activity the Scottish Government and partners will be taking forward in the year ahead. Four priorities will remain for 2018, including improvement in attainment, particularly in literacy and numeracy. It recognises that the establishment of the new regional improvement collaboratives forms a key element of Ministers' education reform agenda and plans to deliver improvement.

17. On 12 December, the Scottish Government published two sets of statistics on education. Summary Statistics for Schools in Scotland (National Statistics) found that, in 2017, teacher numbers have increased by 543, which resulted in the decrease in the pupil teacher ratio in all publicly funded schools to 13.6 from 13.7 in 2016. Achievement of Curriculum for Excellence (CfE) Levels 2016/17 (Experimental Statistics) reported that, based on teacher professional judgements, the percentage of pupils achieving the expected CfE level for their stage in each of the four organisers (reading, writing, listening and talking and numeracy) falls throughout the primary stages and that, for each organiser, a higher proportion of pupils living in the least deprived areas achieve the expected CfE level compared to pupils from the most deprived areas.

18. On 13 December, the Scottish Government published an updated assessment of the potential impact of raising additional income tax rates from 45 pence to 50 pence in Scotland. It looks at a revenue and policy risk associated with increases to the additional rates of income tax that result in a substantial divergence with the equivalent rate in the rest of the UK.

19. On 13 December, the Scottish Government published public sector employment statistics. There were 559,600 people employed in the Scottish public sector in the third quarter 2017, accounting for 21 per cent of total employment. Overall, the public sector saw a net increase of 2,140 (0.4 per cent) over the year. There were increases in headcount in Local Government by 1,520 (0.6 per cent) over the same period.

20. On 14 December, the Finance Secretary Derek Mackay announced the 2018/19 Draft Budget. He stated that just over £10.5 billion will be allocated to local government (the breakdown of funding settlement by council is available here). He also stated that councils have the option to increase the council tax by up to three per cent, funding for the city deals will be doubled to just over £122 million and charity relief of business rates will be kept for council arm's-length external organisations. A briefing on the 2018/19 budget is elsewhere on the agenda of today's meeting.

21. On 15 December, the Scottish Government published National Health and Social Care Workforce Plan Part 2 – a framework for improving workforce planning for social care in Scotland. The report is the second of the three (Part 1 was published in June 2017; Part 3 will be published in early 2018) and a joint publication with COSLA. It identifies seven workstreams, including workforce data integration, national and local labour market and workforce analysis and workforce planning guidance for partnership working. The Scottish Government and stakeholders will consider the details of how to take these workstreams forward over the first half of 2018.

22. On 18 December, Highlands and Islands Enterprise announced that a new £16 million initiative focusing on innovation, the Northern Innovation Hub, will be launched as part of the Inverness and Highland City Region Deal. It will focus on life sciences, tourism, food and drink and creative industries, as well as delivering a technology and young people strand.

23. On 18 December, the Scottish Government welcomed the publication of an interim report into UK building regulations and fire safety (see paragraph 62). It states that, in Scotland, the Ministerial Working Group has commissioned two building standard reviews into fire regulations and compliance and will now look in detail at the recommendations within the interim report to ensure the scope of the Group's reviews are consistent with the report.

24. On 19 December, the Scottish Government launched a consultation on Scottish electoral reform (to be closed on 18 March). The Scotland Act 2016 gave the Scottish Parliament and Government new powers and responsibilities relating to elections to the Scottish Parliament. The consultation seeks views on the term lengths for the parliament and councils, who is in charge of the voting process, who can register and vote and opinions on electronic voting. The results will be used to develop policy proposals that may be taken forward in future legislation. It is proposed that the Commission retain a watching brief on this matter, but not respond to this specific consultation.

25. On 19 December, the Scottish Government announced that it reached a joint delivery agreement with COSLA to provide a framework for when the new social security agency is located in council buildings. It aims to ensure consistently high-

quality services across Scotland and build on links between support services when people are accessing social security and local council services.

26. On 20 December, the Scottish Government published its Reaching 100% programme to roll-out superfast broadband (speeds greater than 30 Mbps) and stated that the procurement process for the programme has been launched. The draft budget 2018/19 includes investment of £600 million for the initial phase of the programme, focusing on reaching rural and island communities. The Scottish Government has committed to provide every home and business in Scotland with access to superfast broadband by 2021.

Scottish Parliament

General:

27. On 4 December, the Scottish Parliament Information Centre (SPICe) published the social impact of the 2017-18 local government budget. The analysis is based on a "social impact tool", developed by the Joseph Rowntree Foundation, which allows councils to assess the impact of their savings plans on services. The tool classifies services into six categories on a scale between "Pro-Rich" and "Very Pro-Poor" (the service used disproportionately by more affluent households and by lower income households, respectively). Findings include that over two thirds of local government spending is on Pro-Poor services, which suggests that, when dealing with budget reductions, councils have little option but to make most of their savings from services which are used more by lower income groups.

28. On 6 December, the SPICe published a briefing paper on income tax in Scotland: 2017 update. New income tax powers came into effect from April 2017. In 2017/18, the Scottish Government opted to leave the higher rate threshold unchanged at £43,000 while the UK Government increased its higher rate threshold to £45,000. The Scottish Government estimates that this decision will have generated additional revenues of around £150 million.

29. On 7 December, the SPICe published Scotland's economic performance - comparative research. The report concludes, based on available comparable data, Scotland's comparative economic performance is 'medium - high' relative to European nations and regions while it also sees regional variations. Key findings include that all Scotland's four Nomenclature of Territorial Units for Statistics (NUTS) 2 regions were in the top half of 276 regions across the EU for economic output (GDP) per inhabitant. Scotland's GDP per inhabitant performance has declined over the 10-year period to 2015, relative to the European average in all but the North Eastern region of Scotland.

30. On 18 December, the SPICe published a briefing on the local government budget for 2018/19, and the provisional allocations to local authorities. The report summarises the Draft Budget figures. It shows the General Revenue Grant plus Non Domestic Rates Income falling by two per cent (£183.7 million) in real terms compared to 2017/18 while total Capital funding increases by ten per cent (£77.1 million) in real terms. On the same day, the SPICe also published briefings on the Scottish Government's draft budget 2018/19 and taxes.

31. On 19 December, the MSPs unanimously agreed the general principles of the Social Security (Scotland) Bill at the Parliament. The Bill, which aims to establish a Scottish social security agency, now moves on for consideration at committee level.

Parliamentary Committees:

Local Government and Communities Committee

32. At its meeting on 6 December, the Committee took evidence on the Scottish Government's Draft Budget 2018/19 from housing experts and councils. It also took evidence on Commissioner for Ethical Standards in Public Life in Scotland Annual Report and Accounts 2016/17 from the Commissioner.

33. At its meeting on 13 December, the Committee took evidence on the Housing Amendment (Scotland) Bill from the Scottish Government and agreed to consider a draft report in private at a future meeting. It also considered a draft report on City region deals.

34. On 15 December, the Committee launched a call for evidence as part of its Stage 1 scrutiny of the Planning (Scotland) Bill (to be closed on 2 February). The Bill aims to improve the system of development planning, giving people a greater say in the future of their places and support delivery of planned development. The views will inform the Committee's scrutiny of the Bill. It is proposed that the Commission responds to this call for evidence. Given the timescales of the period for submitting evidence, however, it not however been practical to share a draft response with the Commission. It is therefore proposed to delegate to the Chair the authority to approve a draft response, with a view to sharing with the Commission at its next meeting.

35. At its meeting on 20 December, the Committee took evidence on the Scottish Government's Draft Budget 2018/19 from Derek Mackay, Cabinet Secretary for Finance and the Constitution, Kevin Stewart, Minister for Local Government and Housing and Scottish Government officials. It also took evidence from councils and others on common good property and funds. It also considered a draft report of its enquiry into City region deals.

Public Audit and Post Legislative Scrutiny Committee

36. At its meeting on 7 December, the Committee took evidence on the Scottish Government's Major Capital Projects progress update from the Scottish Government and others. It took further evidence from Caroline Gardner, AGS and Graeme Greenhill, Senior Manager, Audit Scotland. The Committee agreed to consider at a future meeting the format and content of progress updates.

37. At its meeting on 14 December, the Committee undertook post-legislative scrutiny and took evidence on the Auditor General's report on self-directed support (published in conjunction with the Accounts Commission) from NHS Scotland, Scottish Government and COSLA. It took further evidence from Antony Clark, Assistant Director of Performance Audit and Best Value, and Zoe McGuire, Auditor, Audit Scotland. The Committee also reviewed its work programme and agreed to close its consideration of the 2015/16 audit of Edinburgh College and to defer to a later meeting its consideration of the NHS Workforce Planning and NHS in Scotland 2017 audits.

38. At its meeting on 21 December, the Committee will take evidence on the AGS's report on the 2016/17 audit of the Scottish Police Authority from Caroline Gardner, AGS, Stephen Boyle, Assistant Director, Carole Grant, Senior Audit Manager, and Mark Roberts, Senior Manager, Audit Scotland. It will take evidence on settlement agreements and severance policy from NHS Scotland and the Scottish Government.

Finance and Constitution Committee

39. At its meeting on 6 December, the Committee took evidence on the Scottish Parliamentary Corporate Body's Budget from the Body. It also considered and agreed its approach to the Land and Buildings Transaction Tax (Relief from Additional Amount) (Scotland) Bill. The Committee considered and agreed to recommend that the Parliament supports the reappointment of Lady Susan Rice as Chair of the Scottish Fiscal Commission.

40. At its meeting on 13 December, the Committee considered a draft interim report on the legislative consent memorandum for the European Union (Withdrawal) Bill (UK Parliament Legislation).

41. At its meeting on 20 December, the Committee will take evidence on the Scottish Government's Draft Budget 2018/19 from the Scottish Fiscal Commission and others. It will also consider a draft interim report on the legislative consent memorandum for the European Union (Withdrawal) Bill (UK Parliament Legislation).

Others

42. At its meeting on 6 December, the Education and Skills Committee voted by six votes to five to extend the period of scrutiny of the Children and Young People (Information Sharing) (Scotland) Bill before producing a Stage 1 report.

43. On 11 December, the Social Security Committee published Stage 1 report on the Social Security (Scotland) Bill following the evidence sessions on the Bill. It highlights some areas of concern. Evidence suggests that the balance between what is in the bill and what will be in regulations has not been appropriately struck and the Scottish Government will need to address this as the Bill proceeds. To allow the Committee adequate scrutiny of the detail, it has asked the Scottish Government to come forward with proposals and has recommended the creation of an independent Scottish Social Security Advisory Committee. On 15 December, the Scottish Government published its response. The update on the new financial powers will be considered in the Commission meeting in January.

44. On 11 December, the Health and Sport Committee launched calls for evidence on the potential impact leaving the EU on health and social care in Scotland (to be closed on 25 January). It will plan to hold evidence sessions in March. It is proposed that the Commission does not respond to this consultation.

45. On 12 December, following the announcement from Bield Housing Association on its withdrawal from the residential care sector, the Health and Sport Committee held a one-off evidence session on care home sustainability. It took evidence from Bield, COSLA, Care Inspectorate and others in a round table format. The Committee agreed to consider its next steps at a future meeting.

Current activity and news in Scottish local government

COSLA

46. On 12 December, COSLA responded to the Scottish Government's publication of the National Improvement Framework report (see paragraph 16). While it acknowledges progress made to date, it states "still a lot to be done to truly address the poverty related attainment gap and to continue to improve children's happiness and wellbeing".

47. On 12 December, COSLA welcomed the news that the number of school teachers has increased over the last year (see paragraph 17). It also stated the need for trying to ensure there are other key professionals required to improve the lives of children.

48. On 14 December, in response to the Scottish Government's budget announcement (see paragraph 20), COSLA stated that "Local Government has faced really difficult times over the last few years and these will remain into the future despite a more measured approach by the Scottish Government in delivering the local government settlement for next year."

49. On 15 December, COSLA welcomed National Health and Social Care Workforce Plan Part 2 (see paragraph 21) and stated that it looks forward to working with its partners and the Scottish Government in taking Part 2 forward.

50. On 18 December, COSLA said that Scottish councils, supported by COSLA, have met their goal to resettle ten per cent of Syrian refugees brought to the UK, three years ahead of schedule. COSLA is expected to confirm a local government commitment to councils continuing to take part in the voluntary programme over the next few years.

Improvement Service

51. In December, the Improvement Service announced that the Community Planning in Scotland Portal has been refreshed to incorporate resources supporting health and social care partnerships. The site provides information on the support available to Community Planning Partnership, including links to online tools and information as well as contacts at the agencies for partnerships which would like to access tailored consultancy and facilitation support.

52. The Improvement Service published Leading Transformation - The English Local Government Experience. The report includes four contributions which present transformation challenges from the speakers at the recent SOLACE (Scotland) conference in September, hosted by Annemarie O'Donnell, Chief Executive, Glasgow City Council, and one of SOLACE Scotland's portfolio leads within the Leadership, Governance and Transformation Strategic Theme. The report aims to support councils in their change and transformation programmes.

By-elections

53. There have been two by-elections since my last report.

- On 23 November, following the resignation of Conservative Councillor Michael Jamieson, Audrey Coates (Scottish Conservative) held a seat for Ward 10 Perth City South in Perth and Kinross Council.
- On 23 November, following the resignation of SNP Councillor, Gerard Killen Martin Lennon (Labour) gained a seat for Ward 12 Rutherglen Central and North in South Lanarkshire Council.

Scrutiny, inspection, regulatory and related bodies

Care Inspectorate

54. On 5 December, the Care Inspectorate published the progress review of services for children and young people in Moray. It found that, since February 2017 when the joint inspection report was published, partners have been working hard to deliver change and improvement and that, going forward, they need to develop more strategic approaches to children's rights and participation. A second progress review is expected to be published within a year.

Scottish Housing Regulator

55. On 5 December, the Scottish Housing Regulator published its initial analysis of Registered Social Landlords (RSLs)' 2016/17 audited financial statements. It shows that RSLs' spend on development, including spending on new homes, has seen a substantial increase by 24 per cent, to £807 million compared to the previous year.

Scottish Public Sector Ombudsman (SPSO)

56. The SPSO's newsletter – December outlines investigation reports, recent SPSO news and highlights emerging issues. More information on the SPSO's work, including detailed investigations and decision reports, is available on the 'Our findings' webpage. The FAAC meeting will consider more detailed intelligence from the SPSO six-monthly.

57. On 5 December, the SPSO published Making Complaints Work for Everyone - Learning from Complaints. The report focuses on the impact of complaints on staff who have been complained about. It highlights that organisations need to actively support their staff through complaints processes and engage staff in positive and purposeful activities to manage and learn from complaints.

Commissioner for Ethical Standards in Public Life in Scotland

58. Since my last report, the Commissioner published one decision on complaints relating to councillors. The Commissioner decided that Councillor Frank Docherty, Glasgow City Council had not breached the Councillors' Code of Conduct.

Standards Commission for Scotland

59. There has been no hearing by the Standards Commission since my last report:

UK Government

60. On 8 December, the UK and European Commission published a joint report, confirming they have agreed in principles across the following areas and Brexit negotiations will proceed to the next stage:
    - protecting the rights of Union citizens in the UK and UK citizens in the Union;
    - the framework for addressing the unique circumstances in Northern Ireland; and
    - the financial settlement.

61. On 13 November, the House of Commons voted to support the amendment that called for the final Brexit deal to be approved by Parliament in a new law.

62. On 18 December, the UK Government published the Independent Review of Building Regulations and Fire Safety: interim report. The paper examines the building and fire safety regulatory system, with a focus on high-rise residential buildings and found that the current regulatory system for ensuring fire safety in high-rise and complex buildings is not fit for purpose. The Independent Review will undertake its second phase of work and publish a final report in spring 2018.

63. On 19 December, the UK Government published Provisional local government finance settlement 2018/19. It includes giving councils the ability to increase their council tax by up to 2.99 per cent next year, which is one per cent more than this year. On top of this, 152 councils, which includes all London boroughs, unitary and metropolitan authorities and county councils, will be able to increase it by an additional "precept" 3% to fund social care services. The settlement also includes the Government's intention to introduce 75 per cent business rates retention for all in 2020/21. The minister also announced that 10 councils would be involved in a pilot

scheme allowing them to retain 100% of business rates raised locally, along with new powers for police and crime commissioners to raise council tax. Communities Secretary Sajid Javid stated that plans to end the revenue support grant and allow councils to retain 100 per cent of local business rates by 2020 would be put on hold, given concerns that some councils could lose revenue. Instead, he said there needed to be an "updated and more responsive distribution methodology".To this end, the Government also launched a consultation on the "fair funding review", focusing on potential approaches that have been identified to measure the relative needs of local authorities.

UK Parliament

Communities and Local Government Committee

64. On 4 and 11 December, the Committee continue to take evidence from experts on housing and health and alternative forms of housing and UK ministers, as part of its inquiry in to housing for older people, examining whether the housing on offer for this group of people is sufficiently available and suitable for their needs and, in doing so, considering how older people wish to live.

65. On 6 December, the Committee took evidence from academics, representatives from councils and the Local Government Association (LGA), examining the key concerns of the local government sector and the desired outcome of the EU negotiations. The sessions was part of its inquiry into Brexit and Local Government, which examines the impact of the UK's withdrawal from the EU on local government and the role councils could play post-Brexit and is expected to run until early 2019.

66. On 12 December, the Committee took evidence from the UK Government on the draft Homelessness Code of Guidance as part of its inquiry into the Homelessness Reduction Act (the Act). The guidance is due to be issued to councils prior to the implementation of the Act in April 2018.

67. On 15 December, the Committee published a report on effectiveness of local authority overview and scrutiny committees. It found that scrutiny often lacks constructive challenge to improve services for residents and recommended measures to strengthen the independence of overview and scrutiny committees and for increased scrutiny of combined authorities, Local Economic Partnerships and arm's length bodies.

68. On 19 December, the Committee called on the Secretary of State to consider the evidence around the following four areas submitted to the Committee on the impact of Brexit on local government as the Government moves forward with negotiations on the UK's withdrawal from the EU:

- The replacement of EU funding streams
- Changes in the EU workforce
- Retaining, amending and repealing EU legislation
- Representation of local government in the Brexit negotiations and beyond

Scottish Affairs Committee

69. On 5 December, the Committee held the last evidence sessions as part of its inquiry into sustainable employment in Scotland. It heard from the author of the Taylor review, which examined the impact of new employment practices on worker rights. It also heard from UK ministers to examine the Government's overall employability strategy and to assess the impact of the current devolution settlement on providing unemployment support, where responsibility is shared by the UK and Scottish Government.

70. On 6 December, the Committee announced that it would take evidence from senior Royal Bank of Scotland (RBS) executives on proposed branch closures in new year. The session follows RBS' announcement on 1 December that it will close more than a third of their branches in Scotland.

71. On 14 December, the Committee held evidence sessions as part of its inquiry into immigration and Scotland, to examine how well the UK's immigration system meets Scotland's needs. It heard from three sectors: food, drink and fisheries; health and social care; and hospitality and tourism.

Public Accounts Committee

72. On 4 December, the Committee published its report on Brexit and the UK border. It states that Government departments' assumption on that the risks of managing the border will not change immediately when the UK leaves the EU, is risky and they are relying too much on there being a transitional period.

73. On 11 December, the Committee held evidence sessions as part of its inquiry into Exiting the EU. It heard from HM Treasury, the Cabinet Office, and the Department for Exiting the European Union about how they are monitoring and funding Brexit-related projects.

74. On 13 December, the Committee held evidence sessions as part of its inquiry into Care Quality Commission. It heard from representatives from the Department of Health and Care Quality Commission about improvements made within the CQC, outstanding risks and how they will be managed, and what has been learned from resolving the Committee's previous concerns.

75. On 15 December, the Committee published a report on the Sheffield to Rotherham tram-train scheme. It states that neither the Department nor Network Rail have properly quantified the intended benefits, so decisions to go ahead and continue were made without knowing if it provides value for money. Highlighting that work has seen albeit two-and-half year's delays and an increase in costs from £15 million to £75.1 million, the Committee raised a concern that the project will not achieve the wider benefits that were originally intended.

76. On 20 December, the Committee published a report on homeless households. It highlights that the extent of homelessness across England is a national crisis. It calls for the government to address the supply and affordability of decent housing, which underlie the causes of homelessness.

UK local government

77. On 5 December, the LGA announced that the National Employers, who negotiate pay on behalf of 350 local authorities in England, Wales and Northern Ireland, made the offer to unions, which will affect over one million employees, excluding council chief executives, senior officers, teachers or firefighters, who are covered by separate national pay arrangements. The LGA states that the total increase to the national pay bill resulting from this offer is 5.6 per cent over two years from April 2018.

78. On 11 December, the LGA said that councils will see their central government funding further cut by £2.7 billion between 2018/19 and 2019/20 - a 54 per cent reduction. It is calling on the Government to use the upcoming Local Government Finance Settlement to provide replacement funding to all councils, which, it argues, is the only way to avoid councils reaching a financial breaking point which will threaten the existence of some local services by 2020.

Other UK Audit Bodies

National Audit Office (NAO)

79. On 14 December, the NAO published National Audit Office: Our strategy 2018-2019 to 2020-2021. It sets out four priorities over the next five years, including adapting its work to address the current issues that matter to government and Parliament, particularly in light of the decision to leave the EU and responding to feedback from public bodies for further cross-government insights and deepening external engagement with audited bodies. It highlights that it will intervene in projects earlier and produces recommendations which are more likely to result in financial savings for the taxpayer and positive changes in how government runs itself, public services and major projects and programmes.

Others

80. CIPFA's annual library survey found that British council spending on the library service decreased by £66 million in 2016/17, for the seventh consecutive year. The number of staff also fell by five percent to 869. During the same period, visits to libraries fell by three per cent, which adds to a 14 per cent decline over five years.

Conclusion

81. The Commission is invited to consider and note this report, and in particular:

- Not to respond to the Scottish Government a consultation on extending coverage of the Freedom of Information (Scotland) Act 2002 to Registered Social Landlords (see paragraph 14)
- Retain a watching brief on, but not respond to the Scottish Government consultation on, Scottish electoral reform (see paragraph 24).
- To delegate to the Chair the authority to approve a draft response to the Local Government and Communities Committee's call for evidence in its scrutiny of the Planning (Scotland) Bill, with a view to sharing with the Commission at its next meeting (see paragraph 34)
- Not to respond to the calls for evidence by the Health and Sport Committee on the potential impact leaving the EU on health and social care in Scotland (see paragraph 44).

Paul Reilly
Secretary to the Commission
21 December 2017

ACCOUNTS COMMISSION

AGENDA ITEM 8
Paper: AC.2018.1.4

MEETING: 11 JANUARY 2018

REPORT BY: SECRETARY TO THE COMMISSION

EQUALITIES SUB-GROUP UPDATE

Purpose

1. This paper provides an update to the Commission on the progress of the work of its Equalities Sub-Group.

Background

2. At its meeting on 16 April 2015, the Commission, on approving its draft progress report on its duties in relation to diversity and equalities (subsequently published on 30 April), agreed that a sub-group of Commission members be established to allow further consideration of such matters, with a view to reporting to the Commission as appropriate. It was agreed that the sub-group consist of Sandy Cumming, Christine May and Pauline Weetman.

3. At its meeting on 13 April 2017 this year, the Commission considered two draft reports setting out how the Accounts Commission and Audit Scotland are demonstrating their duties under the Equality Act 2010. The reports, namely Progress Report 2015-17, setting out progress against these duties, and Equality outcomes 2017-19, were subsequently published in April 2017.

4. Consequently, therefore, it seemed opportune that the Equalities Sub-Group convene to consider current issues. The group met on 23 November 2017. The Commission Secretary and the Cahir of Audit Scotland's Diversity and Equalities Steering Group, Gillian Woolman (Assistant Director, Audit Services Group) attended the meeting. This report summarises the group's deliberations and conclusions.

The Commission's obligations

5. The Equality Act 2010 sets out a general duty for public bodies in that they are required to have due regard to the need to:

   - eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act
   - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
   - foster good relations between persons who share a relevant characteristic and persons who do not share it (the protected characteristics are: age; disability; gender reassignment; race; religion or belief; gender; sexual orientation; marriage and civil partnership; and pregnancy and maternity).

6. As a listed public body covered by the specific duties in the Act, the Commission is required to publish equality outcomes and a report on how it is mainstreaming equalities into its functions and practices.

7. Under the legislation, equalities outcomes require to be agreed and published every four years. These were first published in April 2013 and progress against them were reported

in April 2015 and April 2017. This year's published report covered the Commission and Audit Scotland (the Auditor General does not have such a duty).

The Commission's current commitments

8. The outcomes which the Commission agreed in April are set out in **Appendix 1**. These outcomes differ from the previous version as they have been refined to two, rather than three, outcomes: the first covers the work undertaken by the Commission and Audit Scotland on its behalf; the second covers how Audit Scotland conducts itself as an employer.

9. While the Commission has an interest in the second of these, its prime interest is in the first of these: how the audit work secured by the Commission reflects how public services meet the diverse needs of all citizens and communities. The outcome agreed by the Commission sets out seven aspects in this regard, namely:
   - Use feedback from stakeholders on how to reflect equality and diversity in audit work which is carried out by staff sensitive to the diverse needs of stakeholders
   - Use data analysis to inform audit work and help understand who uses public services
   - Audit work programmes to incorporate equality and diversity issues in a way which is consistent with our audit duties
   - Publish all information and reports in formats that are accessible to all
   - Report all audit findings in a style that reflects the audience
   - Report on diversity and equality issues where appropriate
   - Support other public bodies in their scrutiny of diversity and equality

10. Appendix 1 also sets out the wide range of commitments to ensure progress in these areas. Audit Scotland's Diversity and Equalities Sub-Group (DESG), of which the Commission Secretary is a member, will take forward these commitments, with a view to reporting to the Commission as appropriate.

Progress against outcomes

11. The Sub-Group considered progress against these outcomes, most notably in the following areas:

    - As noted in the plan, an Equality and Human Rights Advisory Group (EHRAG) has been established, comprised of people from some 23 external stakeholder organisations that represent all of the protected characteristics to help shape the approach to equality in audit work. More specifically, the objectives for the group are to help auditors consider:
      - What are the equality issues Audit Scotland and the Accounts Commission need to know about that will impact on audit work
      - What needs to be done differently and how can the group help or get involved.

      The group meets twice yearly and to be used as a resource between meetings to inform audit work as appropriate on an ongoing basis.

      The group has most recently considered the Commission's rolling work programme. An equality impact assessment (EQIA) of the programme is discussed below.

- An EQIA was undertaken in March 2017 in relation to the work programme. It included a review of equalities aspects of all existing and planned performance audit work, a summary of which is contained in **Appendix 2.** The EQIA has established commitments made by Audit Scotland to:

    - ensure equalities issues are considered at the early stages of drafting project scopes for individual audits, consulting with appropriate members of EHRAG as appropriate
    - identify how the audit might impact protected characteristic groups, and whether there is any equalities focused work that should be included
    - ensure that equalities are fully taken into consideration by audit teams throughout all parts of the audit process by making use of the equality and diversity prompts that have been added to each stage of the audit management framework.
    - consider the groups identified as potentially being impacted during fieldwork particularly, for example in the data analysed and stakeholders engaged with.

  The Sub-Group felt that this approach helps to provide the Commission with a good level of assurance about how equalities feature in our approach to performance audit work. Moreover, it is the group's view that such assurance precludes the need at this point for any dedicated performance audit work in this regard.

  The Sub-Group also noted, with particular reference to the outcome around 'reporting all audit findings in a style that reflects the audience', the potential of considering how messages in audit reports are aimed at specific communities or groups. The Sub-Group agreed to recommend that this be the responsibility of audit teams and sponsors as they consider how to promote the messages of an audit, which is an important part of the proposals to the Accounts Commission as it considers a draft report of a performance audit, overview report or BVAR.

Audit developments

12. The Sub-Group considered a range of other related developments, most notably:

    a. **Shared risk assessment:** the current guidance for the shared risk assessment process specifically requires local area networks - in considering the key strengths and weaknesses within a council, the opportunities it could exploit and the potential barriers to improvement - to focus their risk assessments around the a range of issues, one of which is how integral equal opportunities is to all services and whether compliance with equalities duties is clearly demonstrated.

    The sub-group requested that coverage in this regard continue to be monitored.

    b. **Integrated approach to financial audit and auditing Best Value:** We are currently amidst the first year of the new approach to auditing Best Value. The new approach requires auditors to report on all Best Value characteristics – including equalities – at least once in their five year appointment. This will be done in annual audit reports but also as appropriate in Best Value Assurance Reports (BVARs).

    The group noted that the early BVARs have so far been limited in their coverage of equalities and diversity issues. For the BVAR in Orkney Islands Council, however, considered by the Commission in December, equalities and diversity featured in the risk assessment in relation to the audit work, and thus in the BVAR. The audit team undertook a range of work to assess progress with the council's response to the equalities agenda. The work included review of council and community partnership strategies and plans; equalities and diversity related documentation including, for example, equalities impact assessments linked to reports to council and published on the council website. The work also included review of Local Government Benchmarking Framework and council data and information relating to equalities and diversity. The team interviewed the council's equalities officer and also included equalities in interviews with a range of the officers, councillors and partners met during the audit. The work considered both equalities within the organisation and the council's work toward equalities in its communities.

The Commission will gain a perspective of the reporting of equalities and diversity issues in the integrated audit through the Controller of Audit's Assurance and Risk Report, to be considered by the Commission in February.

The Sub-Group was comfortable that the integrated approach and the reporting requirements therein would provide the Commission with sufficient assurance about councils' performance on their Best Value obligations in relation to equalities and diversity.

c. The DESG meets quarterly, most recently on 21 November, the business at which included: progress of action plans from each of Audit Scotland's business groups; equalities issues arising from ongoing audit work; and EQIA work within Audit Scotland.

d. Audit Scotland management team will hold an 'equality summit' on 23 January. Such 'summits' are designed to be an opportunity for the Management Team to focus on a specific policy issue. This summit will include members of the DESG.

Wider policy matters

13. The sub-group also noted a range of wider policy matters, most notably:

a. The Scottish Government and COSLA have committed to refreshing statutory guidance in relation to Best Value. This exercise remains ongoing, and the Commission and Audit Scotland continue to underline the need of this to be expedited. The current guidance, which was published in 2004, includes a section on 'equal opportunities arrangements' and it is anticipated that this will require updating.

b. While the Commission's equality outcomes focus on the protected characteristics set out in the Equality Act, the Commission should be mindful of the strategic policy commitment of the Scottish Government to reducing socio-economic inequalities, most clearly articulated in its Fairer Scotland Action Plan, published in October 2016. The Sub-Group agreed that this is an area therefore to be further discussed by Audit Scotland and the Commission.

c. A core driver of the 2015 Community Empowerment Act is to "reducing inequalities of outcome which result from socio-economic disadvantage"[1]. To this end, the Act requires community planning partnerships to publish a local outcomes improvement plan (LOIP) by 1 October 2017.[2] The LOIP should set out the CPP's priorities for improving outcomes and tackling inequalities in their area. The LOIP is a driver for the CPP to develop integrated approaches to improving outcomes, based upon governance arrangements that focus on shared accountabilities. It should be specific about planned preventative work and how resources will be used in new ways to support prevention. CPPs are currently engaging with their communities on their

[1] Section 5
[2] Section 6

draft LOIPs. We can anticipate that these plans will increasingly be a focus of our approach to auditing Best Value.

d. In July, the Scottish Government launched a consultation on the Socio-Economic Duty (closed on 12 September). The duty asks particular public authorities – notably councils and integration joint boards - to do more to tackle the inequalities of outcome caused by socio-economic disadvantage. The duty was included, at the UK level, in the Equality Act 2010 but has not yet been introduced in any part of the UK. The document invites views on the introduction of the duty, asking which public bodies should be subject to the duty and how they can demonstrate it is being implemented. The current proposal is that the duty will not include the Accounts Commission or Audit Scotland. Following the consultation, guidance will be developed later in the year.

e. Also in July, the Scottish Government published Scotland's Equality Evidence Strategy 2017-2021. Based on consultation with stakeholders, the paper sets out a strategic approach to strengthening Scotland's equality evidence base over the next four years. Several evidence gaps have been identified, such as race and ethnicity, age, disability, gender and pregnancy and maternity. The future actions include establishing priorities in the evidence gaps and considering the cost effective way to fill these gaps.

f. On 26 April 2017, the Local Government Commission and Fawcett Society published Interim report: does local government work for women?. The report from the Commission outlines key findings from data analysis of women's representation in councils across England and Wales, carried out by the Centre for Women and Democracy. It also presents the findings of a Local Government Information Unit survey of 2,304 councillors, carried out between December 2016 and January 2017. In its current Programme for Government, the Scottish Government has committed to a "comprehensive review of local governance ahead of a Local Democracy Bill later in this Parliament". The Sub-Group agreed that we monitor further national developments in this regard, notably whether the Local Democracy Bill addresses issues around local government elected members, including make-up and terms and conditions.

Commission membership and recruitment

14. The Sub-Group also considered the Commission's obligations to ensure diversity in its own make-up.

15. The Scottish Government's Programme for Government encourages public, private and third sector organisations to commit to gender balance on their boards of 50/50 by 2020. Moreover, the Scottish Government has made a specific commitment to securing gender equality on public boards through its Gender Representation on Public Board (Scotland) Bill. The Commission agreed at its August meeting to submit a response to the call for evidence by the Scottish Parliament's Equalities and Human Rights Committee in its Stage 1 scrutiny of the Gender Representation on Public Board (Scotland) Bill, by providing a summary of the Commission's activities in recent rounds of recruitment of new members. The response is in **Appendix 3**.

16. In September, the Commission also participated in a research project, entitled *The difference that diversity makes to your board's governance*, which was developed by the Commissioner for Ethical Standards in Public Life in Scotland and the Scottish Government, to review the difference that diversity is making to the governance of Scotland's public body boards. As well as establishing an evidence-base for that, the project aims to share the practices that Scotland's disparate body chairs and boards

have adopted to harness diversity. Every public body board in Scotland was encouraged to join. A submission from the Commission is available on the members' extranet.

17. The Commission has agreed with the Scottish Government the next round of appointments to the Commission. Our proposal is to fill four vacancies in the period to the end of 2018. Applications to this end will be sought in the period 26 January to 23 February. This therefore presents the opportunity for the Commission to consider, in conjunction with the Scottish Government, how to encourage diversity amongst applicants.

18. The sub-group endorsed a proposal to undertake a similar outreach approach to this recruitment round as took place in our most recent member recruitment round in 2015, most notably around offering potential applicants the opportunity to learn more about the role, through engagement with current Commission members or through a series of outreach events, 'The Commission uncovered', during the application period. These events – which featured for the first time in the 2015 member appointment round - will give prospective applicants the opportunity to learn more about the Commission, its responsibilities and the role of Commission members. It is proposed that three such events take place: in Glasgow, Edinburgh and Aberdeen or Inverness.

Sub-Group's deliberations: summary

19. The Sub-Group discussed various aspects of progress, and concluded the following as recommendations to the Commission:

- To continue to ensure that diversity and equalities issues features appropriately in the scoping of national performance audit work, with audit sponsors ensuring that this features in their liaison with audit teams (paragraph 11).

- Further in this regard that targeting of messages to specific groups or communities be a part of the responsibilities of sponsors and audit teams in their reporting of draft reports to the Commission (paragraph 11).

- To continue to monitor the prominence of diversity and equalities issues in the integrated approach to the annual audit and auditing Best Value (paragraphs 12a and 12b).

- To specifically consider this matter as part of its consideration of the Controller of Audit's Annual Assurance and Risks report, which will be part of the agenda of the February meeting of the Commission (paragraphs 12a and 12b).

- Given the assurance that the Commission can gain on audit coverage of diversity and equalities issues, not to pursue at this time any dedicated national performance work in this regard.

- To consider further implications for our work in relation to socio-economic inequalities (paragraphs 13b to 13d)

- To monitor national developments in relation to gender representation in local government, in particular whether a forthcoming Local Democracy Bill addresses issues around local government elected members, including make-up and terms and conditions (paragraph 13f).

- To endorse the approach to the forthcoming recruitment round for new members.

- In general, to endorse the importance of the Commission considering progress against its obligations and interest in relation to equalities and diversity on an annual basis.

Conclusion

20. The Commission is invited to consider this progress report, and in particular the recommendations of the Sub-Group set out in paragraph 19.

Paul Reilly
Secretary to the Commission
21 December 2017

APPENDIX 1: ACCOUNTS COMMISSION AND AUDIT SCOTLAND EQUALITY OUTCOMES 2017-19

Outcome 1: Audit work reflects how public services meet the diverse needs of all citizens and communities

What this will look like	How this will be done	How this is demonstrated
Use feedback from stakeholders on how to reflect equality and diversity in audit work which is carried out by staff sensitive to the diverse needs of stakeholders	• Engage with EHRAG members and stakeholders on regular basis about the future performance audit work programme • Consult with EHRAG members on performance audits which have a focus on equality issues	• Record of engagement with EHRAG members and stakeholders about the future performance audit work programme • Record of engagement with EHRAG members in post-project reviews of performance audits • Obtain feedback from EHRAG members about how well the needs of protected groups have been addressed • Produce an EIA for the future performance audit work programme
Use data analysis to inform audit work and help understand who uses public services	• Analyse data about how different groups are using public services and how public bodies are using public money to reduce inequality	• Audit reports will comment on how public money is being used to help reduce inequality
Audit work programmes to incorporate equality and diversity issues in a way which is consistent with our audit duties	• Local Area Networks (LANs) will consider whether any equality issues have been identified as part of the annual Shared Risk Assessment (SRA) process • The revised approach to auditing Best Value in local government bodies includes an equal opportunities audit programme which will be applied where considered appropriate	• Annual review of the draft council Local Scrutiny Plans and evidence templates • Annual audit reports provide comment on audited bodies' compliance with reporting in line with the Act • Where included within the scope of a Best Value audit, it will be duly reported
Publish all information and reports in formats that are accessible to all	• Continue to keep up-to-date with developments around sharing information in an accessible way	• Accreditation with accessibility organisations
Report all audit findings in a style that reflects the audience	• Review all audit findings before annual audit reports are issued as part of current internal quality review processes • Use an editor function to ensure audit reports are written in plain language	• Client feedback on annual audits monitored as part of the quality review process and through annual impact reports • Positive feedback from readers about clarity of audit reports

What this will look like	How this will be done	How this is demonstrated
Report on diversity and equality issues where appropriate	• The revised approach to auditing Best Value in local government bodies includes an equal opportunities audit programme which will be applied where considered appropriate • The LANs will consider whether any equality issues have been identified as part of the annual SRA process • Seek views from EHRAG members when developing performance audits that cover equality issues	• Where included within the scope of a Best Value audit, it will be duly reported • Annual audit reports provide comment on audited bodies' progress in relation to mainstreaming equality • Annual review of the draft council LSPs and evidence templates • Positive feedback from EHRAG members about how equality issues have been covered in performance audits
Support other public bodies in their scrutiny of diversity and equality	• Review the findings of EHRC Scotland work in relation to how public authorities in Scotland have responded to the requirements of the Equality Act 2010.	• The LANs will consider the results of this work as part of the SRA process • Review the results of this work for central government, local government and health bodies and consider whether specific work on equality should be proposed for the performance audit programme

Outcome 2: Audit Scotland promotes, understands and supports a diverse and inclusive workforce

What this will look like	How this will be done	How this is demonstrated
Staff feel valued and are treated with equity and fairness	• Staff participation in the building a better organisation corporate programme • Continue annual staff survey	• Improvement in staff survey results on Personal Growth and Fair Deal
Staff feedback on how to support diversity and equality is embedded in how things are done	• Hold events with staff to seek their views on equality issues, e.g. lunchtime seminars with invited speakers, workshops to discuss equality issues and equality presentations at team meetings • Consider conducting a survey of staff which focuses on equality	• Reports on feedback from staff events/survey
Staff feel that their wellbeing is a priority for Audit Scotland	• Staff participation in the building a better organisation corporate programme • Continue annual staff survey • Conduct annual health checks with the occupational health provider • Offer free, fully confidential counselling sessions for staff	• Improvement in staff survey results on Wellbeing
Staff recognise that policies are written in plain language, adhere to current legislation and are accessible to all	• Carry out EIAs on new or significantly revised policies • Seek views from EHRAG members when developing EIAs • Ensure training is available for staff on writing in plain language	• Programme of completed EIAs reviewed by the DESG and published on website • Relevant EIAs reviewed by EHRAG members as appropriate
There is a rigorous process for conducting EIAs when new policies are introduced or existing policies are updated	• Ensure staff are aware of the updated guidance to be used when conducting EIAs • Ensure staff are aware of the system where all key policies are put forward for an EIA at the point when a new policy is being developed or an existing one is being revised • Gather feedback from staff using the updated guidance	• Programme of completed EIAs reviewed by the DESG published on website • Relevant EIAs reviewed by EHRAG members as appropriate • Positive feedback from staff about the updated guidance
A flexible approach to working practices operates	• Monitoring of uptake and refusal of flexible working arrangements • Seek feedback from staff on how TPT is working for them • Continue annual staff survey	• Annual review of flexible working arrangements • Mid-year review of TPT approach based on staff feedback • Improvement in staff survey results on Wellbeing
The reward system is fair and the gender pay gap and equal pay review results confirm this	• Carry out and publish results of gender pay gap and equal pay review • Continue annual staff survey	• Annual review of results of gender pay gap and equal pay review • Improvement in staff survey results on Fair Deal

What this will look like	How this will be done	How this is demonstrated
Information on workforce to be improved by encouraging staff to disclose personal information	• Continue to encourage staff to record, confidentially, information about protected characteristics • Analyse and monitor workforce statistics to identify any under-represented groups in workforce and record in annual progress report	• Increase in number of staff recording information about protected characteristics • More comprehensive information is available about staff profile • Report reviewed by DESG and conclusions and areas for improvement recorded and monitored by DESG
Increase the number of job applications from people in under-represented groups	• Improve engagement with equality groups representing all protected characteristics and seek views about how people from under- represented groups may be attracted to work with Audit Scotland (particularly people with a disability) • Examine ways to encourage greater awareness about Audit Scotland among people with protected characteristics	• Increase in under-represented groups applying, being shortlisted and getting appointed (particularly people with a disability)
Improve recruitment and selection processes and in response to feedback	• Continue to gather and report on statistics relating to applicants, shortlisted candidates and successful candidates	• Review report on workforce statistics and highlight areas for investigation • Increase in under-represented groups applying, being shortlisted and getting appointed (particularly people with a disability)

APPENDIX 2: WORK PROGRAMME – SUMMARY OUTCOME OF EQUALITY IMPACT ASSESSMENT

Audit	Summary	Groups impacted
Equal pay	Equal pay is a substantial issue across local government in Scotland. At March 2015, Scottish councils had paid £605 million to employees in equal pay compensation and estimated that about 30,000 equal pay cases remained outstanding. This audit will focus on the implementation of the 'Single Status Agreement' in Scottish councils, including: scrutinising how councils have addressed equal pay claims; assessing their approaches to on-going equal pay issues; and considering how lessons learned can be applied to other challenges facing local government and the wider public sector.	• Gender is a major focus of the audit, the group that has been impacted by equal pay cases and outcome of these
Cap futures follow up	We published an update report on the Scottish Government's CAP Futures programme in May 2016. It is anticipated that this programme will come to an end in March 2017 once the £178 million budget has been utilised. We plan to review what action the Scottish Government took against our recommendations; what has been delivered for the money; and, what has still to be delivered and how this will be funded. We will also be able to provide an update on how successfully the 2016 payments to farmers were delivered, and how the 2017 application process went. This work will complement the work of our EAFA audit team and fit in with their local reporting timeline.	• None identified at this point
City deals	This audit will report on the development of City Deals to date, especially in relation to the establishment of governance and project management arrangements. A further City Deals audit is proposed for 2020/21 by which time some of the projects associated with each City Deal should be underway.	• None identified at this point
Devolution of fiscal powers	Continues series of reports looking at the devolution of New Financial Powers.	• None identified at this point
Children's mental health	There was strong feedback in support of undertaking audit on children's mental health services we consulted stakeholders on the mental health briefing that was prepared for the AGS and the Commission. Research suggests early intervention has positive impact on life chances but CAMHS performance poor across Scotland and lack of monitoring of spend, outcomes, and transitions into adult mental health care. These areas would all fall within the scope of the proposed audit work.	• Disability - a key stakeholder and a group that is likely to be impacted by the recommendations of this piece of work • Gender - staff and carers involved in this area are likely to be largely female

Audit	Summary	Groups impacted
NHS workforce	The NHS workforce audit will be split into two parts. This first audit will focus on the clinical workforce in acute hospitals, and will assess how well the clinical workforce in acute hospitals is managed to meet the demands of the Scottish population for acute services. A subsequent, future audit will focus on the preparedness of the general practice and community-based workforce to meet increased demand for local care provision.	• Age - looking at the impact of an aging workforce
Early learning and childcare	The overall aim of the initial audit is to answer the question: How effectively are the Scottish Government and councils working together to improve outcomes for children and support parents by expanding access to funded early learning and childcare? We anticipate undertaking further audit work to assess the longer-term implementation and impact of this important policy as the funded hours increase further.	• Gender - carers of children affected by early learning and childcare work and policy are likely to be disproportionately female • Pregnancy and maternity - a group impacted by early learning and childcare policy
Ferries tendering	This audit will provide an overview of the VFM of ferry services in Scotland, with a particular focus on the recent Clyde and Hebrides Ferry Services tendering exercise.	• None identified at this point
Health and social care integration part 2	The audit will follow up the emerging risks highlighted in the 2015 report, including: governance arrangements, budget-setting, strategic planning, engagement with the voluntary sector and carers, and the development of localities. Where possible, it will also examine the evidence for significant shifts in service delivery, from acute to community-based and preventative services.	• Age - health and social care integration is more likely to impact older age groups • Disability - also more likely to be involved with health and social care
Scottish fire and rescue service	This audit would follow-up on the recommendations made in the 2015 report and evaluate the SFRS' longer term progress in reforming how it delivers its services and contributes to the Scottish Government's community safety agenda.	• Gender - roles that went were largely female dominated
Self directed support part 2	Our previous audit (June 2014), examined councils' early progress in implementing the ten-year strategy and their readiness for the Act, which came into force in April 2014. This follow-up audit aims to establish whether councils, health and social care integration authorities and the Scottish Government are making sufficient progress in implementing SDS to achieve the aims of the SDS strategy.	• Age - self directed support likely to impact older groups more than others • Disability - a group likely to be more impacted by the Act.
Forth replacement crossing	This audit will report on the management of the FRC project, with a particular focus on delivery to cost and budget.	• Age - potentially, if there is a workforce angle • Gender - as above

Audit	Summary	Groups impacted
ALEOs	We will build on previous audit work to examine how ALEOs are being used to deliver services more effectively and efficiently. This will include looking at the accountability arrangements in place to safeguard public money.	• Gender - lack of data on gender in workforce. Councils may be moving staff to avoid equal pay issues
Community justice	Responsibility for community justice will be transferred from CJAs to CPPs in April 2017, together with the establishment of Community Justice Scotland. We propose a two-phase approach, with phase 1 assessing the immediate transfer of responsibilities and the establishment of CJS. Phase 2 will examine the longer-term impact of the reform.	• Gender • Religion or belief • Sexual orientation
HCW	We are proposing that the Commission puts its programme of How Councils Work reports on hold until the first 6 early BV audits (Inverclyde, Renfrewshire, East Renfrewshire, West Lothian, Orkney and Clackmannanshire) have reported and that the Commission uses the evidence and issues arising from those audits to identify its priorities for future HCW reporting.	• None identified at this point
Digital progress in central government and health	This audit will look at the progress that the Scottish Government making in delivering on its digital ambitions. This will include progress against the digital strategy, the impact of new assurance arrangements, and comparing the approach and progress in the digital directorate in central government and the e-health directorate.	• Disability - this is a group that can face digital exclusion
Housing	The scope of this work is still to be decided, but is likely to focus on issues of housing supply and the degree of progress in delivering the Scottish Government's housing action plan.	• Disability • Ethnicity - BME can be in poverty but not necessarily in deprived areas, so can be missed
Higher education - widening access: progress review	Our first report on higher education was published in 2016 and there were a number of areas that could warrant further work. These include participation (more detailed examination of student body, courses of study and outcomes) and widening access (first two targets are due to be delivered in 2020/21 and we could review progress). There are also likely to be significant implications for HE from Brexit	• Gender - there can be quite extreme gender segregation among some subjects, often subjects that are mainly male are associated with higher paying jobs
Reforming public services through better asset management	This is still very much a live issue. The audit could build on our round-table planned for November 2016 to consider how better asset management is contributing to transformational change in the delivery of public services. This could include elements of the community empowerment act – Community Asset transfer	• No specific equalities groups but possible significant inequalities issues.

Audit	Summary	Groups impacted
Mental health - prisoner healthcare	The majority of prisoners have mental health issues. Healthcare in prisons is the responsibility of the NHS and demand from the prison population is rising. There are concerns over the quality of healthcare being provided and the outcomes for prisoners.	• Gender • Age • disability
Value for money of NPD projects	Will use a case study approach to assess whether NPD has achieved its aim of curtailing excessive private sector profits, and assess the impact of the ONS decision to classify the Aberdeen West Peripheral Route as being subject to public sector control.	• None identified at this point
NHS workforce 2	We have reported on significant risks in relation to NHS workforce. We will carry out more detailed audit work on the community-based care workforce and in light of changing demographics of the workforce, role and NHS challenges.	• Gender • Age • Disability •
Waste management	The overall aim of the audit will be to assess how well Scotland is performing in meeting its current and future waste management targets. It will follow up previous reports on waste management in 2007 and the 2010 environment overview report.	• None identified at this point
Employability - transfer of new powers	The Scottish Government will assume responsibility for elements of employability support from April 2017, with the remainder transferring in 2018. We could review progress with the transitional arrangements in 2017 and preparedness for/early progress with full transfer.	• Age • Gender • Disability
Broadband follow up	Will provide an update on what has been achieved from the public sector's two contracts with BT (due to complete at the end of 2017) as well as comment on progress towards the Scottish Government's vision of world-class infrastructure by 2020 and 100 per cent superfast broadband coverage by 2021.	• None identified at this point

APPENDIX 3: RESPONSE BY THE ACCOUNTS COMMISSION TO THE CALL FOR EVIDENCE BY THE EQUALITIES AND HUMAN RIGHTS COMMITTEE ON THE GENDER REPRESENTATION ON PUBLIC BOARDS (SCOTLAND) BILL.

Introduction

The Accounts Commission is the public spending watchdog for local government. We use our powers to hold local government to account and help it improve, and we assure the public about the performance of their council. While we are appointed by Ministers, we operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We consist of 12 members, including a Chair and Deputy Chair. Our gender make-up has changed significantly in recent years: currently it is seven men and five women; in 2013 it was ten men and two women.

We have no comment to make on the Bill itself. Rather, in this brief response, we wish to help the Committee in its deliberations by offering some aspects of our own experience as a public body in committing to the Scottish Government's gender equality ambitions, by addressing two points raised by the Committee thus:

- the impact, if any, for those public authorities responsible for encouraging and recruiting women to public boards as non-executive members;

- the impact, if any, on people applying for an appointment as a non-executive member of a public board;

Impact on the body

We believe that we have had a successful experience of encouraging better diversity which has had a positive impact. Our most recent recruitment round in 2015 resulted in three women being appointed for three available positions. Our aim in the exercise was to increase the diversity of those applying for membership. It was recognised that this could be done without any significant change to the actual required attributes of members; rather, we aimed to direct the recruitment process to as wide an audience as possible by ensuring as much transparency as possible around our role and responsibilities.

An inherent challenge for the Commission – in line with any public body – has been to ensure that our relevance to peoples' lives – and thus their understanding of the value of our role – is clear. To do so, it has been important that the Commission promotes to people the significance of its role in holding local councils to account for their performance. While the Commission was established in 1975 to "secure the audit of all councils in Scotland", its responsibilities have grown since then to incorporate much wider aspects of council performance, such as through our audit of councils' Best Value duty and our performance audit programme across local government (and indeed, in conjunction with the Auditor General for Scotland, across the public sector). Our current strategy commits us to ensuring that the service user experience is better reflected in our work. This in itself requires a much more vibrant interface with the public.

To fulfil these responsibilities, we need a membership which reflects wide interests, balancing the wide range of aspects of applying accountability and encouraging improvement in public services. The Commission is committed to reaching beyond what might be regarded as „traditional‟ constituencies of prospective members, an aim not particularly helped by the barrier of possible public perceptions of our name of the 'Accounts Commission', which in itself may suggest a specific and narrow function. (It is perhaps worth noting that the accountancy profession itself has had a consistent underrepresentation of women: across the world the average percentage of female members of accountancy professional bodies only marginally increased from 33% in 2012 to 35% in 2016.[1])

We therefore shape the personal qualities, skills and experience required of members in the following categories:

- Commitment to improvement
- Securing accountability and improving governance
- Communicating and engaging
- Making and articulating judgements

In our advert in June 2015 we specifically stated "whatever your background, if you are interested in this exciting opportunity, we would like to hear from you. The skills individuals have gained in the private or voluntary sector or as a user of council services are of particular interest".

In our 2015 campaign, we also developed outreach activities: we made current members available to speak to anyone who was interested in applying and deciding if it would be 'right for them'. Also, significantly, we put in place a series of events, known as 'The Commission uncovered', open to anyone, which explained the role and activities of the Commission. Attendees were very diverse in their backgrounds and interests, and indeed at least one of those eventually appointed had attended one of these events.

Most importantly, therefore, the Commission's experience suggests that by reflecting on their impact to the public, public bodies can shape their recruitment activities – crucially without significant resource implications – to 'widen the net' of prospective candidates.

We will apply the learning from our 2015 member recruitment round to the next round of recruitment of two members in Spring 2017. We are mindful of the challenge of maintaining a balance of skills and experience of members, remaining committed to addressing gender balance, and encouraging greater diversity of background of our members.

Impact on members

In aiming for a wider diversity of membership, the Commission is mindful of the support needed for those members. For example, we are currently considering a draft policy to support members who are carers, such as providing expenses for such members when undertaking Commission duties. This exercise has involved researching existing practice in this regard amongst public bodies. Our experience tells us that such practice is limited. We are also mindful, however, of the potential resource implications of such a practice on public bodies. This may therefore be an area that the Committee would wish to explore further.

Accounts Commission
August 2017

[1] Key facts and trends in the accountancy profession, Financial Reporting Council, 2017.

ACCOUNTS COMMISSION

AGENDA ITEM 9
Paper: AC.2018.1.5

MEETING: 11 JANUARY 2018

REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

BRIEFING: SCOTTISH GOVERNMENT DRAFT BUDGET 2018/19

Purpose

1. The purpose of this paper is to provide the Commission with a briefing on the Scottish Government's Draft Budget 2018/19, highlighting some of the key implications for local government finances.

Background

2. On 14 December 2017, the Scottish Government published its draft budget for 2018/19, following the UK Government's Autumn Budget Statement published on 22 November 2017. This is the first year the main UK Government budget has been presented in the autumn and it outlined UK spending plans, including spending allocations for Scotland, up to 2022/23.

3. This is the second budget in which the Scottish Government is making use of powers devolved through the Scotland Act 2016 (including powers over income tax).

4. In recent years Audit Scotland has been developing how we monitor the Scottish Government's budget. To make better use of this on-going work, I have revised this report from those presented to the Commission in recent years. It now comprises of two briefings:

    - The first focuses on the Scottish Government's overall budget and real-terms budget trends. This has also been circulated to the Auditor General for Scotland and within Audit Scotland.

    - The second focusses on the impact of the draft budget plans for local government, using information from the Scottish Government's draft budget and local government finance settlement.

5. The main sources for these briefings are the Scottish Government's draft budget for 2018/19; the draft local government finance settlement published on the same day as the draft budget and the Scottish Parliament's associated briefing papers published shortly after the draft budget.[1]

6. These briefings have been prepared immediately after the publication of the draft budget in December 2017. The budget has yet to be agreed by the Scottish Parliament, so it is likely that there will be further changes to the budget before it is finalised.

Forthcoming related Accounts Commission reports

7. The Accounts Commission will publish its report *Local government in Scotland 2018: Performance and challenges* on 5 April 2018. This report will build upon the analysis

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[1] *Scottish Budget: Draft Budget 2018/19*, Scottish Government, 14 December 2017. *Local Government Finance Circular 05/2017*, Scottish Government, 14 December 2017. *Financial Scrutiny Unit briefings: Local Government Finance: Draft Budget 2018-19 and provisional allocations to local authorities* and *Draft Budget 2018-19*, Scottish Parliament Information Centre, 18 December 2017.

prepared for this briefing and update it to reflect any subsequent revisions to the local government finance settlement for 2018/19.

8. In addition, the Auditor General for Scotland will publish her latest report on Scotland's new financial powers, *Managing Scotland's new financial powers*, in late March 2018.

Conclusion

9. The Commission is invited to note this report.

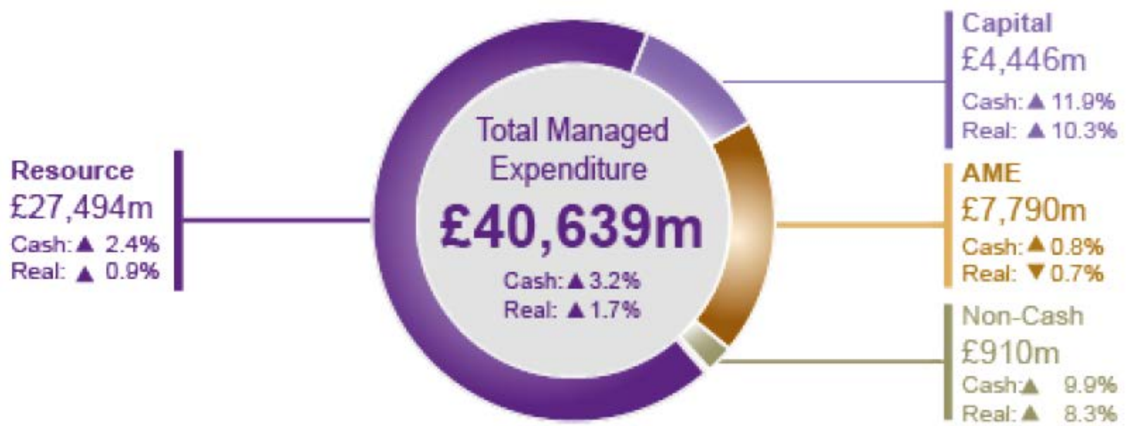
Fraser McKinlay
Director of Performance Audit and Best Value
20 December 2017

Briefing: 2018/19 draft Scottish Budget

1. This paper outlines some of the key headlines and themes arising from the 2018-19 draft budget and how it will impact on our work. It gives an immediate overview of the highlights of the draft budget and provides links to additional analysis and reading.

2. This is the second Scottish budget in which the Scottish Government is making use if devolved powers, including income tax. These new powers add complexity to the budget, with the block grant adjusted for these powers, and the forecast tax income added in. In overall terms, the Scottish budget has increased, in cash and real terms, with variations across portfolio areas of spend.

Exhibit 1: Allocation of total managed expenditure 2018/19 and the largest real-term increases and decreases



Largest real term level 2 budget line increases in 2018/19 on 2017/18:	Largest real term level 2 budget line decreases in 2018/19 on 2017/18:
Enterprise and Energy (+£186.6 million)	Motorways and trunk roads (-£147.6 million)
Health (+£175.0 million)	Digital connectivity (-£77.5 million)
Housing (+£139.6 million)	Local government (-£58.4 million)

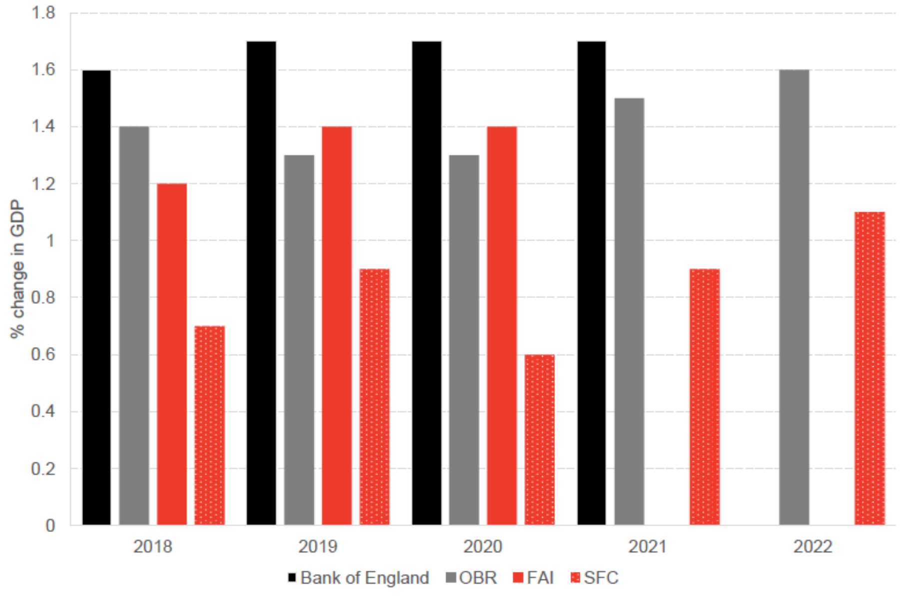
Source: SPICe Draft Budget 2018-19, 18 December 2017 (Figure 2 and Figure 6). For further details see SPICe infographic

Overall there are three key themes emerging from the draft budget

Scottish Fiscal Commission economic forecasts

3. The Scottish Fiscal Commission (SFC) forecasts on which the budget is now based, are forecasting lower growth than other economic forecasts such as the Fraser of Allander Institute and OBR.

Exhibit 2: SFC economic forecasts compared to those of others



Source: Fraser of Allander Institute slides from Budget Briefing event

4. The Fraser of Allander set out the following as the most significant reasons for the lower SFC forecasts:

   - 'Output Gap': the difference between actual capacity and potential capacity in the economy. The SFC views the Scottish economy as operating at capacity with a narrow gap to potential capacity and therefore little room to grow into.
   - Working age population is falling and forecast migration lower as a result of the implications of Brexit
   - Productivity levels are low because there is high employment and low growth

5. Therefore the SFC view is that that the economic slowdown is structural and not cyclical. Under the Fiscal Framework agreement, Scotland's economic performance is relative to the UK's on a per capita basis, so the budget is protected to some extent if Scottish population growth does not match UK population growth.

6. We will continue to monitor these economic forecasts, both for their potential impact on the Scottish budget, and also as part of our policy work on economic development.

Changes to income tax

7. Tax revenues from devolved tax powers in Scotland are forecast at £12,809 million and will fund 39 per cent of the Scottish Budget (£32,679 million). For more details on the tax revenues in the draft budget, see SPICe analysis (Draft Budget 18-19: Taxes).

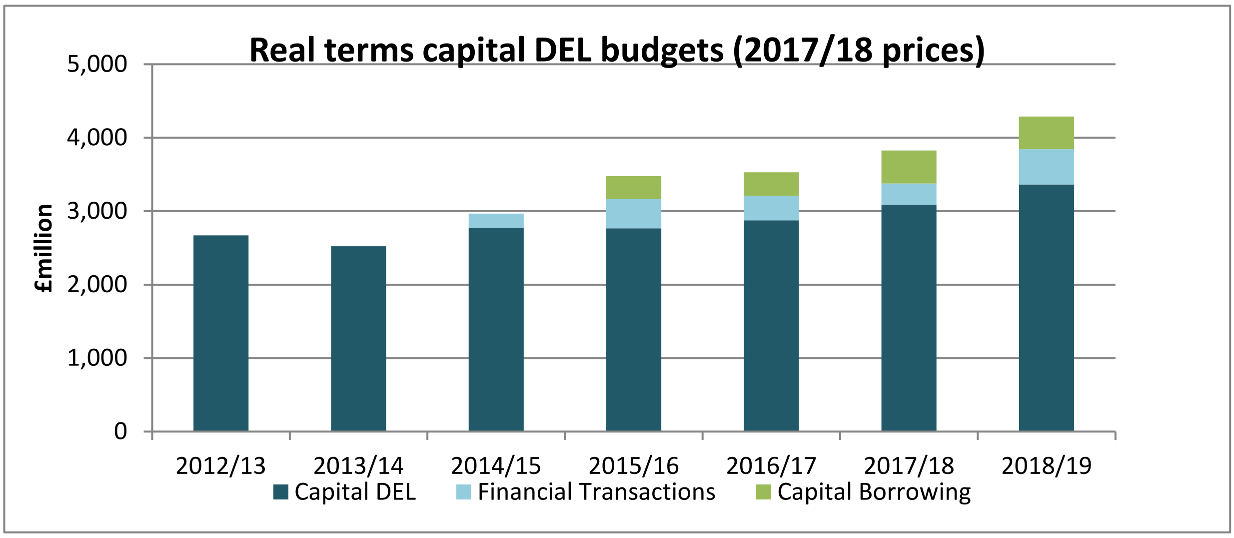
8. The Scottish Government has proposed a 5 band income tax system and introduced marginal increases in tax rates across the 5 bands. This policy is forecast to fund an additional £164 million in the Scottish budget. Fraser of Allander Institute analysis highlights that as a result of income tax policy decisions taken this year and last, income tax revenues are forecast to be higher than the block grant adjustment by £366 million.

9. Our programme of work on the devolution of fiscal powers will look at the continued implementation and management of the new devolved powers. This includes the use of tax-raising powers and the impact of actual outturn figures compared to forecasts. We will also consider the implementation of the recommendations of the Budget Process Review Group (BPRG) and the transparency of the budget, which is particularly important given the complexity. The draft budget contains a reconciliation of available funding to spending plans which does increase transparency and we'll continue to look at this as we consider the implementation of the BPRG recommendations.

Economic growth measures

10. The draft budget includes a number of measures aimed at boosting economic growth, these are largely capital in nature. The increase in capital spending has been funded by financial transactions and capital borrowing. Financial transactions funding are loans made outwith the public sector, and the funding must be repaid to the Treasury. The Scottish Government gained new capital borrowing powers in 2015/16.

Exhibit 3: Increase in capital spending funded by financial transactions and capital borrowing:



Source: Audit Scotland analysis of Scottish Government draft budget figures, 2012/13-2018/19

11. Measures to stimulate economic growth include:

- Some of the recommendations of the Barclay Review of business rates have been taken forward through additional reliefs totalling £100 million.
- Establishing a National Investment Bank with an initial capitalisation of £340 million between 2019 -21.
- Building Scotland Fund: a precursor to the National Investment Bank, £70 million to be invested in 2018-19, with a housing and infrastructure focus, through the use of the financial transactions budget.

- Establishing a Strategic Board as outlined in the Enterprise and Skills review to look at how the £2.4 billion budget for Enterprise and Skills is spent and whether it could achieve more if spent differently.

12. We have a significant programme of work planned in this area. We are considering our approach to the Enterprise and Skills review working together across audit and policy teams. We have a performance audit planned in 2019/20 to look at economic development in local government on behalf of the Accounts Commission, building on our audit of the enterprise agencies. We will monitor developments in the National Investment Bank and links to infrastructure spending. Our performance audits of City Deals and non-profit distributing projects will look at the contribution of infrastructure to economic growth.

Pressures on budget areas

13. Alongside the draft budget 2018/19 the Scottish Government published its 2018/19 Public Sector Pay Policy[1]. This set out the following commitments:
    - a 3 per cent pay rise for all earning less than £30,000
    - a 2 per cent increase for all of those earning more than £30,000
    - limits the maximum pay uplift for those earning over £80,000 to £1,600.

14. The health budget in cash and real terms has increased, but remains under pressure. If the public sector pay policy is matched, this could cost £170 million, using some of the £400 million increase (cash basis). The health budget also needs a 1% annual increase just keep up with demands from demographic changes. The Auditor General's annual health overview will continue to look at how far the budget goes and the pressures on service delivery.

15. The draft budget announced significantly more funding for the Early Learning and Attainment Fund. We currently have a performance audit of Early Learning and Childcare underway looking at the delivery of the expansion of access to funded early learning and childcare. We are also working closely with Education Scotland on its inspections of the attainment funding for local authorities.

16. More funding for housing was announced, at £891 million (£574 million Capital DEL, £251 million financial transactions). There are challenges in take-up of these financial transactions funds as they are used for demand -led schemes (e.g. help to buy). The Scottish Government financial audit will review this spend as part of the annual audit. We also have a housing performance audit planned for 2019/20.

17. Police and Fire services can recover VAT from April 2018 which will mean an additional £35 million in funding in 2018/19 but the public sector pay policy could have significant implications.

[1] *Public Sector Pay Policy for 2018-19*, Scottish Government, 14 December 2017

Links to further information

18. There is a large amount of useful analysis performed by commentators and researchers if you are interested in finding out more of the detail.

- Local Government budget briefing (Accounts Commission paper)
- BBC blog
- SPICe: Local Government Finance: Draft Budget 2018-19 and provisional allocations to local authorities
- SPICe: Draft Budget 2018-19 overview;
- SPICe: Draft Budget - Taxes;
- Fraser of Allander blog and
- Budget Briefing slides

Budget briefing: local government budget 2018/19

Local Government funding identified within the 2018/19 draft budget

1. Local government funding is primarily shown with the Communities, Social Security and Equalities portfolio of the Scottish Government. In prior years it has been difficult to reconcile numbers from the draft budget to the accompanying finance settlement as local government has also received a funding from other portfolios. The Accounts Commission has in its annual overview set out as clearly as possible how the budget for local government has been developed.

2. In response to recommendations from the Budget Process Review Group (which included the Auditor General for Scotland), and a request from the Local Government and Communities Committee of the Scottish Parliament, the Scottish Government gave a commitment to set out in full all sources of local government funding within the draft budget.

Exhibit 1: Local Government funding allocations from draft budget 2018/19

	Cash terms				Real terms (at 17/18 prices)	
£million	**2017/18 Budget**	**2018/19 Draft Budget**	**Variance**	**%**	**Variance**	**%**
General Revenue Grant	6,627.8	6,608.5	-19.3	-0.3%	-115.5	-1.7%
Non Domestic Rates	2,665.8	2,636.0	-29.8	-1.1%	-68.2	-2.6%
General Capital Grant	653.1	598.4	-54.7	-8.4%	-63.4	-9.7%
Specific Resource Grants	210.9	263.2	52.3	24.8%	48.5	23.0%
Specific Capital Grants	133.4	278.0	144.6	108.4%	140.6	105.4%
TOTAL (A)	**10,291.0**	**10,384.1**	93.1	0.9%	-58.1	-0.6%
Additional funding from other portfolios **(B)**		123.0			121.2	
Total funding (as per finance settlement) (A+B = C)		**10,507.1**			10354.1	
Other Scottish Government funding **(D)**		361.0				
Total funding as per draft budget (C+D = E)		**10,868.1**				
Other sources of support						
Council Tax Reform Income **(F)**	111.0	111.0	0.0	0.0%	-1.6	-1.5%
Health and Social Care Integration **(G)**	357.0	355.0	-2.0	-0.6%	-7.2	-2.0%
Total (E+F+G = H)		**11,334.1**				

Source: Scottish Budget: Draft Budget 2018-19, Scottish Government, December 2017

3. Within the 2018/19 draft budget portfolio budget, local government funding is shown to be £10,384.1 million (Exhibit 1, (*A*)). Local government will also receive £123.0 million of funding from other portfolios *(B)*, including funding for Discretionary Housing Payments (£52.1 million), the Scottish Welfare Fund (£37.9 million), Temporary Accommodation (£23.5 million) and Self-Directed Support (£3.5 million). This brings funding to £10,507.1 million, which is the figure shown in the latest local government finance settlement (Finance Circular no. 05/2017) *(C)*.

4. The Scottish Government also identifies another £361.0 million that is available to local government (outwith the settlement) *(D)*. The draft budget also classifies the £111.0 million of

income resulting from reforms to council tax multipliers in 2016/17 *(F)* and the Health and Social Care Integration funding of £355 million *(G)* within the total funding to local government, bringing the total to £11,334.1 million in 2018/19 *(H)*.

5. The additional £361.0 million of Scottish Government funding *(D)* is made up of £149.9 million of revenue funding (including £59.0 million of funding for the Attainment Scotland Fund, £25.0 million for the Education Maintenance Allowance and £52.9 million for the Schools for the Future Programme) and £211.2 million of capital funding (including £121.9 million funding for City Deals and £47.0 million for the Home Energy Efficiency Programme for Scotland).

6. The £355.0 million of Health and Social Care Integration funding represents the allocation from the Scottish Government's Health budget that will be provided to Integration Authorities via NHS bodies.

The local government finance settlement 2018/19

7. The local government finance settlement is the main source of local government funding and the provisional settlement for 2018/19 is £10,507.1 million (Exhibit 2, *(E)*). This includes the £123.0 million of funding for local government that comes from various other Scottish Government portfolios within the General Revenue Grant (GRG) to councils.

Exhibit 2: Local Government finance settlement 2018/19

	Cash terms				Real terms (2017/18 prices)	
£million	**2017/18**	**2018/19**	**Variance**	**%**	**Variance**	**%**
General Revenue Grant	6,771.0	6,731.6	-39.4	-0.6%	-137.4	-2.0%
Non Domestic Rates	2,665.8	2,636.0	-29.8	-1.1%	-68.2	-2.6%
Specific Revenue Grants	211.0	263.2	52.1	24.7%	48.3	22.9%
Total Revenue (A)	**9,647.8**	**9,630.8**	**-17.1**	**-0.2%**	**-157.3**	**-1.6%**
less national funding still to be distributed ***(B)***	*47.0*	*230.3*				
Distributable Revenue funding ***(A-B = C)***	*9,600.9*	*9,400.5*				
Capital Funding (D)	**786.5**	**876.4**	**89.8**	**11.4%**	**77.1**	**9.8%**
TOTAL (A+D = E)	**10,434.3**	**10,507.1**	**72.8**	**0.7%**	**-80.2**	**-0.8%**

Source: Local Government Finance Circular No. 05/2017, Scottish Government, December 2017

8. Between 2017/18 and 2018/19, there are real terms reductions in General Revenue Grant (2.0 per cent) and Non Domestic Rates (2.6 per cent) and a decrease in total revenue funding *(A)* of 1.6 per cent. Councils consider their GRG and Non Domestic Rates (NDR) income to constitute 'core' funding as this represents the revenue funding they have control over to provide services.

9. As well as the increase in specific revenue grants between 2017/18 and 2018/19 (which includes £120.0 million of Pupil Equity Funding and around £4 million of funding for Gaelic – as per 2017/18 – and £52.2 million relating to Early Years Education and Childcare) there are a number of commitments relating to national policies and priorities that councils will be required to fund from their general revenue funding (GRG + NDR) for 2018/19. These include the following amounts to be financed from GRG:

- £11million relating to Early Years Education and Childcare (in addition to the £52.2 million of specific revenue funding)
- £24 million to cover the additional full year cost of teacher's pay offer in 2017/18
- £88 million to cover additional costs relating to teacher numbers and maintaining the teacher pupil ratio (£37 million to support the Teacher's Induction Scheme and £51 million to maintain teacher numbers)
- £66 million to support additional investment in social care.

10. The Scottish Government has also given a commitment to allow councils to increase Council Tax by up to 3% which, if all councils took this option, would result in an additional £77 million income.

Public Sector Pay Policy

11. Alongside the draft budget 2018/19 the Scottish Government published its 2018/19 Public Sector Pay Policy[1]. Although the policy does not directly apply to councils, if councils were to match the policy SPICe estimate this would cost around £150 million in 2018/19, £90 million more than if councils continued with a 1 per cent pay uplift. This does not take into account any annual increments relating to pay progression. Increased costs relating to pay awards represents a further pressure on councils' core funding in 2018/19.

COSLA response to the draft budget and finance settlement

12. In its response to the draft budget and funding settlement, COSLA expressed concerns about the presentation of the headline funding settlement figures for 2018/19. It argues that the national commitments to be met from GRG totalling £153 million (specifically those mentioned above, excluding the £88 million of funding relating to teaching costs) results in a greater reduction in available core revenue funding than simply looking at the change in funding lines from the finance settlement. Including these sums within GRG gives councils greater freedom over how they deliver these commitments but the funding must be used to deliver them.

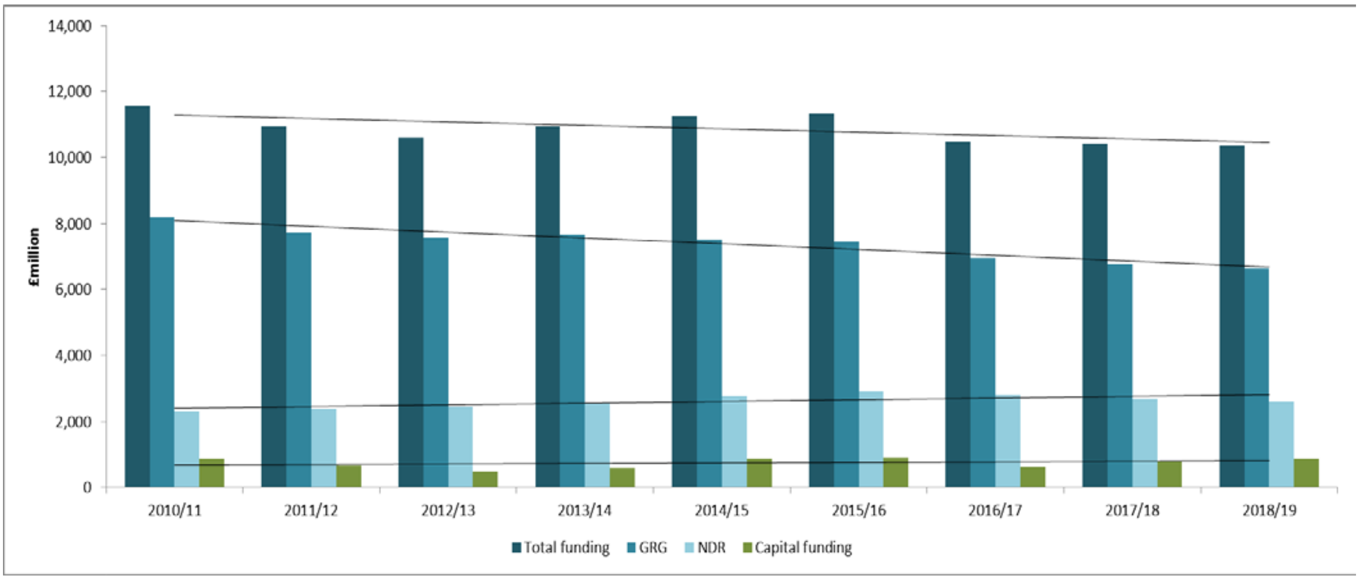
Trends in revenue funding (2010/11 to 2018/19)

13. Prior to the formation of Police Scotland and the Scottish Fire and Rescue Service in 2013/14, funding for police and fire services was included within the annual local government finance settlements. Adjusting for this, the total local government revenue funding received via the settlement (Exhibit 2 *(A)*) has reduced from £10,700.9 million in 2010/11 (at 2017/18 prices), the peak of local government funding, to £9,490.5 million in 2018/19 (£9,630.8 from Exhibit 2 line *A*, adjusted for 17/18 prices). This is an 11.3 per cent real terms reduction. Over the period a 19.0 per cent reduction in GRG has been partially offset by a 12.4 per cent increase in NDR income (Exhibit 3).

[1] *Public Sector Pay Policy for 2018-19*, Scottish Government, 14 December 2017

14. Core revenue funding (GRG + NDR) has decreased by £1,272.7million and the proportion of core funding from NDR has increased from 22 per cent in 2010/11 to 28 per cent in 2018/19.

Exhibit 3: Local government funding 2010/11-2018/19 (real terms, 2017/18 prices)



Source: Audit Scotland's analysis of Local Government Funding Settlements, 2010/11 to 2018/19

15. Some elements of revenue funding included within the finance settlements are not distributed to individual councils at the start of the year. This can make it difficult to assess the impact of reductions in the aggregate settlement for each individual council. The local government overview will analyse the impact of the funding settlement on individual councils.

Trends in capital funding (2010/11 to 2018/19)

16. Capital funding is increasing by £89.9 million in cash terms between 2017/18 and 2018/19. This is primarily due to a significant increase in the level of specific grants of £145.8 million, with £150.0 million specifically to support Early Years Expansion. This offsets a reduction in general capital grants of £54.8 million (to £598.3 million).

17. Total capital funding is increasing by around 10 per cent between 2017/18 and 2018/19, from £786.5 million to £863.6 million (in 2017/18 prices) but trend analysis of capital allocations in both the short-term and long-term must be treated with caution:

- The Scottish Government rescheduled its capital grant allocations as part of its 2011/12 Spending Review. It moved capital grant funding of £120 million and £100 million, originally due to councils in 2012/13 and 2013/14, to the following two years.
- The Scottish Government again reprofiled capital grant allocations in 2016/17, moving £150 million in 2016/17 which is to be repaid in full in 2019/20.
- Where projects (specifically flood prevention schemes) have slipped and capital grants paid in the prior year exceed the grant due this will impact on the grant figures for individual councils.

AGENDA ITEM 10
Paper: AC.2018.1.6

MEETING: 11 JANUARY 2018

REPORT BY: MARK TAYLOR, ASSISTANT DIRECTOR, AUDIT SERVICES AND PABV

NEW FINANCIAL POWERS AND CONSTITUTIONAL CHANGE UPDATE

Purpose

1. This paper provides an update on key developments surrounding further financial devolution and constitutional change.

Background

2. We provided an update to the Commission in June 2017 on the new financial powers and the UK's withdrawal from the EU. Significant developments since then include:

   - The Scottish Government published its draft budget for 2018/19 on 14 December 2017. The Scottish Fiscal Commission published its first set of five-year forecasts alongside the budget.

   - The Budget Process Review Group published its final report in June, which included 59 recommendations to deliver significant changes to the current Scottish budget process.

   - The Social Security Bill was introduced to Parliament in June, setting out the overarching legislative framework for the administration of the devolved social security powers in Scotland. In September, the First Minister announced that the new social security agency will be co-located in Dundee and Glasgow.

   - Devolved Air Departure Tax will not be introduced on 1 April 2018 as expected. This is due to EU state-aid rules and exemptions that currently apply to passengers flying from Highlands and Islands airports. It will continue to be collected by the UK Government until at least March 2019.

   - The Scottish Government's Programme for 2017/18 includes a Crown Estate Bill. This will establish a long-term framework for the management of Crown Estate assets in Scotland, including opportunities for local management of these assets.

   - The European Union (Withdrawal) Bill was introduced to the UK Parliament in July. The Scottish and Welsh Governments have stated that they will not give consent to the Bill unless it is substantially amended, and have jointly published a list of proposed amendments.

Scottish budget

3. The Scottish Government published its Draft Budget 2018/19 on 14 December 2017, three weeks after the UK budget was published on 22 November. The Scottish Fiscal Commission published its first set of five-year forecasts of tax revenues, social security spending and onshore GDP on the same day. Parliamentary scrutiny of the budget will take place through to 25 January 2018, when the Budget Bill will be introduced. The Director of Performance Audit and Best Value is providing an update on the Draft Budget 2018/19 at the Accounts Commission meeting in January. This will include an overview

of how the Scottish Government proposes using its tax raising powers and the impact of this on the budget.

4. The Budget Process Review Group (BPRG) published its final report on 30 June. This included 59 recommendations, which would deliver significant changes to the current Scottish budget process. The AGS and Dr Angela O'Hagan gave evidence on the report's findings and recommendations to the Finance and Constitution Committee in September, on behalf of the BPRG. The recommendations are intended to:

   - make a shift to a more continuous, year-round budget process
   - improve transparency and raise public understanding of the budget
   - ensure a greater focus on what spending has achieved and what budgets aim to achieve over the long-term
   - separate the factual content of the budget from any political narrative
   - provide clear financial information about the operation of 2012 and 2016 Scotland Act powers.

5. The Cabinet Secretary for Finance and the Constitution welcomed the findings of the BPRG and has committed to implement the recommendations "as quickly as possible, including implementing recommendation 44 on increasing transparency in time for Draft Budget 2018-19." We are assessing the extent to which the Scottish Government has done this as part of our continuing analysis of the draft budget. The majority of the remaining recommendations are set to be implemented for the 2019/20 budget, starting with publication of the first Medium Term Financial Strategy by June 2018.

6. The BPRG's recommendations have major implications for Parliamentary scrutiny, and for public audit's role in supporting Parliament. This includes greater use of audit reports prepared on behalf of the AGS and Accounts Commission by parliamentary committees. We are considering the implications and working with colleagues in the Scottish Parliament to help communicate and implement the recommendations.

Social security powers

7. The Social Security (Scotland) Bill was introduced to parliament on 20 June 2017. The Bill sets out the overarching legislative framework for the administration of the devolved social security powers in Scotland and moves 11 existing social security benefits into Scottish legislation. Once the Bill enters into law it will be followed by a significant body of secondary legislation providing detail on each benefit and the operation of the social security system. It is anticipated that this secondary legislation will come into force within the current parliamentary term (i.e. by the end of 2020/21).

8. In September, the First Minister announced that Scotland's new social security agency will be based in Dundee and Glasgow, with 1,500 new jobs expected to be created across both cities. The Scottish Government estimates it will cost £308 million to set-up the agency (over the period 2017/18 to 2020/21) and that annual running costs once the agency has been fully established (i.e. from 2020/21) will be between £144 million and £156 million.

9. Although the social security agency will be based in Dundee and Glasgow, locally-based agency staff will provide people with one-to-one support. The Scottish Government is currently meeting with each council to discuss its approach to devolved social security and explore where agency staff could be located in the council area. The Scottish Government reports that councils are keen to develop opportunities for co-location and

closer working practices. The Scottish Government and COSLA are discussing how they might work together, to help support a consistent approach in planning and delivering co-located services for devolved social security. This would be underpinned by local arrangements that reflect local needs.

10. The new social security agency will deliver 10 of the 11 devolved benefits. Discretionary Housing Payments (DHP), which provide additional financial assistance to some people entitled to housing benefit to help meet housing costs, will continue to be delivered by councils. The Scotland Act 2016 devolved responsibility for DHP on 1 April 2017. Prior to this, councils received funding for DHP from the Scottish Government and Department for Work and Pensions. They now operate the scheme with funding from the Scottish Government and can add their own extra funding. All councils are currently administering DHP, although they have the choice of whether or not to do so.

11. We are examining the Scottish Government's progress in planning for and implementing the devolved social security powers as part of our latest performance audit on the implementation of the 2012 and 2016 Scotland Acts. The AGS will appoint the auditor for both the social security agency and the payments that it administers. We have assessed the nature and extent of audit work as further benefits are devolved in 2018/19, and identified the resources required to deliver it alongside housing benefit performance audits. We will continue to review this and build additional capacity as more social security benefits are devolved through to 2021.

Air Departure Tax

12. Devolved Air Departure Tax will not now be introduced in April 2018 as planned. In October, Derek McKay, Cabinet Secretary for Finance and the Constitution, gave a ministerial statement on Air Departure Tax, which highlighted a potential barrier to devolving the tax.

13. An exemption from UK-wide Air Passenger Duty for flights from the Highlands and Islands has been in place since 2001, and the Scottish Government wants to continue to apply this exemption to the devolved Air Departure Tax. However, it has concluded that for the exemption to be compliant with EU law and state-aid regulations, it must now be notified for approval to the European Commission (this was not done when the exemption was originally introduced). As the UK is the member state, only the UK Government can do this. Mr McKay stated that the UK Government is reluctant to notify the European Commission unless the Scottish Government accepts full liability for all risks and costs.

14. The Scottish Government has stated that to match the exemption for all Highland and Islands flights would require it to forego annual revenues of more than £320 million. Mr Mackay concluded that "Air Departure Tax cannot be put into operation while significant uncertainty hangs over the Highlands and Islands". He wrote to the UK Government, suggesting that the block grant adjustment is amended to enable the Scottish Government to deliver the devolved tax in a way that ensures neither the Highlands and Islands nor Scotland's public finances suffer. A resolution was not agreed by the time of the UK budget on 22 November, and so the UK Government will continue to collect Air Passenger Duty in Scotland until at least March 2019.

Crown Estate Scotland

15. Crown Estate Scotland now manages assets on behalf of Scottish Ministers, including agricultural and forestry land, some of the seabed and foreshore, and commercial property. It is a public corporation that was established on an interim basis until new legislation sets out permanent arrangements. These arrangements, which are expected to be in place by the end of 2019, may involve transferring the Crown Estate to local authorities.

16. The Scottish Government consulted on the long-term management of the Crown Estate in early 2017, and set out three options:

- Option 1: retain management of all assets at the national level
- Option 2: devolve management of all assets to local authorities or communities
- Option 3: consider on a case-by-case basis the appropriate governance arrangements for each asset.

17. At the time, Ministers indicated that they see option three as having the most merit as it avoids a one-size-fits-all approach and offers scope for further devolution.

18. The Scottish Government's Programme for Scotland, published in September, includes a commitment to introduce a Crown Estate Bill to Parliament in 2017/18. This will establish a long term framework for the management of Crown Estate assets in Scotland. The Scottish Government aims to provide opportunities for local management of these assets, to benefit communities and the economy.

19. Crown Estate Scotland published its corporate plan for 2017-20 in early November. It sets out a commitment to launch a new scheme that will enable local authorities, development trusts and other bodies to apply to manage assets in their local area. The aim is to give local communities more control over decisions regarding Crown Estate Scotland assets. Different models will be piloted and assessed to identify which ones work best in delivering financial, social and environmental benefits.

20. The AGS will appoint the auditor for Crown Estate Scotland.

EU withdrawal

21. In the Queen's Speech following the 2017 UK election, the UK government set out its legislative programme, including a suite of UK Bills to deliver EU withdrawal. The first of these, the European Union (Withdrawal) Bill, is currently being considered by the UK Parliament. Detailed scrutiny began in the House of Commons on 14 November. Consideration of the Bill is expected to continue until at least January 2018. Bills on customs, trade, immigration, fishing and agriculture are expected to follow.

22. The Scottish Government is not currently recommending Parliamentary support for the EU Withdrawal Bill. The Scottish and Welsh Governments have written to the Prime Minister to outline why they could not give consent to the Bill unless it was substantially amended, and have jointly published a list of proposed amendments. The amendments are intended to achieve the following objectives:

- Ensure devolved policy areas come back to the Scottish Parliament and National Assembly of Wales on withdrawal from the EU.
- Prevent UK ministers unilaterally changing the Scotland Act and Government of Wales Act.
- Require the agreement of the Scottish Government on necessary changes to current EU law in devolved areas after Brexit.
- Ensure additional restrictions are not placed on devolved ministers compared with UK Government ministers.

23. EU withdrawal will inevitably have implications for devolved government in Scotland and for Scottish public bodies and councils. An initial assessment by the UK Government has

identified 111 areas where powers returning from the EU intersect with the devolution settlement in Scotland. This includes areas such as agriculture, the environment, public procurement and state aid.

24. Scottish Parliament committees continue to take evidence on the potential implications of EU withdrawal for Scotland. The Finance and Constitution Committee has been taking evidence on the impact of EU withdrawal on the Scottish budget. COSLA's written submission highlighted the following potential implications for local government:[1]

    - Many local authorities rely heavily on EU migrant workers, so EU withdrawal has significant implications for the local workforce and economy. Sectors that could be particularly affected include teaching, social work and care, agriculture and fishing, hospitality and the food industry.

    - Any impact on the Scottish economy is likely to be reflected in local economies. An area of particular concern in local government is the future of EU structural funds, including rural development funding, and uncertainty about alternative funding arrangements.

    - COSLA will seek to ensure that any new trade agreements and frameworks protect the right to deliver local services, protect local decision making and enhance local economies.

    - Changes to legislation and regulation could have implications for local government, in particular EU procurement and State Aid rules.

    - COSLA is calling for the role of local government to be a larger consideration in the debate about how powers that are currently managed by the EU will be managed across the UK in future, at both a reserved and devolved level.

25. We are continuing to monitor issues as they develop and identify associated audit risks. The audit planning guidance for 2017/18 audits asks auditors to consider the extent to which public bodies are working to understand, assess and prepare for the UK leaving the EU. We have identified three broad areas where EU withdrawal is likely to impact on public bodies:

    - Workforce – the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.

    - Funding – the extent to which potential changes to funding flows, including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.

    - Regulation – the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activities of the organisation.

26. The refreshed work programme includes a briefing paper for the AGS and the Accounts Commission on the potential impact of EU withdrawal for Scotland's public services. We are also considering the implications for future audit work and identifying any business risks.

[1] http://www.parliament.scot/S5_Finance/General%20Documents/L_COSLA_Brexit.pdf

Audit arrangements

27. Discussions are continuing between the Scottish Government and HM Treasury on audit and accountability arrangements for devolved services provided by UK public bodies (such as HMRC and DWP). The Scottish Government has formally consulted with Audit Scotland on a draft document, and HM Treasury consulted with the NAO. We provided a response to the Scottish Government in June, setting out our views on the draft framework and proposing amendments.

28. The Public Audit and Post-legislative Scrutiny Committee plans to take evidence on progress from the Scottish Government in early 2018. We will continue to engage with the Scottish Government and NAO, to help ensure the arrangements are fit for purpose and meet the needs of the Scottish Parliament. There is a risk we are unable to support the Parliament in all newly devolved areas if this is not the case.

Audit reporting

29. The AGS published a section 22 report on the 2016/17 audit of the Scottish Government consolidated accounts in September, which was considered by the Public Audit and Post-legislative Scrutiny Committee on 5 October. The key messages relating to the new financial powers were as follows:

    - The implementation of new financial powers and changes that will arise from the UK's decision to leave the European Union, mean it is critical that the Scottish Government continues to strengthen its approach to public financial management and reporting.

    - The Budget Process Review Group's recommendations provide a real opportunity for the Scottish Government to significantly strengthen its financial reporting and support Parliamentary and public scrutiny as we enter a new environment for public financial management in Scotland.

    - The amount raised from Land and Buildings Transactions Tax and Scottish Landfill Tax in 2016/17 was £633 million. This was £38 million less than the forecast of £671 million included in the budget. As with any forecast, actual amounts are likely to differ from those predicted. The Scottish Government managed this shortfall through underspends in its overall budget.

30. We are currently undertaking the next performance audit in our series on the financial powers in the 2012 and 2016 Scotland Acts, on behalf of the AGS. We are examining how effectively the Scottish Government is managing the implementation of the new financial powers, with a particular focus on the devolved social security powers. The audit will assess the Scottish Government’s overall capacity and capability to successfully implement and deliver the devolved powers, and will provide an update on the creation and operation of two new bodies – the Crown Estate in Scotland and the Scottish Fiscal Commission. The report is due to publish in spring 2018. It will build on our three previous reports in this area, published in 2014, 2015 and March 2017.

Conclusion

31. The Commission is asked to note the content of this report.

Mark Taylor
Assistant Director, Audit Services and PABV
18 December 2017

ACCOUNTS COMMISSION

AGENDA ITEM 11
Paper: AC.2018.1.7

MEETING: 11 JANUARY 2018

REPORT BY: SECRETARY TO THE COMMISSION

AUDIT OF BEST VALUE FOLLOW UP: FALKIRK COUNCIL

Purpose

1. The purpose of this paper is to introduce the Controller of Audit's report on the Best Value follow-up audit at Falkirk Council.

Background

2. At its meeting in November 2016, the Commission considered a report by the Controller of Audit on Best Value follow-up work in Falkirk Council. The report and Commission findings were published on 1 December 2016 and are attached in Appendix 1.

3. In its findings, the Commission makes reference to its previous report and findings published on 27 August 2015. These are attached in Appendix 2 for ease of reference.

4. In its November 2016 findings, the Commission required the Controller of Audit to provide an update by the end of 2017 through the annual audit and in our revised approach to auditing Best Value.

5. Follow-up audit work on Best Value at the Council to consider the action the Council has taken was carried out between July 2017 and November 2017. The work was integrated with the annual audit. Conclusions from this audit work are reported in the 2016/17 Annual Audit Report (AAR). The AAR forms part of the Controller of Audit's report.

The Controller of Audit report

6. The attached report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).

7. 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;

   - the performance by a local authority of their statutory duties in relation to best value and community planning.

8. 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

9. 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.

10. 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.

11. 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.

12. 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

13. The Commission is invited to:

    a) consider the report by the Controller of Audit on the follow-up Best Value work in Falkirk Council; and

    b) decide in private how it wishes to proceed.

Paul Reilly
Secretary to the Commission
20 December 2017

Appendix 1:

Commission's findings on Best Value Report, Falkirk Council

1 December 2016

1. In our findings in August 2015, we stated that the council needs to make a step-change in its pace of improvement. It is disappointing that we have not yet seen this.

2. While there has been much activity in the council in responding to our previous findings, we remain concerned that the scale of improvement required necessitates the council making more radical change. It urgently needs to agree its key priorities. These need to be supported by a more robust approach to financial planning for the medium and longer term and a more coordinated and streamlined approach to its improvement activity, showing how substantial change will be achieved. While a corporate workforce strategy is now in place, the council needs to show how this will drive and deliver change across services.

3. Increased collaboration among elected members in the budget process and in business transformation activity is encouraging. Scrutiny by elected members has also improved, but this could be more transparent. This needs to be supported by better reporting of performance by officers. The council also needs to demonstrate its change and improvement more effectively.

4. Strong and effective leadership by elected members and the corporate management team is critical for the council to address its challenges in coming years.

Appendix 2:

Commission's findings on Best Value Report, Falkirk Council

27 August 2015

1. The Commission accepts this report by the Controller of Audit on Best Value audit work in Falkirk Council.

2. While Falkirk Council provides generally good services, it has identified the need to make savings of £46 million over the next three years. The Commission has significant concerns that the council's approach to this challenge is inadequate to ensure that service standards are maintained and improved.

3. The council needs to make a step-change in its pace of improvement. A continuing reliance on small-scale savings projects, service reductions and service charge increases is not sufficient. The council needs to be more ambitious, coherent and clearer in its savings plans. These plans need to reflect its priorities and what impact they will have on services. The Business Transformation Project needs to be more strategic and stronger leadership is needed for this to happen. Councillors need to provide strategic direction for the project, and senior managers need to ensure that options on the future delivery of services are clearly articulated to members. Members' decision-making also needs better support from the council's performance management system.

4. The Commission welcomes that, after an unacceptable and protracted period of ineffective scrutiny in the council, members are participating in new arrangements. The council needs to demonstrate that scrutiny is now effective.

5. The council has a great deal to do to provide assurance that it can deal with the financial challenges ahead. The Commission therefore requires the Controller of Audit to report back on progress by the end of 2016.

Falkirk Council

Best Value Follow-up Audit 2017

ACCOUNTS COMMISSION

Prepared for the Accounts Commission by the Controller of Audit

January 2018

Contents

Controller of Audit Report

Background

1. This report updates the Accounts Commission on Falkirk Council's progress following a previous Best Value follow-up audit report in December 2016. I have prepared this report in response to the Commission's request for an update by the end of 2017. This is my third Best Value report on the council in four years.

2. In 2016, the Commission said the following.
   - In our findings in August 2015, we stated that the council needs to make a step-change in its pace of improvement. It is disappointing that we have not yet seen this.
   - While there has been much activity in the council in responding to our previous findings, we remain concerned that the scale of improvement required necessitates the council making more radical change. It urgently needs to agree its key priorities. These need to be supported by a more robust approach to financial planning for the medium and longer term and a more coordinated and streamlined approach to its improvement activity, showing how substantial change will be achieved. While a corporate workforce strategy is now in place, the council needs to show how this will drive and deliver change across services.
   - Increased collaboration among elected members in the budget process and in business transformation activity is encouraging. Scrutiny by elected members has also improved, but this could be more transparent. This needs to be supported by better reporting of performance by officers. The council also needs to demonstrate its change and improvement more effectively.
   - Strong and effective leadership by elected members and the corporate management team is critical for the council to address its challenges in coming years.

3. Follow-up audit work on Best Value at the council has been integrated with the annual audit, and the conclusions are reported in the 2016/17 Annual Audit Report (AAR). A copy of the AAR is enclosed. The appointed auditor presented the AAR to the council's Audit Committee on 28 September 2017. The conclusions in the AAR provide the basis for this report, which focuses on the main areas highlighted by the Commission. I have cross-referenced the relevant pages of the AAR. My report also draws on further audit work in October to December to reflect a number of key developments in Falkirk Council. These relate to: the new corporate plan; Council of the Future; and budget planning.

4. Following the local government elections in May 2017, the administration of the council changed from a Labour/Conservative/Independent coalition to a minority Scottish National Party administration. The election and change in administration has impacted on the timing of the council progressing actions over the year since the last Best Value report.

5. My report is structured in five parts:
   - the council's response to the December 2016 Best Value follow-up report
   - setting priorities and leadership of change
   - the council's financial planning

- the council's transformation programme and improvement activity
- elected member scrutiny.

The council has adopted a more strategic approach to improvement and transformation following the Accounts Commission's December 2016 findings

6. The council initially considered the December 2016 Best Value follow-up report at the council meeting in February 2017. At this meeting, the council acknowledged the findings and agreed the council's response. The council initially considered its response to the messages in the 2015/16 AAR in December 2016. At that time it agreed that it needed to take a more holistic approach and it agreed to adopt Council of the Future (CoTF) as its improvement framework to deliver change over the medium term. The council did not prepare a separate Best Value improvement plan as members agreed it would be integrated into CoTF as the council's overall improvement programme. The council is monitoring progress through the governance arrangements for CoTF.

The council has agreed its priorities, with widespread recognition that it needs to change significantly, but it is too early to assess the council's leadership of change

7. In September 2017, the council agreed a new five-year corporate plan for 2017 – 2022 and eight priorities. It did this in the context of the overall financial situation. The corporate plan sets out what the council is going to look like in five years time and what it will aim to deliver over those five years. The new corporate plan is based on the assumption that the council will have up to a quarter less resources in five years time (AAR, page 26). The corporate plan sets out the council's priorities as:

People

- Raising aspiration and ambition
- Reducing the impact of poverty on children and their families

Place

- Grow our economy
- Improving the neighbourhoods we live in
- Promoting vibrant town centres

Partnership

- Working with communities to deliver better services
- Empowering and enabling people to be self reliant
- Promoting stronger, more self-reliant communities.

8. It sets a longer-term vision centred on modernisation and closer involvement and engagement with communities, linked to the community planning outcome objectives. The corporate plan is the council's response to delivering the commitments in the Community Planning Partnership's Strategic Outcomes and Local Delivery Plan (SOLD) for 2016 – 2020. This sets out four priorities:

- Improving mental health and wellbeing
- Maximising job creation and employability

- Minimising the impact of substance misuse
- Addressing the impact of poverty on children.

9. The corporate plan is supported by three service delivery plans. These set out the actions and intended impact against all relevant corporate priorities and SOLD outcomes. The service delivery plans do not always clearly define the intended impact and they do not set specific targets to achieve the impact. The council needs to ensure it has strong performance management arrangements to drive and monitor services in achieving the desired outcomes.

10. COTF sets out 18 projects under four categories, with a range of completion dates up to March 2022:

- One council
- Enabled and Empowered Communities
- Modern and Digital
- Data.

11. The council has recognised the need for change and successfully completed a comprehensive engagement phase of CoTF during 2017. This communicated the vision clearly. This is an important initial stage in ensuring that staff and other stakeholders understand the vision for the council and are committed to it. There is evidence of a change of approach in the council and widespread recognition that the council needs to change. The council is now implementing its corporate plan and CoTF, and it will need strong leadership to make the necessary step-change in its pace of improvement. It is still too early to reach a judgement on how successfully elected members and senior officers are leading this change to deliver improvements.

The council has improved its approach to financial planning

12. The council considered an updated medium-term financial paper in June 2017. This forecast budget gaps of £77.5 million over the five years from 2018/19 to 2022/23 (see ARR page 21-22). The paper included scenario planning for a range of assumptions. This is a positive development. The appointed auditor concluded that the analysis supporting the council's medium-term financial plan makes it clear that the council has to identify its priorities and transform the way the council operates and delivers its services (page 23, conclusions). The council subsequently agreed its priorities in September 2017.

13. The council has set up a clear framework for a two-year financial plan and is working towards proposals for the following three years. The council Executive considered proposals for a two-year revenue budget for 2018/19 and 2019/20 on 17 October 2017. A subsequent paper setting out options for savings in years three to five of the medium-term financial plan is scheduled to be considered by Full Council later in the financial year.

14. The budget paper sets out officers' options for savings of £22.4 million in 2018/19 and £11.8 million of the £16.4 million savings estimated for 2019/20. The majority of the savings options proposed for 2018/19 (eight out of the most significant 15 savings options) are from reducing or stopping services. The proposals estimate the council's workforce will reduce by 198 full-time equivalent staff in 2018/19 and a further 48 the following year. This is consistent with the corporate plan and CoTF which set out the need for a smaller council in future. However, these workforce reductions need to be well planned to manage the impact on services. The council consulted local people on the options in October to December 2017.

15. The council included impact assessment in its savings options, and noted any implications against each proposal using a traffic light assessment. This includes the impact on the council's priorities. As its assessment recognises, some savings options would negatively impact on the council's priorities. For example, it shows that the proposed removal of subsidised bus services will impact on all three of the councils' priorities of people, place and partnership. The proposal to close community education centres would have an adverse effect on the council's priority to empower and enable people to be self-reliant. The council's paper recognises that many of the savings options will be very unpalatable to elected members. It states that 'Members should prepare themselves for the very difficult decisions that they necessarily will have to take to secure the statutory requirement of a balanced Budget'. The council will need to continue to monitor the impact of savings on achieving its priorities.

16. The cross-party budget group was formed again after the elections in May 2017, with members from each of the three main political groupings. Elected members feel this group is useful and contributing to cross-party understanding of the budget challenges and officers' savings proposals. Officers have attended meetings to discuss the proposals relating to their service areas.

17. Elected members chose to use £3.3 million that had been earmarked for reserves in 2017/18 to fund non-recurring service expenditure (AAR, page 21). While uncommitted reserves remain within the agreed target range, reducing them or using earmarked reserves to fund services is a risk to the council as financial challenges increase, and not sustainable. The appointed auditor made a recommendation in the AAR about risks to the council of using reserves and the management response stated that members are continually reminded of the risks (AAR, recommendation 7, page 42).

The council is implementing a new five-year transformation programme but it is too early to see the impact on the council

18. The council is now moving into the implementation phase of CoTF. Papers to date have identified qualitative benefits, such as more efficient ways of working and improved customer experience, but do not identify anticipated savings. The council's budget paper in October 2017 states that the proposals have been developed within the context of CoTF and that it is an integral part of the council's medium-term financial plan. The budget paper states that CoTF savings identified so far are around £13.1 million in 2018/19 and around.£4.7 million in 2019/20. However savings from most of the CoTF projects are not separately identified in the budget paper and it is difficult to identify these projects in the savings options. Management need to further develop the detail of the CoTF projects and the savings that they are expected to deliver over the five-year period.

19. The council is developing appropriate governance arrangements for CoTF. It has established a CoTF Board to replace the Business Transformation Board. This has been meeting since January 2017. The Leader of the Council and the Leader of the Opposition are both members. In September 2017, membership was extended to include six elected members, two from each of the three main groupings. The Board will oversee the delivery of the projects within the CoTF programme.

20. The council recently developed a risk register for the programme and recognises that it will need to develop this further, with more detail around the risks and mitigation actions. In addition to reporting to the CoTF Board, officers present updates to the Executive every three months. The Audit Committee also has an update as a standing item. Elected members were positive about their engagement with council officers on the programme and projects, and managers of the CoTF projects will appear at the CoTF Board to report on progress.

21. The council set up a programme management office (PMO) to support the development and delivery of its transformation programme. It has been supported by the Improvement Service (IS), and a member of staff from the IS has been seconded to the council since late 2016. The council recently agreed to fund a permanent post to manage the PMO, and it is funding three fixed-term project management co-ordinators. This is a positive development given the scale of the transformation and improvement that the council needs to make. However, change on this scale needs to be driven and embedded by senior officers and elected members. This is a challenging improvement programme, and there are risks that the council will not have the capacity and capability to deliver the significant change required. The appointed auditor will continue to monitor the council's progress.

22. The appointed auditor has made a number of recommendations to support the council in developing and implementing the project management needed to drive and deliver this programme, and to highlight the risks to the council of failing to deliver (AAR, page 45). The council accepted the recommendations and set out its response. The appointed auditor will follow up on progress through the annual audit.

23. The council is developing a workforce strategy, digital/technology strategy and locality planning strategy to support it delivering its corporate plan and SOLD priorities, and CoTF (AAR, page 26).

The council's scrutiny arrangements are continuing to operate effectively

24. Councillors are continuing to participate in the council's scrutiny arrangements, and minutes of key strategic and scrutiny committees show evidence of challenge from elected members, with members demonstrating an appetite for scrutiny and asking pertinent questions. Examples of engaged challenge include:

- members questioning areas below target and contract costs
- members requesting additional information, for example on complaints
- members noting the importance of complaints as an indicator of performance.

25. Elected members were positive about the induction for new members after the election. In October 2017, the council provided specific training on scrutiny skills for members of the scrutiny committees and the Convenor of the Performance Panel. This was well attended, with nine of the 13 members who were invited attending.

26. The council uses action logs across committees to help track progress against agreed actions. However these are used inconsistently and they include a variable level of detail. The Executive action logs provide a better indication of targets and on-going progress against key milestones. The council still needs to better follow-up on the impact of actions to ensure they have the desired effect.

27. There were fewer scrutiny committee and performance panel meetings up until September 2017, due to the local government elections and recess. The meetings that took place over that period generally lacked a focus on more strategic issues including the council's priorities and transformation agenda. Instead they focused on discrete service-related issues and projects. Following the council agreeing the new corporate plan and service plans, it launched a new service reporting framework. This aims to integrate reporting against the SOLD, corporate plan and service plans. A new template for reports to the Performance Panel includes performance against the service's key priorities and outcomes, and against CoTF projects. The template is intended to show a clearer link between performance and improvement.

28. The, first service report using the new template was considered by the Performance Panel in October 2017. Councillors welcomed the new format and requested that the template is further developed to include benchmarking information. It is still too early to make a judgement on the quality of the service reports and whether they support effective scrutiny. If the council implements this change effectively, it should lead to a more strategic and consistent approach to scrutiny.

29. The Performance Panel is continuing to meet in private, although it does publish detailed minutes.

Conclusions and recommendations

30. The council has demonstrated that it responded positively to the Accounts Commission's December 2016 Findings. It has made satisfactory progress against the Accounts Commission's findings, given the relatively short time period since December 2016 and the impact of the local government elections in May 2017. More specifically:

- It is taking forward a more ambitious and co-ordinated improvement programme, and there is widespread recognition that it needs to change. There has been a successful period of engagement with staff, elected members and other stakeholders about the programme, which has supported a widespread understanding of where the council needs to get to.
- It has developed its new corporate plan and supporting service plans, clearly linked to its transformation agenda.
- It has improved its approach to financial planning, using scenario planning to plan for the medium term. However it still faces significant risks given the scale of the savings it needs to deliver.
- It has assessed the potential impact of its savings proposals on its priorities, to support joined-up planning and informed decision making.
- It has increased opportunities for cross-party working on key priorities through the CoTF Board and continuing with the cross-party budget working group.

31. The council is still in the early stages of implementing its transformation programme, and it is too early to assess the leadership of the implementation phase and the impact of CoTF on the council and local people.

32. Where the impact of the improvement actions is still to be demonstrated by the council, I have asked the auditor to report a further update in the 2017/18 AAR.

33. The 2016/17 AAR at Appendix F contains a number of recommendations for the council, some of which directly address areas of interest to the Commission (pages 41 to 46 of the AAR), and which I support, as Controller of Audit. The auditor will report the council's progress on these actions in the 2017/18 AAR.

Falkirk Council

Year ended 31 March 2017

Annual Audit Report

29 September 2017

Building a better working world

Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Falkirk Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive summary – overview

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Falkirk Council (the Council) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Auditing Practices Board; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both the members of the Council and the Controller of Audit, and presented to both Council management and those charged with governance, identified at the Council as being the Audit Committee. It will be published on Audit Scotland's website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Scope and responsibilities

The Code sets out the responsibilities of both the Council and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the Audit Committee on 13 March 2017. We summarise the responsibilities of the Council in Appendix A.

Our Annual Audit Plan also provided you with an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £9 million and a Tolerable Error of £4.5 million. We reassessed this using the actual year-end figures, to confirm that the materiality remained appropriate for the audit. No adjustment was made to materiality amounts communicated in our Annual Audit Plan. The threshold for reporting audit differences is £250,000, in accordance with the Code.

Status of the audit

We have completed our audit of Falkirk Council's financial statements for the year ended 31 March 2017. We have issued an unqualified opinion on the Council's financial statements for the year.

Key contacts

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Acknowledgement

We would like to thank all members of the Council's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Accounting and audit matters – our reporting on the Council's financial statements

Preparation of financial statements

- The unaudited financial statements were prepared to a satisfactory standard. There were some delays experienced in obtaining key information. There is scope to improve and streamline the financial statements, together with the financial reporting process.
- We identified one error in the prior year financial statements which management corrected. There was no impact on the net assets as at 31 March 2016, however the deficit on provision of services was increased by £4.4 million. Adjustments in the current year reduced the surplus on provision of services by £7.7 million and reduced net assets by £1.8 million. One unadjusted difference of £0.70 million was identified.

Significant risks

Risk of fraud in income and / or expenditure recognition

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year.

Management override of controls

- We are have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- We consider that management made appropriate disclosure on the accounting judgements and estimates made, with some scope for further enhancement.
- Provisions should be reviewed at the balance sheet date to ensure these are appropriately recorded.

Other inherent risks

Valuation of property, plant and equipment

- An adjustment was required to the prior period financial statements to reflect a material impairment of council dwellings which had been charged incorrectly to the revaluation reserve and not cost of services in 2015/16. A similar adjustment was required in 2016/17. There was no impact on the general fund.
- We are satisfied that other property, plant and equipment was supported by appropriate valuations.

Retirement benefits

- Defined benefit pension scheme liabilities have been estimated using actuarial assumptions which we consider to be reasonable. The required disclosures are provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions.
- We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Other matters and reporting requirements

- The new Expenditure and Funding Analysis has been presented in accordance with the Accounting Code of Practice and the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement restated accordingly. We consider the disclosures provided to be appropriate to the Council's internal reporting during the year.
- We obtained reasonable and appropriate audit evidence over the Council's group financial statements. Based on our group scoping we did not need to undertake detailed testing at any group components. We are the appointed auditor to Falkirk Integration Joint Board. In obtaining support for the Council's investment in one of its subsidiaries there is a requirement to clarify the loan relationship.
- The Council's statutory trading operation for Building Maintenance met its 3-year break even requirement.
- We undertook the audit of the Falkirk Temperance Trust. We have provided an unqualified audit opinion on the financial statements of the Trust.
- We concluded that the Council complied with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. In respect of our 'Opinions on other prescribed matters', including the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified. We have identified no matters on which we are required to report by exception.

Wider scope audit dimensions – our judgements and conclusions on the Council's arrangements

Financial management – area of audit focus

- We have concluded, based on the evidence in 2016/17, that the Council maintained good financial management over income and expenditure, ensuring that the budget was achieved and savings required were delivered. The budgeted utilisation of reserves was not required in the year.
- In line with other support services, the finance function has undergone further restructuring in the year, with a number of individuals leaving the Council. This has left one senior post unfilled. Without a full complement of appropriately experienced finance professionals, there is increased risk to the Council.

We have made one recommendation in the action plan (point 6) in respect of the Council's arrangements.

Financial sustainability – area of audit focus

- We have concluded that the Council's financial position as at 31 March 2017 is satisfactory. While they have maintained a number of reserves within the target range, the overall financial position of the Council has weakened significantly due to an increase in pension liabilities.
- Only a one-year budget was approved for 2017/18, although information on longer-term budget gaps was provided to members as part of the budget setting process. These have been updated and formulated into a medium-term financial plan. The analysis makes it clear that the Council has to clearly identify its priorities as well as transform the way the Council operates and delivers its services.

We have made four recommendations (points 7 to 10), two of which are graded one, in respect of the Council's arrangements.

Governance and transparency – area of audit focus

- The Council has now established a comprehensive framework of governance arrangements which provides a clear commitment to the core principles of independent scrutiny. Internal audit is well respected, however, we have made recommendations for consideration to enhance the arrangements.
- The Council is in the process of agreeing its new Corporate Plan and supporting enabling strategies. While these are being finalised, there is a need to establish clear milestones to demonstrate the timelines for delivery of multi-year projects, to enhance accountability and enable the required pace of change.

We have made six recommendations (points 11 to 16), two of which are graded one, in respect of the Council's arrangements.

Value for Money

- The Council is in transition in setting out its new Corporate Plan and the underlying service plans and targeted priorities. In order to be able to demonstrate the commitment to continuous improvement, it is important that appropriate measures and targets are in place to assess performance over the five year period of the Corporate Plan.
- LGBF data shows that the Council performs reasonably well compared to the national average in a number of areas. There has been an improvement in performance generally over time.

We have made one recommendation in respect of the Council's arrangements, at grade one (point 17).

Appendices

We set out in the appendices a number of required communications we provide in accordance with auditing and ethical standards. In particular, we have confirmed our continuing independence to act as auditor of the Council.

We also provide a short accounting and regulatory update highlighting forthcoming changes and their potential impact on the Council.

1. Financial statements and accounting

1. Financial statements and accounting

The Council's Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit opinion

In respect of the financial statements, we have issued an unqualified opinion on the truth and fairness of the state of affairs of the Council and its group at 31 March 2017 and of the surplus on provision of services for the year then ended, in accordance with applicable law and the 2016/17 Code of Practice

The detailed form and content of our audit report, plus the requirements underpinning the report are contained in the Audit Scotland guidance at: http://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2017_5_local_authorities.pdf.

We have not identified any circumstances to notify the Controller of Audit that a statutory report may be required under the Local Government (Scotland) Act 1973.

Financial statements preparation

As part of your oversight of the Council's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared predominantly by the finance team to support the audit.

We experienced delays in the provision of certain key information, notably data in respect of payroll information. Overall we believe there is scope to improve the financial reporting process further, and to streamline the format of financial statements. We will work with the finance team as part of our annual debrief meeting to ensure we support improvements to both the financial reporting and audit processes.

Action plan point - 1

Materiality

We planned our procedures using a materiality of £9 million. We reassessed this using the actual year-end figures, to ensure that our level of materiality remained appropriate. We did not change our assessment of materiality as a result. Our audit Tolerable Error for the audit was £4.5 million and the threshold for reporting audit differences is £250,000.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits - we applied a materiality of £1,000 based on the potential sensitivity of these disclosures.
- Related party transactions - we considered the nature of these disclosures individually.

Audit differences

We identified one audit difference in the draft financial statements which management has chosen not to adjust. We ask that the Audit Committee and Council note this and that these will be included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £0.7 million. We agree with management's assessment that the impact is not material.

There were a number of audit differences identified which were adjusted by management. These reduced the surplus on provision of services by £7.7 million and reduced net assets by £1.8 million.

Included within these was an error identified in the opening balance sheet information which resulted in management correcting the prior year comparative figures. There was no impact on the net assets as at 31 March 2016, however the deficit on provision of services was increased by £4.4 million.

1. Financial statements and accounting

Our Audit Plan identified key areas of focus for our audit of the Council's financial statements, including significant risks. This report sets out the results of our audit procedures plus relevant observations, including our views on areas which might be conservative, and where there may be potential risk and/or exposure.

Significant risk – risk of fraud in income and expenditure recognition

What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We rebutted the risk of improper recognition of revenue in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income.

Results of audit procedures

In relation to income, predominantly fees and charges, and other operating expenses where we had identified a significant risk of material misstatement, we:

- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- Reviewed transaction listings for individually material transactions as well as unusual items (debits to income, credits to expenditure etc.) to agree to supporting documentation and third party evidence.
- Tested a representative sample of transactions across the remaining untested income and expenditure population to ensure coverage of testing across all balances.
- Reviewed and tested revenue cut-off around the year end through reviewing manual journals posted to revenue and reviewing material credit notes raised after year end.
- Performed a search for material receipts received after year end and ensured these had been accounted for in the correct period.

Where we are performing procedures to address significant risks to the financial statements we do so to a lower level of materiality than for standard accounts. All procedures outlined above were completed with no material reported audit differences or other matters noted.

Other income and expenditure areas

The most significant area of revenues was taxation and non-specific grant income of £360.8 million. £236.4 million of this related to government grant income which we substantively tested to grant confirmation letters. The remainder is made up of £69.1 million of NDR redistributions and £55.3 million of Council Tax income. These were agreed either to funding correspondence, and / or through establishing detailed expectations of income and expenditure, agreeing underlying assumptions to supporting evidence, and comparison to actual income and expenditure recorded by the Council in the year.

For expenditure, £227.3 million relates to payroll costs. These have been subject to detailed analytical procedures and reconciliation to underlying payroll information. We have agreed PPP transaction costs to PFI contract and finance models. Depreciation and impairment charges have been subject to detailed audit testing, including reconciliation to the fixed asset register.

Risk of fraud in income and expenditure recognition – what have we concluded?

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year.

Significant risk – management override
What is the risk?
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Audit procedures performed and what did we find?
Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation.
Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates. We identified and considered the existence of any accounting estimates and their susceptibility to bias. Management has disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. We have reviewed these and agree with the detail of the assessment performed. We considered all material provisions made in the financial statements in 2016/17. In one instance we identified a provision in relation to statutory employee costs where management had understated the accounting for the provision by £1.8 million based on the most recently available information. In our view this adjustment is the result of an oversight in the fundamental accounting treatment rather than an attempt to manipulate the Council's financial position, as the quantum of provision needed at year end was well established and recognised. Management has corrected the difference, with an impact of reducing the surplus on provision of services by £1.8 million, which has subsequently reversed out of the general fund through the movement in reserves statement to a statutory employee costs reserve. ***Action plan point - 2***
Evaluate the business rationale for any significant unusual transactions. We did not identify any significant unusual transactions outside the normal course of business.
Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. We reviewed expenditure on property, plant and equipment to ensure that expenditure items were not being inappropriately capitalised to defer costs to future years. Likewise we performed analytical procedures and transaction testing of HRA expenditure to ensure that HRA reserves were not being utilised to meet general fund transactions. No issues were identified through our testing.

Risk of management override – what have we concluded?

- We are have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- We consider that management made appropriate disclosure on the accounting judgements and estimates made, with some scope for further enhancement.
- Provisions should be reviewed at the balance sheet date to ensure these are appropriately recorded.

Other inherent risk – valuation of property, plant and equipment
What is the risk?
The Council's property portfolio totalled £987 million as at 31 March 2016, with the major elements of this being in respect of Council Dwellings, Other Land and Buildings and Infrastructure assets. Given the size of this balance and the fact that a number of assumptions are made in the valuation, we assigned a higher inherent risk to the valuation of property, plant and equipment.
Audit procedures performed and what did we find
In response to our identified risk around property valuations, we performed the following procedures: ► Through analysis of the source data and through enquiries of management, the appropriateness as to the procedures used by management's specialist valuer to establish whether the source date is complete. ► Assessment of the reasonableness of the assumptions and methods used in the valuation of land and buildings, including their compliance with the Accounting Code of Practice. ► Considered the appropriateness of the timing of when the specialist carried out the work. ► Confirmation that the substance of the specialist's findings were properly reflected in the financial statements, and that these took account of the Council's ongoing strategic property review. In respect of housing capital additions, management had identified that these do not add full value due to the interaction of valuation for existing value for social housing. In charging the impairment of £5.9 million, we identified that this had incorrectly been charged to the revaluation reserve and not as impairment below cost to the income and expenditure statement. This treatment had also been adopted in the prior year, where £4.4 million was charged to the revaluation reserve. As this represented a material misstatement, management corrected both the current year and the prior year comparatives accordingly. We identified approximately £0.7 million in assets that were disposed of with no proceeds. On further investigation we identified that these were leased assets which had been incorrectly added to the fixed asset register. The disposal of the assets corrected the position at the year-end. However, since these were not Council assets this represents an error in accounting. We have raised this an audit adjustment and note that management has chosen not to adjust on the basis of materiality. We consider this to be a reasonable approach. The error in respect of these assets was identified through the Council's annual rolling valuation exercise. As the exercise did not cover all fixed assets on the register there is a risk that further incorrectly held assets exist. In addition, while management has established a process whereby significant capital additions in the year are used to consider whether there may be any material changes in asset valuation, there is no formal process to determine movements based on market prices in general. While we are satisfied that the Council's valuations have been appropriately reflected within the financial statements, we recommend that management enhance the existing valuation process to ensure that there is a robust process for ensuring that asset valuations do not materially differ from current value over the rolling cycle of valuations. ***Action plan point - 3***

Inherent risk, valuation of property, plant and equipment – what have we concluded?
• An adjustment was required to the prior period financial statements to reflect a material impairment of council dwellings which had been charged incorrectly to the revaluation reserve and not cost of services in 2015/16. A similar adjustment was required in 2016/17. There was no impact on the general fund. • We are satisfied that other property, plant and equipment was supported by appropriate valuations.

Other inherent risk – retirement benefits
What is the risk?
The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS). Accounting for the pension fund assets and liabilities involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Results of audit procedures
In planning our audit, we identified that pension liabilities at 31 March 2016 were £303 million. Following the result of the EU Referendum in June 2016, we saw significant changes in certain economic assumptions used in the valuation of pension liabilities leading to significant increases in reported net pension liabilities by entities with accounting year-ends after the June 2016. At 31 March 2017, the Council's net pension liability had increased to £461.7 million, primarily as a result of changes in the discount rate used to value the pension obligations. Our audit procedures included: ► Analysis of the payroll and pensions source data and made inquiries as to the procedures used by management's specialist to establish whether the source date was relevant and reliable. ► Utilisation of EY pension specialists to challenge the appropriateness of the assumptions used in deriving the liabilities at 31 March 2017. As part of this work, our specialists considered the work undertaken by PWC on behalf of the public audit agencies to provide assurance over the major actuarial firms involved in preparing IAS 19 valuation reports. Assumptions used by the actuary and adopted by the Council are considered to be within our acceptable range. ► Testing of the journal entries for the pension transactions to ensure that they have been accurately processed and agreed the required disclosures in the financial statements to relevant information provided by the actuary.

Inherent risk, retirement benefits – what have we concluded?

- Defined benefit pension scheme liabilities have been estimated using actuarial assumptions which we consider to be reasonable and the required disclosures have been provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions.
- We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Our Audit Plan identified other audit matters and aspects of our work which arise either in accordance with International Standards on Auditing (UK & Ireland) or in accordance with the Code. These are set out below.

Other audit matters

Expenditure and funding analysis

In 2016/17 there were amendments to the Accounting Code of Practice as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Accounting Code of Practice no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead it requires that the service analysis is based on the organisational structure under which the authority operates, reflecting internal financial reporting structures.

This change impacted the Consolidated Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS) and introduced the new expenditure and funding analysis (EFA), with full retrospective restatement of the CIES and MiRS. Our audit approach has focused on:

- Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Accounting Code of Practice. Management initially presented the EFA apparently as the first statement within the financial statements. Since it does not form one of the four primary statements, we asked management to make the narrative clear that the EFA, while it can be displayed prominently, is a note to the financial statements.
- Reviewing the analysis of how these figures are derived, the re-mapping of the ledger system to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

Opening balances

International Standard on Auditing (UK and Ireland) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.

In response, we have:

- Held discussions with the former external auditor in respect of previous significant audit issues, corporate governance and general risk assessment.
- Reviewed prior year financial statements, annual audit reports and other reports issued by the former s external auditors.
- Substantively tested opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance.
- Undertaken a mix of testing on balances during 2016/17 which provide assurance on the judgements and estimates made as at 31 March 2016.

We have reported elsewhere on the requirement to undertake restatement of the prior period to correct errors identified. There are no other matters to raise with you as a result of our work.

Other audit matters – what have we concluded?

- The EFA has been presented in accordance with the Accounting Code of Practice and the MiRS and CIES restated accordingly. We consider the disclosures provided to be appropriate to the internal reporting of the Council during the year.
- We concluded our work on the opening balances as part of the requirements for initial audit engagements. As reported elsewhere, a number of adjustments to prior period figures were required.

Other audit matters (continued)
Group financial statements
The Council consolidates its interest in FCSL (Holdings) Ltd and Falkirk Community Stadium Ltd (FCSL) as subsidiaries. The principal activity of the companies is the operation of the stadium at Westfield. FCSL has two directors who are employees of the Council. In requesting supporting documentation for the consolidation spreadsheets, the information provided in respect of FCSL was inconsistent with that contained in the subsidiary company financial statements. In particular, the subsidiary financial statements still showed the existence of a loan payable to the Council. We were advised that from the Council's side, this loan was no longer payable and had been cancelled when the Council had taken security over the assets within FCSL. We have obtained sufficient and appropriate evidence to support the carrying value of the investment in FCSL on the Council's balance sheet, however, it is necessary that the Council review this relationship and ensure that there is a consistent position recognised by both parties. ***Action plan point - 4*** In scoping our audit work over the group, only the Falkirk Integration Joint Board (the FIJB) was scoped into our audit procedures on the grounds of materiality. We are the appointed auditor to the FIJB and report separately on our audit of that entity. The accounting for the FIJB was new in 2016/17. The relationship as a joint venture meant that in the Council CIES, a gross-up of expenditure funding made to FIJB plus the expenditure on social care services was shown, offset by the income receivable from FIJB as part of its delegation of resources. The overall impact of preparing group financial statements was to reduce total reserves by £8.7 million (*2015/16: £7.6 million*).
Qualitative aspects of the financial statements
With the exception of the matters discussed specifically elsewhere in this report: ► We have reviewed the significant accounting policies, which are disclosed in the annual financial statements, and we consider these to be appropriate to the Council. ► There was no disagreement during the course of the audit over any accounting treatment or disclosure. ► There were no significant difficulties encountered in the audit.
Significant trading operations
Under the Local Government in Scotland Act 2003, the Council has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The 2003 Act also prescribes that STOs have to break even over a three year rolling period. The Council reports one significant trading operation for Building Maintenance. The cumulative three-year result is a surplus of £0.38 million. Consequently the Council met the statutory objective placed in it.

Other audit matters (continued) – what have we concluded?

- We obtained reasonable and appropriate audit evidence over the Council's group financial statements. Based on our group scoping we did not need to undertake detailed testing at any group components. We are the appointed auditor to Falkirk Integration Joint Board. In obtaining support for the Council's investment in one of its subsidiaries there is a requirement to clarify the loan relationship.
- The Council's statutory trading operation for Building Maintenance met its 3-year break even requirement.

Other audit matters (continued)
Falkirk Temperance Trust
The Council acts as sole trustee for the Falkirk Temperance Trust. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The Falkirk Temperance Trust is covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently requires a full audit. In summary: ► We have provided an unqualified audit opinion on the charitable trust fund's financial statements, in accordance with applicable law and the relevant financial reporting framework. ► There were no audit adjustments impacting on the net assets or income and expenditure reported for the year. ► No numerical adjustments were required to the financial statements prepared for audit. A number of presentational adjustments were suggested and made in order to ensure compliance with the disclosure requirements outlined in the above legislation. ► We considered and confirmed our independence to act as auditor of the charitable trust, in line with the procedures set out in Appendix C for the Council audit, together with the objectivity of the audit partner and staff. ► Materiality for the audit was set in accordance with our audit methodology, at 2% of total assets. ► We encountered no significant difficulties in undertaking our work and have no other significant matters to report to you.

Other audit matters (continued) – what have we concluded?
• We undertook the audit of the Falkirk Temperance Trust. We have provided an unqualified audit opinion on the financial statements of the trust.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statements which should be included in the Annual Report and Accounts in addition to the financial statements. These items are covered by our independent auditor's report as *Other prescribed matters*, in accordance with the requirements of the Code.

Other reporting requirements

The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations)

Regulations 8 to 10 set out the statutory requirements on the Council in respect to the Annual Accounts, their availability for public inspection and the consideration and signing by the Council or a committee with an audit or governance remit. As required, we received the unaudited Annual Accounts by the 30 June. The Audit Committee considered the unaudited Annual Accounts on 21 August 2017, in advance of the 31 August deadline. No statutory objections were received on the unaudited financial statements.

Management Commentary

The requirement for the Council to include a management commentary is included in Regulation 8(2)(a). Audit Scotland requires us to read the management commentary and express an opinion on whether the information given is consistent with the financial statements and whether it has been prepared in accordance with the Scottish Government's statutory guidance within Local Government Finance Circular 5/2015.

We considered whether the management commentary provided a fair and balanced review of the Council's business; a description of the principal risks and uncertainties; financial and non-financial key performance indicators; a description of the Council's strategy and business model and the main trends and factors likely to affect future developments; performance and position of the Council's business and explanation of the amounts in the financial statements.

We were satisfied that the management commentary provided a detailed explanation of the financial performance for the year, along with other required information. No key performance indicators were initially included. We requested management update the commentary to include key performance indicators. In addition we suggested adjustments to improve the clarity of the narrative. Management updated the commentary appropriately to reflect the key elements of our review.

Action plan point - 5

Remuneration Report

Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations.

No amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentation in accordance with the statutory requirements. The Council has disclosed appropriately exit packages provided to 93 staff totalling £2.2 million (*2015/16: 179 staff totalling £3.8 million*).

Annual Governance Statement

Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether the information given in the annual governance statements is consistent with the financial statements and whether the statement has been prepared in accordance with *Delivering good governance in local government: framework 2016*.

We set out the work undertaken in respect of the Council's annual governance statement as part of the Wider Scope – Governance & Transparency section of this Report.

Other reporting requirements – what have we concluded?

- We have concluded that the Council has complied with the requirements of the Regulations.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We have not identified any other matters on which we are required to report by exception.

2. Wider scope audit

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

Wider scope audit

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value. As your external auditor we participate in the Local Area Network (LAN), and were appointed as the LAN-lead for the Council. The LAN brings together representatives from across different scrutiny bodies to agree a Shared Risk Assessment (SRA) for each local authority. The SRA informs the local scrutiny plan (LSP) ensuring that for any risks identified there is an appropriate scrutiny response.

The 2016/17 LSP focussed on the Best Value follow-up work planned, as well as the risk of financial sustainability. The 2017/18 LSP reported the LAN's conclusion that no new scrutiny risks had been identified which require specific scrutiny work during 2017/18. The LSP noted the findings of the Accounts Commission in the Best Value follow-up report published on 1 December 2016 and the requirement for a further follow-up report by the end of 2017.

Best Value auditing

Under the new approach to Best Value auditing in local government, the Controller of Audit will provide a Best Value Assurance Report (BVAR) for each council at least once in a five year period. The requirement for a Best Value follow-up report means that specific work this year has focussed on those aspects reported by the Accounts Commission in 2016. Timing of a BVAR is unconfirmed at this time.

The annual audit continues to focus on aspects of Best Value over our five year appointment. We have identified an indicative five year Best Value Plan in the table below. This will be subject to ongoing revision as priorities change or emerging risks arise, and the timing of a BVAR is confirmed.

The Accounts Commission has announced its strategic audit priorities and these are mapped across, at a high level, to the Best Value audit work planned as shown below.

A. The clarity of council priorities and quality of long-term planning to achieve these.

B. How effectively councils evaluate and implement options for significant changes in delivering services.

C. How effectively councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities.

D. How effectively councils are involving citizens in decisions about services.

E. The quality of council public performance reporting to help citizens gauge improvement.

Indicative five year Best Value plan	2016/17	2017/18	2018/19	2019/20	2020/21	Mapping to Strategic Audit Priority
Planned BVAR			tbc	tbc	tbc	
Follow up Best Value work	X					
Audit coverage:						
Performance and outcomes		X				B
Improvement		X			X	-
Leadership, Governance and Scrutiny	X				X	A
Equal Opportunities			X			E
Partnership Working and Empowering Communities				X		C, D
Financial and service planning	X		X			A, C
Financial governance and resource management	X			X		-

2.2 Financial management

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

Financial management

In undertaking our work on this audit dimension, at a high level we consider the following aspects:

- Is financial management effective?
- Are the budget setting and monitoring processes operating effectively?
- Is there sufficient financial capacity?

Area of audit focus

We set out in our annual audit plan that aspects of financial management were a key audit focus area. This was specifically as a result of the Accounts Commission Best Value follow-up report recommendations which indicated that the Council needed to:

- Review the process for preparing the budget to ensure all costs and income are more accurately anticipated.

Overview of 2016/17 financial statements

We provide an overview of key financial statements movements and balances in the table below, including our commentary on whether we consider these to represent a potential risk to the Council. Our detailed analysis over financial management and financial sustainability provides context to these assessments.

Focus on financial statements results	2016/17 £000	Restated 2015/16 £000	Commentary	RAG rating
(Surplus) / deficit on provision of services	**(1,220)**	18,938	A change to an accounting surplus was reported due to the timing of capital grants received, gains on disposals of fixed assets and other adjustments between the funding and accounting basis.	G
(Surplus) / deficit on General Fund and HRA in year	**119**	262	No significant change. In general this result reflects on good in-year financial management and budgetary control	G
Uncommitted general fund	**11,530**	8,562	Uncommitted reserves were in excess of the £6.6 - £10 million range set in the Council's reserves strategy. £3.3 million of reserves were committed in the 2017/18 budget.	A
Earmarked reserves	**8,451**	10,037	Earmarked reserves reduced mainly due to spend being incurred against the earmarked purpose.	A
Net current liabilities	**(43,956)**	(43,575)	Net current liabilities can reflect a potential inability to meet liabilities as they fall due. In practice, good cash flow management will ensure that this is not a risk, but the Council should monitor this position.	A
Total Usable Reserves	**42,278**	42,706	No major change in the overall level of usable reserves	G
Total Unusable Reserves	**133,933**	281,716	Significant increase in the pension fund liability means that the overall net assets of the Council, which equate to total usable and unusable reserves have decreased substantially.	R
Net increase / (decrease) in cash	**(10,798)**	22,530	The decrease in cash reflects outflows due to financing and borrowing arrangements, and working capital movements.	A

2016/17 financial outcomes

The 2016/17 Comprehensive Income and Expenditure Statement (CIES) shows that the Council incurred gross expenditure on the provision of services of £593 million (*2015/16: £551.8 million*), and incurred an accounting surplus of £8.9 million (*2015/16: deficit of £14.5 million*) on those services.

The new Expenditure and Funding Analysis (EFA) note to the financial statements provides an explanation of how this expenditure is used and funded by the Council. This is different from the accounting position shown in the CIES in accordance with the Accounting Code of Practice and, together with the Movement in Reserves Statement, demonstrates how the Council's statutory reserves, including the General Fund, have changed in the year.

As shown in the EFA, the outturn for the financial year against the Council's general fund was a deficit of £0.12 million (*2015/16: £0.26 million*). In February 2016, the Council approved a one-year revenue budget for 2016/17. Included within the budget for 2016/17 were savings of £25 million to deliver a balanced budget. This represented a significant element of savings required, however, the outturn for the year demonstrated that these were delivered.

2016/17 budget monitoring and outturn

The 2016/17 budget was based on a total spend of £329.6 and assumed a draw on uncommitted reserves of £1.45 million and earmarked reserves of £0.75 million. The majority of the £25 million savings came from budget rebasing and service level savings. The projected outturn against budget was reported regularly to the Council Executive during the year. The outturn report in June 2017 which supported the preparation of the unaudited annual financial statements is summarised in the table.

Service area	Budget £000	Outturn £000	Over / (under) £000
Children's Services	181,533	180,679	(854)
Social Work – Adult Services	5,865	5,332	(533)
Development Services	28,758	28,690	(68)
Corporate & Housing Services	26,485	25,444	(1,041)
Falkirk Community Trust	11,934	11,934	-
Valuation Joint Board	1,022	1,022	-
Integrated Joint Board	59,521	59,521	-
Other	960	890	(70)
Capital Financing Costs and Capital Charges	17,328	17,289	(39)
Service Expenditure - Total	**333,406**	**330,579**	**(2,827)**
Net Income	329,703	330,091	(388)
Surplus / (deficit)	**(3,703)**	**488**	**(3,215)**
Transfers to / (from) earmarked or other reserves	(1,503)	(3,455)	1,952
(Increase)/Decrease in Uncommitted General Fund Reserve	**2,200**	**(2,976)**	5,167

In-year budget monitoring reports were provided to the Council Executive on four occasion during the year, which included forecast outturn. The forecast outturn showed an increasingly positive outturn against budget as the year progressed. Delivery of the required financial savings targeted workforce reductions of 231 Full Time Equivalent (FTE) staff in the year, through not filling vacancies and management of temporary and agency staffing. By March 2017, there had been severance of 137 posts in the year, and the FTE numbers have reduced by 107. The projected net savings arising from the severances over five years is £13.3 million.

Housing Revenue Account

The HRA delivered a contribution to the reserve of £0.31 million, increasing the reserve balance to £5.1 million as at 31 March 2017. The average weekly rent increased by 3.7% resulting in increase rental income for the year.

There were no significant movements in any of rent arrears, losses on void properties or the bad debt provision from the prior year.

2016/17 financial outcomes – capital expenditure

Capital expenditure	Budget £000	Outturn £000	Over / (under) £000
General services capital programme	**34,736**	**30,826**	**(3,910)**
The Council under-delivered on the programme by approximately 11%, principally due to an underspend in relation to commercial property and environmental projects. The programme reports also on seven major stand-alone projects, of which in 2016/17 £12 million spend on the new Carrongrange High School was a key element of spend. The longer term Grangemouth flood prevention scheme is the single largest project, totalling forecast spend of £111 million.			
Housing capital programme	**27,060**	**31,136**	**4,076**
The housing programme over-delivered against the original plan, but was in line with the revised budget of £31.3 million which included carry-forward from 2015/16. There was approximately £3 million slippage on the new build budget of £7 million but other programme works were accelerated to off-set this.			

Overall financing of the capital programme was supported by £12.4 million of borrowing, £27 million of Scottish Government grants across both general fund and housing services, £8.8 million from capital receipts (primarily council house sales) and £10.5 million of capital expenditure funded by revenue.

The actual borrowing for capital expenditure was significantly lower than originally forecast and this was reported to members in the year end treasury management review. This borrowing was undertaken short-term, due to the relatively low interest rates available. Two market loans totalling £13 million held with Barclays were converted to fixed rate loans in the year after the bank waived their right to change the applicable interest rate of the two loans.

Capacity of finance and standing in the organisation

The Council's section 95 officer is the chief finance officer. We considered the role and status of the section 95 officer in respect of the principles laid out within CIPFA's *Statement on the role of the Chief Financial Officer in Local Government*, taking account of the recommendation raised in the 2015/16 annual audit report by the former auditor.

From our attendance at relevant meetings, and discussion with senior officers, we are satisfied that while the Chief Finance Officer does not directly report to the Chief Executive, the CFO is involved in the development and implementation of financial strategy to support the Council's strategic objectives.

To support this role, the CIPFA statement makes it clear that the CFO must lead and direct a finance function that is resourced to be fit for purpose. In line with other support services, the finance team at the Council has reduced in size in the year. In addition, the 2017/18 budget formally approved that the two chief officer Depute Chief Finance officer posts would be deleted and removed from the structure, as both were now vacant.

A new Grade O in the staffing structure was introduced to allow appointment to roles that would be deputes for statutory officer posts, including the depute to the Chief Finance Officer. This post has yet to be filled.

Action plan point - 6

We have reviewed the Council's financial regulations and are satisfied that these are comprehensive, subject to regular update and made available through the Council's website.

Internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our first year audit has been predominantly substantive in nature, and therefore we have not tested the operation of key controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any such matters to report to you.

Financial management – what have we concluded?

- We have concluded, based on the evidence in 2016/17, that the Council maintained good financial management over income and expenditure, ensuring that the budget was achieved and savings required were delivered. The budgeted utilisation of reserves was not required in the year.
- In line with other support services, the finance function has undergone further restructuring in the year, with a number of individuals leaving the Council. This has left one senior post unfilled. Without a full complement of appropriately experienced finance professionals, there is increased risk to the Council.

Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial sustainability

The Accounts Commission's overview report on Local Government in Scotland: Performance and Challenges 2017 sets out the increasingly demanding environment facing local authorities. In particular an overall reduction of 9.2% in Scottish Government total revenue funding since 2010/11 and demographic changes in particular in respect of aging populations. Additionally, there are a broad range of legislative and policy changes, including for example integration of health and social care, community empowerment provision and education reform.

Scottish Government funding is distributed to councils using a formula based on factors such as population, deprivation and rurality. This means that not all councils have experienced the same level of reductions in funding. Audit Scotland figures show that the Council's reduction in funding overall has been the seventh lowest of all councils, at about 6-7%. This is in the context, however, of a demographic which also shows that the Council is expected to experience the 12th most significant increase in population over 75 years old, by around 90% in the period 2014 to 2039.

Education and social work increasingly make up a greater majority of expenditure in local government. Within the Council's Expenditure and Funding Analysis, in terms of the amount chargeable to the general fund and HRA, 77% of spend was in respect of these areas, near the top end of the national range of 60 – 80%.

Area of audit focus

We set out in our annual audit plan that financial sustainability was a key audit focus area. This was specifically in response to the Accounts Commission Best Value follow-up report recommendations which indicated that the Council needed to:

- Review the process for preparing the budget to ensure all costs and income are more accurately anticipated.
- Develop its approach to medium and longer-term financial planning which takes into account uncertainties around future funding and income and includes scenario planning for a range of options.

Level of reserves

The table below sets out over time the various usable reserves held by the Council, either revenue or capital, with comparison of the revenue reserves against the level of expenditure incurred on services.

Analysis of reserves	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	%age change
Earmarked general fund	15,680	13,448	10,565	10,037	8,451	(45)
Uncommitted general fund	14,117	12,309	8,368	8,562	11,530	(18)
HRA fund	7,631	5,093	5,093	4,781	5,093	(33)
Other funds	7,629	8,940	9,570	9,202	7,351	(4)
Total Usable Revenue Reserves	**45,057**	**39,790**	**33,596**	**32,582**	**32,425**	**(28)**
As a % of net expenditure on cost of services	**12.6%**	**10.9%**	**9.4%**	**9.6%**	**10.1%**	
Capital receipts reserve	4,428	5,055	5,778	6,498	8,031	81
Capital Grants Unapplied Accounts	5,501	4,373	3,869	3,626	1,822	(67)
Total Usable Reserves	**54,986**	**49,218**	**43,243**	**42,706**	**42,278**	**(23)**

The Council's level of usable revenue reserves as a percentage of net expenditure on cost of services has decreased over the last five years. While the overall level of usable revenue reserves has reduced by 28%, the reduction in Council expenditure over the same period has meant that the available reserves still represent approximately 10% of net annual expenditure on services.

The Council has maintained an uncommitted general fund balance in line with its reserves strategy. However, as noted earlier £3.3 million of the closing balance as at 31 March 2017 was committed as part of the 2017/18 budget. This has happened on a number of occasions in recent years and while in 2016/17, underspends on budget meant that the draw on reserves was not required, there is a risk that utilisation of these reserves will in future restrict the Councils flexibility.

Action plan point - 7

Forward financial planning

The Accounts Commission has stressed the need for long-term financial strategies, supported by medium-term financial planning, to provide councils with the ability to respond to the acknowledged demographic and fiscal pressures.

The Council introduced a three year budget framework in February 2015 covering 2015/16 to 2017/18, however, the subsequent budget approvals in February 2016 and February 2017 reverted to one year budget setting. The reason provided for this was due to late adjustments and uncertainty in the Local Government settlement figures.

While the 2017/18 budget setting approved only a one-year budget, the budget paper built on other reports provided to Council during 2016/17 outlining the need for medium-term financial planning in the face of the likely financial challenges facing the Council.

In June 2017, the Chief Finance Officer presented an updated outline medium-term financial paper (MTFP) to Council. It was noted that this represented the first part of the strategy, in quantifying the financial position and impact of demographic changes on the Council.

Forecast budget gaps	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
2017/18 budget setting	18.0	18.0	16.0	15.0	-	67.0
June 2017 update	22.4	16.4	15.8	11.1	11.8	77.5

The main change in the forecasts from the budget paper to the updated June 2017 paper was the increased budget gap for 2018/19, which arose primarily as a result of the decision by members to apply the additional £3.3 million of non-recurring spend into the 2017/18 budget.

A further year was also added to the proposals to provide a five-year overview.

Scenario planning

The MTFP outlined a range of base assumptions on which the strategy was based, along with a pessimistic and optimistic scenario plan around this. Certain key assumptions were:

- Pay award: Base 1.8%; optimistic 1.0%, pessimistic 3.0%
- Aggregate External Funding: Base (3.25%); optimistic 0.0%, pessimistic (4.9%)
- Council Tax: Base 3%; optimistic 3%, pessimistic 0%

The totality of key assumptions has a major impact on the forecast. A wholly pessimistic assumption would increase the 2018/19 gap to £34 million, while the optimistic extreme would be £10.5 million. In reality members were advised that the actual range would be narrower as not all assumptions would be outliers.

Closing the gap

The Corporate Management Team has been working through savings proposals to meet the forecast budget gaps. A Cross Party Budget Working Group was established in October 2015 and supported the preparation of budgets for both 2016/17 and also in 2017/18. Senior officers advised that this process worked well during 2016 in the lead up to the 2017/18 budget approval, as it was anticipated that there would be difficult decisions to be made in balancing the budget.

Following the May elections in 2017, the Cross Party Budget Working Group was reformed with total representation of six members, with equal representation of two from each of the main political parties. At the time of preparing our report, the Group has met once and is due to meet again in September and October in discussion proposals for consultation and engagement with the public in advance of budget approval.

The budget proposals will follow the approval of the Council's new Corporate Plan, which is also currently in development for approval in October 2017.

Action plan point - 8

Long-term capital programme

While only one-year revenue budgets have been approved in recent years, the Council has maintained approval of three year budgets for both general and housing capital investment.

General capital programme 2017/18 to 2019/20

The plan commits £87 million of investment over three years. The majority of the funding for the programme comes from Scottish Government grants, with £21.8 million of borrowing linked to the tax incremental financing scheme anticipated.

Key projects include the completion of the new high school during 2018/19 and ongoing works in relation to the long-term Grangemouth flood prevention scheme.

Housing capital programme 2017/18 to 2019/20

The Council is required to ensure its housing stock meets the Scottish Housing Quality Standard (SHQS). In accordance with the interpretation of the SHQS criteria, as at 31 March 2016 91% of the Council's properties met the SHQS. The remaining 9% is due to either abeyances or exemptions. The rolling three-year investment programme has been designed to improve the remaining properties while also ensuring the stock maintains the required standard. The impact of the Scottish Government's new Energy Efficiency Standard for Social Housing has been considered as part of identifying priority work within the Housing Investment Programme. Currently, the Council estimates that 79% of stock meets the new requirements, with the first milestone targets for compliance due at 31 December 2020.

Total investment of £104 million is phased over three years, split between housing improvement works and new build housing. The Council has set-aside £6 million per annum for property buy-backs to support making properties available to those requiring housing, while the new build programme is still in progress.

£64 million of the programme will be funded by new prudential borrowing, and a further £24.5 million capital funded from revenue. This is due to be supported by increased rental income through the housing revenue account.

Overall borrowing levels

The Accounts Commission's 2015/16 financial overview report provided comparison levels of borrowing across councils. This shows that, at seventh lowest, the Council has a relatively low level of overall borrowing compared to other local authorities in Scotland, although in terms of affordability of that debt it rises to 14th highest in terms of percentage of revenue income used to service debt, at approximately 12%.

We have concluded that while the Council's overall debt levels are not comparatively high, it remains important that the affordability of this debt continues to be monitored closely.

Action plan point - 9

Other long-term liabilities

Retirement benefits

We reported earlier on the significant increase in the liability assessed at the balance sheet in respect of the Council's obligations for pensions. Individual council obligations, and their corresponding affordability, reflects on a number of factors:

- performance of the pension funds of which they are members
- assumptions made by actuaries of the various funds
- the maturity of the council's membership (average age of pension scheme members)
- decisions made by councils to award discretionary benefits to staff retiring early.

In the Accounts Commission's 2015/16 financial overview report, the Council had the seventh highest ratio of pension liability to net revenue, at approximately 80%.

This ratio has increased substantially to closer to 130%. While similar movements will have affected all councils, the Council has one of the highest pension liability ratio in Scotland. The finalisation of the 2017 triennial valuation of the Falkirk Pension Fund will determine the impact on the Council's future pension contributions.

Action plan point - 10

PPP liabilities

The Council has two PPP contracts for schools. Class 98 commenced in August 2000 and is due to terminate in July 2026 and Falkirk Schools gateway, where payments commenced in January 2009, are due for termination in March 2040.

The outstanding finance lease repayment liability on these contracts totals £114.2 million at 31 March 2017. In line with other long-term leasing obligations, the Council also makes annual payments in respect of interest, lifecycle capital costs and operating costs.

Integration of Health and Social Care

The Public Bodies (Joint Working) (Scotland) Act 2014 established the legal framework for integrating health and social care in Scotland. The Falkirk Integration Joint Board (the FIJB) was legally established on 3 October 2015 and from 1 April 2016 took on the relevant functions and resources delegated to it from both the Council and NHS Forth Valley.

The Council committed £61.26 million of expenditure to the FIJB in 2016/17 and received direction from the FIJB in respect of use of these resources in the year. An underspend of £0.585 million was reported in the areas directed to the Council and so the FIJB has retained these resources for use in future years.

In the 2017/18 budget, the Council approved resource of £60.35 million to the FIJB.

Financial sustainability – what have we concluded?

- We have concluded that the Council's financial position as at 31 March 2017 is satisfactory. While they have maintained a number of reserves within the target range, the overall financial position of the Council has weakened significantly due to an increase in pension liabilities.
- Only a one-year budget was approved for 2017/18, although information on longer-term budget gaps was provided to members as part of the budget setting process. These have been updated and formulated into a medium term financial plan. The analysis makes it clear that the Council has to clearly identify its priorities as well as transform the way the Council operates and delivers its services.

2.4 Governance & transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Governance arrangements

In accordance with the Code, we have reviewed the Council's overall governance arrangements. In line with responsibilities of the Council, this has considered the Council's arrangements as they relate to standards of conduct including for the prevention and detection of fraud and error.

Area of audit focus

We set out in our annual audit plan that governance and transparency was a key audit focus area. This took into consideration the Accounts Commission Best Value follow-up report recommendations which indicated that the Council needed to:

- Identify and clearly communicate its strategic priorities and ensure that all activity is aligned with these priorities.
- Ensure that workforce reductions are informed by detailed workforce plans and that budgets reflect any planned workforce changes.

Council

During 2016/17, the Council was led by a Labour – Conservative coalition. Following the May 2017 elections, which returned 12 Scottish National Party, nine Scottish Labour Party, seven Scottish Conservative and two non-aligned members of Council, the SNP formed a minority administration.

The full Council of 30 Members meets approximately eight times a year, with most of the Council's important decisions and policies made by the Council Executive or the Education Executive. Policy Development Panels may be established by the Executive to consider any policy areas, but with no decision making powers and non-committee status.

The Council has a set of Standing Orders which regulate the way it goes about its business, including the membership, powers and responsibilities for full council, all its committees, policy development panels and scrutiny panels. The Financial Regulations contain the Council's arrangements for the proper administration of its financial affairs.

In line with good practice, all documents are kept up to date to reflect any external or internal changes.

Following the elections, a series of induction training events were held. From discussion with senior officers, we understand that it is the intention to progress individual training plans for all members.

Focus on audit committee arrangements

The Council's audit committee supports the Council in its responsibilities for risk management, governance and control. The remit covers all aspects relating to internal and external audit, risk management, governance as well as consideration of the annual financial statements and recommendation for their approval.

The membership of the audit committee is seven, of which six are members of the Council with one lay member who is appointed as convenor of the meeting. This provides a mechanism for independence and insight for the committee.

The remit of the committee is quite extensive, although a number of items are cyclical. Senior officers asked us to support in an audit committee induction session in advance of the first meeting following the May 2017 elections. Internal audit and finance also provided input for the induction.

As part of managing the remit and business of the committee, introduction of a work plan mapped against the committee business will support the effectiveness of the committee.

Action plan point – 11

Focus on scrutiny arrangements

Scrutiny committee

Since 2015 the Council has operated two scrutiny committees, one for internal service delivery and the Scrutiny Committee (External) with a remit which specifically covers Following the Public Pound, and matters relating to other arms-length bodies or partners as appropriate. The composition of both committees is such that there is equal membership drawn from the administration and non-administration groupings, but with the Standing Orders providing that no member on the Council Executive can also sit on the Scrutiny Committees. Furthermore, the convenor of the committee will be from the largest opposition group.

In our judgement this provides a good basis for independent scrutiny of performance within the Council. The 2016 Best Value follow-up report noted that these revised scrutiny arrangements had improved the level of discussion, scrutiny and challenge taking place.

Due to the timing of the local elections and the establishment of the new committee, a scrutiny plan for 2017/18 was only approved in August 2017. This also confirmed the continuation of the performance panel as a standing scrutiny panel of the committee.

Focus on internal audit

The Council has an in-house internal audit function which is designed to provide members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. As part of our first year audit appointment, we have considered various aspects of internal audit's performance with relevance to their compliance with Public Sector Internal Audit Standards (PSAIS).

Internal audit undertook their own self-assessment against PSIAS and advised the Audit Committee that an independent assessment would be performed in 2017/18 by South Ayrshire Council's Audit Services Manager.

Internal Audit provide reporting against key performance indicators. These provide a broad range of performance indicators through which the audit committee can assess the performance of the function, including:

- Completion of agreed audits.
- Acceptance of recommendations.
- Percentage of time on direct audit work.
- Issuance of draft reports within 3 weeks of completion of fieldwork.
- Completion of audits in budget.

In setting the internal audit plan for the year, however, we consider that there is scope for further enhancement of the reporting to members of the committee, including for example details of the linkage between assignments and the corporate risk register, an indicative number of days planned for individual assignments and the prioritisation of assignments in the audit plan. Further, when reporting on individual reviews, internal audit do not currently provide grading of recommendations.

Action plan point - 12

The 2017/18 internal audit plan set out that a joint working arrangement with Clackmannanshire Council was being entered into on the basis of a 12 month pilot. It was recognised that such an arrangement could bring benefit to both councils, but at the same time there are risks inherent in such an arrangement. In particular the days available for the 2017/18 audit plan have been reduced compared to the prior year.

It is important that both officers and members of the committee review the joint working arrangements to ensure that overall, the benefits to the Council outweigh any risk faced.

Action plan point - 13

Focus on Corporate Plan and Council of the Future
Development of the Corporate Plan

A revised Strategic Outcomes and Delivery Plan (SOLD) covering the period 2016-2020 was agreed by the Community Planning Leadership Board in June 2016. This provides the context for development of the Council's new Corporate Plan which requires refresh in 2017. Following the recommendations in the Best Value follow-up report, the Council entered into a process in early 2017 to prepare for the launch of the new Corporate Plan following the May elections.

The Corporate Plan has been prepared in the context of the overall financial environment, preparing a vision for what the Council is going to be in five years, and what it aims to deliver over 5 years. The underpinning assumption is that potentially the Council will have up to one quarter less resources and so the Council needs to develop a vision that establishes its priorities within the SOLD.

Supporting the Corporate Plan will be three Service Plans, which will be designed to flow directly from the overall vision while setting out the more specific detail of priorities and deliverables at a service level. Key strategies also in development are:

- Medium term financial strategy
- Workforce strategy
- Digital / technology strategy
- Locality planning, including co-production on service design, empowerment of communities, asset management within localities and place shaping.

Members were briefed on the development of the Corporate Plan during the summer of 2017, and the document was considered by Council on 20 September 2017. The Council's priorities within the plan have been identified as People; Place; Partnership.

Council of the Future

The Council of the Future (COTF) was approved by the Council in December 2016, recognising a need to put in a place a new framework of change for the Council. A COTF Board was established to replace the existing Business Transformation Board, initially with membership comprising chief officers, the Leader of the Council and the Leader of the Opposition. Subsequent to the election, elected members have proposed that two members from each of the three main political groupings will sit on the Board.

A Programme Management Office was established centrally to support with the change programme, and the Council recruited in on a seconded position to support this structure.

In January 2017, the Council entered what it classed as Phase 1 – Readiness and Engagement of COTF, having previously identified the need for change and received approval for the overall programme. This engagement covered sessions with 380 people across chief officer, member, head-teachers, trades unions, service unit managers and staff.

Four common themes arose from these sessions and have been used to frame the programme.

Phase 1 is now considered to be complete. It is clear from speaking with members and officers that the vision has been articulated and there is a clear coherence to the main themes of COTF. This has the potential to drive improvement.

ONE COUNCIL	**ENABLED & EMPOWERED COMMUNITIES**
DATA	**MODERN & DIGITAL**

In order to drive the programme of change which is necessary, however, strong project management is required, with clear milestones for delivery of each stage of the multi-year projects identified.

Action plan point - 14

Following the Public Pound

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. The Council's financial regulations contain a specific section on following the public pound. These emphasise that services must adhere to the Council's 'Funding at Falkirk' guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arms-length bodies such as companies, trusts and voluntary organisations. The Scrutiny Committee (External) provides a specific avenue for scrutiny of external and arms-length bodies which partner with the Council.

We noted that in its dealing with its subsidiary company, Falkirk Community Stadium Ltd (FCSL), Council officers also act as directors of the company. The Accounts Commission's *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* 2011 report highlights the risk of potential conflict of interests to arise in such situations. This risk could be heightened where officers are involved in either key decision-making posts or finance positions. We consider that there is scope for the Council to review its overall governance relationship with FCSL.

Action plan point - 15

Notwithstanding that one specific matter, we concluded overall that the Council has appropriate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

Fraud and irregularity

In line with our responsibilities under the Code, we have considered the Council's high level arrangements as they relate to the prevention and detection of fraud and error. Overall we consider the Council's arrangements to be appropriate.

National Fraud Initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies. Local authorities were required to submit datasets in autumn 2016 and matches for investigation and follow-up were released early in 2017.

We completed the NFI return provided by Audit Scotland through a balance of inquiries with the responsible officer, which for the Council is the internal audit manager, review of key documents and inspection of the Council's NFI account to understand progress in reviewing identified matches.

Overall we consider there was potential for the Council to demonstrate a greater emphasis on use of the NFI as a core element of its arrangements in relation to fraud and irregularity. In discussion with the NFI key contact, at the time our work was completed, the Council had not made significant progress in reviewing matches on the system. While we have been advised that a plan is in place, we recommend that management review their approach and provide the audit committee with the appropriate oversight of this both in advance, and through the exercise.

Action plan point - 16

Standards of conduct

Through consideration of the Council's financial regulations, standing orders and scheme of administration, supplemented by consideration of the Code of Conduct for elected members, we are satisfied that the Council has established appropriate arrangements.

Annual Governance Statement (AGS)

The AGS sets out the Council's governance framework. The Council supports its arrangements through its local code of corporate governance, and assessments are undertaken regularly of compliance against this. Other core support for the AGS is through the system of compliance statements which are obtained from key individuals in the Council's management team, relating to their areas of responsibility.

The annual report from the Internal Audit Manager is further source of support for the AGS. This report concluded "*On the basis of work undertaken, Internal Audit can provide substantial assurance in relation to the Council's arrangements for risk management, governance, and control for the year to 31 March 2017."*

Governance and transparency – what have we concluded?

- The Council has now established a comprehensive framework of governance arrangements which provides a clear commitment to the core principles of independent scrutiny. Internal audit is well respected, however, we have made recommendations for consideration to enhance the arrangements.
- The Council is in the process of agreeing its new Corporate Plan and supporting enabling strategies. While these are being finalised, there is a need to establish clear milestones to demonstrate the timelines for delivery of multi-year projects, to enhance accountability and enable the required pace of change.

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively; services are improving and the Council has appropriate arrangements to demonstrate Best Value.

Performance and improvement

Framework for improvement

The Council uses the Covalent performance management software as their central performance management system. Covalent supports management and reporting of performance and includes functionality for setting and reviewing targets and thresholds to trigger intervention or action from the service.

Under the new corporate planning framework, service plans are clearly aligned to the SOLD and Corporate Plan priorities. This enables the service to set-out how it will play its role in the achievement of priorities. The service plans set out recent performance assessment according to key indicators identified for that service. In addition target performance for 2017/18 is included. Driving performance improvement over the five year period of the Corporate Plan requires clear targets to be set for that period, against which services can set out how they will work towards achieving those targets over time.

Action plan point - 17

Statutory performance indicators

The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting. The 2015 Direction set out a streamlined and more flexible set of performance information for the 2016/17 financial year that the Commission required councils to collect and report in public. Councils are required to publish the required information from the financial year ended 31 March 2017 each year through to the financial year ending 31 March 2019, according to the schedule below. The schedule within the 2015 Direction sets out the required information as:

Achievement of Best Value

SP 1: Each council will report a range of information setting out its performance in:

- improving local public services (including with partners)
- improving local outcomes (including with partners)
- engaging with communities and service users, and responding to their views and concerns
- achieving Best Value, including its use of performance benchmarking; options appraisal; and use of resources

Local Government Benchmarking Framework

SP 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF)

Council performance in the LGBF

The Council reports annually to its Scrutiny Committee on comparative performance through the LGBF. The most recent report covered the 2015/16 performance year. Of the 80 indicators published, over the period from 2010/11 to 2015/16, the Council's performance improved in 38 indicators (47.5%), but decreased in 25 (31%).

In terms of relative performance, analysis by the Council of its performance in 2015/16 showed that its service indicator performance was above the national Scottish average in 57.5% of all indicators, with 38.8% performing below average. 20% of indicators were performing in the top quartile, while 12.5% were in the bottom quartile.

Audit Scotland national reports

Each year Audit Scotland produces a number of national performance audit reports. The Council has a clearly defined process for dealing with all such reports to ensure they are dealt with effectively. The Audit Committee is provided with a summary report providing an overview of this process. Key reports considered in the year included:

- Principles for a digital future – Scrutiny Committee
- Local Government in Scotland: Performance and challenges 2017 – provided to members as part of induction
- Local Government in Scotland: Financial overview 2015/16 – Council Executive
- How Councils work - Roles and working relationships in Councils: are you still getting it right? – circulated to members and included in induction materials
- Social work in Scotland – Audit Committee
- Maintaining Roads – Scrutiny Committee
- The National Fraud Initiative in Scotland – Audit Committee
- Changing models of Health & Social Care – reported through the IJB

We consider that this is an appropriate and effective arrangement for ensuring that members are provided with relevant information affecting the Council.

Procurement

During 2016/17, and as a result of the Procurement Reform (Scotland) Act and the Public Contracts (Scotland) Regulations 2015, the Council had a procurement assessment undertaken in accordance with the new assessment regime introduced as part of the new Procurement and Commercial Improvement Programme (PCIP).

The Council was assessed as being in the top band, of which there are twelve with a score of 70. The Scrutiny Committee has obtained reports from officers outlining the Council's approach to procurement under the new requirements. This demonstrates that the Council is committed to good practice in procurement.

Value for money – what have we concluded?

- The Council is in transition in setting out its new Corporate Plan and the underlying service plans and targeted priorities. In order to be able to demonstrate the commitment to continuous improvement, it is important that appropriate measures and targets are in place to assess performance over the five year period of the Corporate Plan.
- LGBF data shows that the Council performs reasonably well compared to the national average in a number of areas. There has been an improvement in performance generally over time.

3. Other audit deliverables

3. Other audit deliverables

Under the terms of our appointment, we provide other assurance activities such as the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as information returns to Audit Scotland.

Other audit deliverables

Aspect of work	What we did and what we found	Expected completion / submission date	Completed / submitted on time
Annual Audit Plan	Reported to audit committee on 13 March 2017.	31 March 2017	Yes
Audit Scotland Fraud Return submission	We submitted fraud returns summarising any reporting to audit committee during the year.	26 May 2017	Yes
Submit NFI return to Audit Scotland	Reviewed the Council's arrangements and completed an information return – see conclusion elsewhere in this report	30 June 2017	No – submitted July 2017 due to EY staff illness
Submit Audit Scotland EU Funding questionnaire return	The purpose of this questionnaire was to support the development of an understanding of Scotland's reliance on EU structural funding arrangements and in particular the extent to which public bodies have been preparing themselves for the consequences of not having access to EU funds in the future. We identified that the Council received £0.5 million of EU funds during 2016/17, with total funding due to 2018 of approximately £2.4 million.	30 June 2017	Yes
Submit certified Education Maintenance Allowance return	We have audited the Council's EMA return in line with the guidance set out by Audit Scotland with no matters or exceptions to report.	31 July 2017	Yes
Submit certified Criminal Justice Social Work claim	Audit work has been undertaken with no significant findings arising.	29 September 2017	Yes
Whole of Government Accounts assurance statement to NAO	Audit work will be undertaken on updated WGA pack, following audit adjustments made to the financial statements.	29 September 2017	Delayed until w/c 2 Oct, at client request
Certify Annual Accounts and submit Annual Audit Report	Pending formal approval of the financial statements	30 September 2017	Yes
Submit Best Value Data Return to Audit Scotland	Audit Scotland return summarising our work in respect of the wider scope audit.	2 October 2017	On target
Submit certified Non-Domestic Rates return	Audit work has been undertaken with no significant findings arising.	6 October 2017	On target
Submit certified Housing benefit subsidies claim to DWP	Work is in progress and we will discuss findings with the relevant officers prior to submission of our certification report.	30 November 2017	On target

Appendices

A – The Council’s responsibilities

B – Required communications with the audit committee

C – Auditor independence

D – Accounting and regulatory update

E – Summary of audit differences

F – Action plan

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies	
Corporate governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
Financial statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: • such financial monitoring and reporting arrangements as may be specified • compliance with any statutory financial requirements and achievement of financial targets • balances and reserves, including strategies about levels and their future use • how they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their financial position.
Best Value	Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

B. Required communications

There are certain additional communications that we must provide to the Audit Committee, in accordance with ISA 260 and other auditing standards. These are set out below.

Required communication - what is reported?	Our reporting to you
Terms of engagement Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Annual Audit Plan – 13 March 2017
Significant findings from the audit • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • Findings and issues around the opening balance on initial audits	This Annual Audit Report We request written representation from you in respect of key matters arising during the course of our audit, and in accordance with auditing standards. A copy of this letter is provided for your consideration and signature at the time of approval of the financial statements.
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about the Council's ability to continue for the 12 months from the date of our report.
Misstatements • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Significant corrected misstatements, in writing	This Annual Audit Report
Fraud • Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ► A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.	This Annual Audit Report

B. Required communications (continued)

Required communication - What is reported?	Our reporting to you
Significant deficiencies in internal controls identified during the audit • Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report
Related parties Significant matters arising during the audit in connection with the Council's related parties including, where applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and/or regulations • Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.
Subsequent events • Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Other information • Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	We have no matters to report.
External confirmations • Management's refusal for us to request confirmations • We were unable to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations.
Consideration of laws and / or regulations • Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" • Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Group Audits • An overview of the type of work to be performed on the financial information of the components • An overview of the group audit team's planned involvement in the component auditor's work on the financial information of significant components • Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality. Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.	Annual Audit Plan – 13 March 2017 This Annual Audit Report
Independence • Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.	This Annual Audit Report – Appendix C

C. Independence

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Council.

What we are required to communicate

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- The principal threats.
- Safeguards adopted and their effectiveness.
- An overall assessment of threats and safeguards.
- Information on the firm's general policies and processes for maintaining objectivity and independence.
- Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 13 March 2017.

We complied with the APB Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your audit committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee on 25 September 2017.

Summary of fees

As part of our reporting on our independence, we set out below a summary of the fees initially agreed for the year ended 31 March 2017.

As reported in our Annual Audit Plan, we had indicated potential fees in respect of advice on the tax incremental finance scheme. No work or invoices were actually issued.

Additional auditor remuneration of £13,635 was agreed with management in March in respect of work for the year, plus £550 fee for the Falkirk Temperance Trust.

Auditor remuneration per Audit Scotland	£181,800
Audit Scotland central costs	£124,800
Total fee per Annual Audit Plan	**£306,600**
Additional auditor remuneration agreed	£14,185
Total audit fees	**£320,785**
Non-audit services	-

D. Accounting and regulatory update

There are a number of new accounting standards and interpretations which will impact on the local authority accounting code of practice in the next two or three years. The following table provides a high level summary of those that have the potential to have the most significant impact on you.

Area	Summary	Potential impact
IFRS 9 – Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year. This new standard will change: ► How financial assets are classified and measured ► How the impairment of financial assets are calculated ► Financial hedge accounting ► The disclosure requirements for financial assets. Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.	Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains uncertainty. The Council will, however, have to: ► Reclassify existing financial instrument assets ► Remeasure and recalculate potential impairments of those assets; and ► Prepare additional disclosure notes for material items
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ► Leases; ► Financial instruments; ► Insurance contracts; and ► for local authorities, Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. There are transitional arrangements within the standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	Again CIPFA have issued initial thoughts on the approach to adopting IFRS 15, although uncertainty remains until the Code is issued. For all material income sources from customers the Council will have to: ► Disaggregate revenue into appropriate categories ► Identify relevant performance obligations and allocate income to each ► Summarise significant judgements
IFRS 16 Leases	IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.

E. Summary of Audit Differences

There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

Summary of audit differences – prior year adjustments			
No.	**Account**	**Comprehensive income and expenditure statement (Increase) / Decrease**	**Balance sheet (Decrease) / Increase**
1	**Adjustment in respect of non-enhancing capital expenditure previously charged to revaluation reserve**		
	Net cost of services – CIES	£4.4 million	
	Revaluation reserve		£(4.4) million
	Movement in reserves adjustment	£(4.4) million	
	Capital adjustment account		£4.4 million
Summary of audit differences – current year adjustments			
2	**Adjustment in respect of non-enhancing capital expenditure charged to revaluation reserve**		
	Net cost of services – CIES	£5.9 million	
	Revaluation reserve		£(5.9) million
	Movement in reserves adjustment	£(5.9) million	
	Capital adjustment account		£5.9 million
3	**Increase to provisions**		
	Net cost of services	£1.8 million	
	Provisions		£1.8 million

There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. One difference remains unadjusted as set out below.

Summary of audit differences – unadjusted differences			
No.	**Account**	**Comprehensive income and expenditure statement (Increase) / Decrease**	**Balance sheet (Decrease) / Increase**
1	**Disposal of property, plant and equipment assets incorrectly accounted for as fixed assets in prior periods (correction of accounting records, but an unadjusted difference in the current reporting period)**		
	Non-current assets – brought forward		£(0.7) million
	Loss on disposal of non-current asset	£0.7 million	

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the Council or management to action.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	**Financial reporting process** We experienced delays in obtaining key audit evidence, including in particular payroll data to support our audit work in this area. In addition, we have raised a number of suggestions on the format and structure of the financial statements which we believe would help the clarity of presentation.	We will work with finance in a debrief of the financial reporting and audit process to ensure that there are no similar delays and inefficiencies in future years. Management should review the presentation of the financial statements to support their streamlining and simplification. *Grade 2*	Given this is EY's first year of auditing the Council's accounts there was inevitably going to be a few issues in terms of understanding and meeting expectations on both sides. As part of our normal debrief of the final accounts process in October/November we will reflect on the overall audit process and requirements and we will consider what improvements can be made going forward. We are always looking to simplify and streamline the annual accounts where possible and will take on board any suggestions and advice provided. Timeframe - March 2018
2	**Review of provisions** Audit adjustments arose in respect of liabilities not properly accounted for at the year end.	During the financial statements preparation process, all potential liabilities should be assessed and fully provided for. *Grade 2*	As the report notes we were aware of the potential liability but perhaps focused on ensuring there were adequate resources rather than the actual presentation in the final accounts. There was also still a degree of uncertainty surrounding the costs that was removed after the accounts were drafted. Timeframe – March 2018
3	**PPE Valuations** The Code of Practice on Local Authority Accounting requires that the Council carries assets on the balance sheet at fair value. While the Council considers material changes in asset valuations through consideration of significant capital additions in the year as well as discussions with in-house valuers around potential asset impairments, this process does not necessarily take account of movements in market prices underpinning valuations.	Management requires to consider and agree an appropriate process to ensure that valuations at 31 March each year are not materially different than fair value. This will required consideration of the impact of market movements on carrying values. *Grade 1*	All assets are valued as part of a 5 year Rolling Programme. In addition any significant impairment is adjusted for outwith the 5 year period. The Council does not believe that there is a material movement in the market prices underpinning valuations. However, the Capital Manager will liaise with the Council's Asset Management section throughout the financial year to seek assurances that there is no material market movement in the carrying values of the assets. The Council's Asset Management Section may have to liaise with professional valuers but the Council will have to have regard to any cost implications of such an exercise. Timeframe – Ongoing

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
4	**Group financial statements** In requesting supporting documentation for the consolidation spreadsheets, as well as the carrying value of the Council's investment in Falkirk Community Stadium Limited, the information provided in respect was inconsistent with that contained in the subsidiary company financial statements. In particular, the subsidiary financial statements still showed the existence of a loan payable to the Council, which we were advised that from the Council's side, this loan was no longer payable and had been cancelled.	A review of the arrangements between the Council and the subsidiary company should be completed in order to confirm the legal position in respect of loans and security over assets. This will enable a consistent accounting treatment to be in place for both parent and subsidiary. *Grade 2*	Review of the treatment of the loans within FCSL's accounts is currently being actioned. Timeframe - March 2018
5	**Management commentary** Amendments were required to the management commentary to ensure it complied with the statutory guidance.	Management should ensure that key financial and non-financial performance indicators are considered for inclusion in the management commentary in 2017/18. *Grade 3*	The review of the Management Commentary will be considered in line with Recommendation 1 above. Timeframe - March 2018
6	**Capacity of finance** Following the loss of a number of experienced finance staff during the year, the Council has a current vacancy for the depute for the Chief Finance Officer. Given the financial challenges facing the Council, there is a risk that finance has insufficient capacity to support service transformation.	We understand that filling the finance vacancy remains a priority for senior officers and recommend that this is kept under review to ensure that this situation does not exist for longer than necessary. *Grade 2*	The capacity within Corporate Finance has significantly reduced over the last few years with a c40% reduction in staff numbers. This will inevitably bring challenges in managing workload and expectations. The overall staffing arrangements will be kept under review. Timeframe – Ongoing
7	**Commitment of reserves** While the 2016/17 budget outturn did not require the draw on reserves originally approved in the budget, the 2017/18 saw a further approval of £3.3 million reserves to use to provide non-recurring service expenditure. While the Council has maintained the level of uncommitted reserves in line with target, there is a risk that these are applied and utilised, leaving the Council exposed financially.	Reserves provide the Council with flexibility to invest in transforming and improving service delivery for its communities. Any use of these reserves however should only be applied in such a way as to ensure that future savings are clearly identifiable and that there is a short timescale over which the applied reserves will be recovered in full. *Grade 1*	Members are continually reminded of the Council's reserve position within ongoing financial monitoring and budget reports and are given cautionary and prudent advice in respect of using reserves to achieve a balanced budget. A report to the Council in June noted that using reserves to support services in the short term is not sustainable unless they are used to support service transformation and generate future savings Timeframe – Ongoing

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
8	**Approval of budgets** Good financial planning requires approval of multi-year budgets to ensure that savings for future years are already identified and in place well in advance of the start of the financial year.	The Member Budget Working Group provides a forum for building consensus on the budget in advance. We recommend that this is focussed on the principle of delivery on the Council's priorities from the bottom up, costing those priorities so that the budget process is aligned to the newly launched Corporate Plan. *Grade 1*	The report to Council in June noted that instrumental to achieving a balanced budget will be the Council's new five year Corporate Plan which would need to set clear priorities and that this was essential for driving long term planning. A further report to Members in October will give an updated position. Timescale – October 2017
9	**Borrowing levels** The Council has a relatively low level of overall borrowing compared to other local authorities in Scotland, although in terms of affordability of that debt it rises to 14th highest in terms of percentage of revenue income used to service debt, at approximately 12%.	While we have concluded that the Council's overall debt levels are not comparatively high, it remains important that the affordability of this debt continues to be monitored closely. *Grade 2*	The borrowing levels will undoubtedly vary across authorities and will depend on individual capital investment plans, capital receipts, grants and contributions to fund them. A comparison across authorities is therefore misleading. In terms of affordability of debt repayments this is calculated annually as part of the Revenue Budget process and reference to the Prudential Code and Indicators. Scenario planning is an integral part of the budget process. Scenarios look at variances in borrowing levels, repayment periods and current and projected interest rates for the next 5 year period which ties in with the Council's Medium Term Financial Plan. The Capital section works closely with the Council's treasury advisers to determine the best mix of repayment periods (i.e. long term or short term debt), and forecast interest rates, which will ultimately determine the estimated debt repayments and therefore affordability. This key control will continue to be a critical part of the budget process. Timescale – Ongoing
10	**Pension liabilities** The Council has one of the highest pension liabilities compared to net revenue of any local authorities in Scotland. This position significantly worsened at 31 March 2017.	It is recognised that the triennial review of the Pension Fund will determine the Council's future pension contributions. However, the long-term liabilities facing the Council need to be kept under regular review. *Grade 2*	Management will continue to have a close dialogue with the Pension Fund actuary and other advisers in order to understand and manage its pension liabilities effectively, recognising that the high value placed on liabilities currently is pre-dominantly a function of the low interest rate environment. Management notes that the Council has a legal obligation to operate the terms and conditions of the Local Government Pension Scheme and therefore has limited scope to control the costs and risks associated with the Scheme. One tangible area where the Council has been able to take steps in recent years to reduce pension liabilities is through its decision to no longer grant compensatory added years to retiring members. Timescale – Ongoing

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
11	**Audit committee work-plan** The audit committee has an important and extensive remit, with a number of standing items which will arise on a cyclical basis.	In order to assist with the effectiveness of the Committee's business, an annual work-plan indicating how and when it will discharge the elements of its remit will support members in their duties. *Grade 2*	The Terms of Reference agreed by Audit Committee in October 2012 included a 'Core Work Programme' setting out the business to be considered at each meeting. It is agreed that there would be value in reviewing and updating this. Timescale – March 2018
12	**Internal audit recommendations** In reviewing the Internal Audit function, we consider that there is scope for further enhancement of the reporting to members.	The audit plan should consider including linkage between assignments and the corporate risk register, an indicative number of days planned for individual assignments and the prioritisation of assignments in the audit plan. Further, when reporting on individual reviews, internal audit should introduce a grading framework for recommendations. *Grade 2*	The 2017/18 Internal Audit Plan was prepared taking account of the Corporate Risk Register, but it is accepted that this link could be made more explicit. The 2018/19 Plan, which will be presented to Committee in Spring 2018, will more clearly link planned assignments and corporate risks. The Internal Audit Manager will consider the points relating to indicative days for individual assignments and the prioritisation of assignments. The time spent on individual assignments is monitored and measured by the Internal Audit Manager on an ongoing basis, and one of the KPIs used by Internal Audit, and reported to Committee, is "Complete (to issue of final report) 75% of main audits within budget". Committee is, therefore, sighted on the team's performance in this regard. The point in relation to the introduction of a formal grading framework for recommendations is not accepted. For each assignment, Internal Audit provide an overall level of assurance, and for each recommendation Internal Audit agree a formal management response, responsible officer, and implementation date with the relevant Manager. This consultative and inclusive approach ensures that recommendations are addressed in a prioritised and pragmatic way, avoiding unnecessary discussion around the 'grading' rather than the recommendation itself. Timescale – March 2018 (where actions are agreed)
13	**Internal audit joint working** Internal audit has entered into a joint working arrangement with Clackmannanshire Council for 2017/18.	The arrangement should be kept under review to ensure that the benefits to the Council from joint working balance any risks from reduced resource to apply to reviewing the Council's internal control arrangements. *Grade 2*	The JWA with Clackmannanshire Council includes a commitment to undertake a mid-year review to evaluate the success of the pilot, and to intimate future intentions. The outcomes of this evaluation will be included in Internal Audit Progress Reports to Falkirk Council's Audit Committee and Clackmannanshire Council's Audit and Finance Committee. Timescale - November 2017

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
14	**Council of the Future** This is the Council's key transformational programme to underpin the delivery of the Corporate Plan over a period of extremely challenging financial constraints. There is a risk that any failure to deliver multi-year projects on time will lead to significant financial and operational difficulties for the Council.	Strong programme management should be in place around the Council of the Future, to enable for example: ► Dashboard reporting of the programme as a whole ► Clear deliverable milestones within individual projects ► Risk ratings against progress ► Timeline of savings / efficiencies expected over 5 years to meet budget gaps *Grade 1*	On 20 September 2017, Falkirk Council will review the Council of the Future Programme of Change. Falkirk Council will be asked to note the progress made with Council of the Future in developing the Council of the Future Vision and will be asked to ultimately approve the Council of the Future Programme of Change. This will include the review and ratification of the programme's timelines, initial phasing of project milestones and soft benefits of the programme. The financial benefits of the programme are tied in with the Council's budget planning process. The budget report will be submitted to the Executive in October and will include the proposed savings associated with the Council of the Future projects. Once the Council of the Future Programme of Change has been approved, the programme risk register will be completed and will be subject to the Council's risk management scrutiny processes. Appropriate project management training and support will also be put in place for those leading/expected to lead projects. All of this will enable full and transparent dashboard reporting of the programme as a whole in line with the Council of the Future governance arrangements. This will also include regular reporting to the Council of the Future Board and quarterly reporting to the Executive. Timescale – Ongoing
15	**Following the public pound** Officers of the Council act as directors of the Falkirk Community Stadium subsidiary company.	Management should review the governance arrangements around the subsidiary company, as where officers are also directors on a subsidiary, there are potential conflicts of interest which can arise. *Grade 1*	The current arrangements where senior officers have been appointed to the Falkirk Community Stadium Company as Directors has been in place since the first company was formed in 2003. Management has considered the arrangements to be appropriate for the Company during this period but will undertake a review in 2017/18 to re-consider and update arrangements as appropriate. Timescale – March 2018

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
16	**National Fraud Initiative** Overall we consider there was potential for the Council to demonstrate a greater emphasis on use of the NFI as a core element of its arrangements in relation to fraud and irregularity. In discussion with the NFI key contact, at the time our work was completed, the Council had not made significant progress in reviewing matches on the system.	While we have been advised that a plan is in place, we recommend that management review their approach and provide the audit committee with the appropriate oversight of this both in advance, and through the exercise. *Grade 2*	The Council's arrangements in relation to NFI are well established, and updates on progress are included within Internal Audit Progress Reports to Audit Committee. The time required to review and follow up on matches means that a pragmatic and evidence based approach is taken. This takes account of the findings arising from previous NFI exercises, with resource focused on those areas which yield material and proportionate results (for example on Council Tax Single Person Discount). In addition, the wider, and growing, role of the Corporate Fraud Team in relation to fraud prevention and detection compliments and builds upon the NFI process, and further strengthens the Council's counter fraud arrangements. The Internal audit Manager will review arrangements for reporting on counter fraud activity to Audit Committee. This will include NFI. Timescale - March 2018.
17	**Performance improvement** To support the service plans in place, while there are a number of performance indicators monitored annually, targets are included only for the one year of the service plan.	To drive continuous and ambitious transformation, longer term targets for key priorities should be set to assist in providing the framework for services to fully challenge how services are delivered, and what the key metrics and indicators are that matter to service users and communities. *Grade 1*	Consideration will be given to developing the performance indicators as the planning process develops. Timescale - Ongoing

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ACCOUNTS COMMISSION

AGENDA ITEM 12
Paper: AC.2018.1.8

MEETING: 11 JANUARY 2018

REPORT BY: SECRETARY TO THE COMMISSION

BEST VALUE ASSURANCE REPORT: CLACKMANNANSHIRE 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 Clackmannanshire Council.

Background

2. The attached Best Value Assurance Report is the sixth report presented to the Commission under the new approach for auditing Best Value. A key objective of the new approach 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.

3. It is intended that this will be achieved by the Controller of Audit submitting a Best Value Assurance Report on each council at least once during the five-year audit appointment and also by Best Value being reported in annual audit reports.

Previous reports

4. The Commission last published a Best Value report on the council on 6 September 2007. The Commission's findings in this regard are set out in the Appendix.

The Controller of Audit report

5. The Best Value Assurance 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).

6. 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.

7. 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.

8. 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

9. 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.

10. 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.

11. 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.

12. 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 Best Value Assurance Report on Clackmannanshire Council; and

    b) decide in private how it wishes to proceed.

Paul Reilly
Secretary to the Commission
20 December 2017

APPENDIX

AUDIT OF BEST VALUE AND COMMUNITY PLANNING: CLACKMANNANSHIRE COUNCIL

COMMISSION FINDINGS

1. The Commission accepts this report on the performance of Clackmannanshire Council's statutory duty to secure Best Value and to initiate and facilitate the Community Planning process. The Commission recognises that the report gives a broad picture of the council's performance based on the work of Audit Scotland and the findings of other scrutiny bodies such as inspectorates, and that it does not attempt a comprehensive review of all service delivery. We acknowledge the co-operation and assistance given to the audit process by members and officers of the council.

2. The council faces a number of significant challenges which are specific to its situation. They arise from the scale of the council, the social and economic circumstances of its area and its geographical location and transport links. The council's progress towards Best Value has not matched its aspirations due to its limited capacity, high numbers of priorities and lengthy improvement agenda.

3. To achieve Best Value the council needs to improve aspects of its corporate activity, including:

- effective leadership by elected members
- sharper prioritisation and clearer articulation of vision, priorities and policies with resource decisions
- consistent vision in corporate and community plans
- political structures which give clarity on roles and responsibilities
- a coherent approach to competition in relation to service delivery mechanisms
- development of a Human Resources strategy.

4. The council has successful achievements to its name in a number of areas of service provision such as child and adult care, recycling, traffic light repair and dealing with planning applications and noise complaints. There are areas where it needs to improve, including educational attainment, aspects of housing, respite care, food hygiene and trading standards inspections, cultural and community services and refuse complaints. It also needs to make urgent progress in implementing Single Status for its workforce and in the collection of council tax.

5. The council has shown that it can work with others, particularly in the development of its community planning partnership. Because of issues of scale and capacity, it is vital that it now places the highest priority on more joint working, sharing management and service delivery arrangements with others, particularly other councils. We look forward to receiving an improvement plan from the council which addresses the questions raised in the Best Value report and these findings and sets realistic timescales for developing the joint working referred to above.

6 September 2007

Clackmannanshire Council

Best Value Assurance Report

Prepared for the Accounts Commission by the Controller of Audit

January 2018

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:

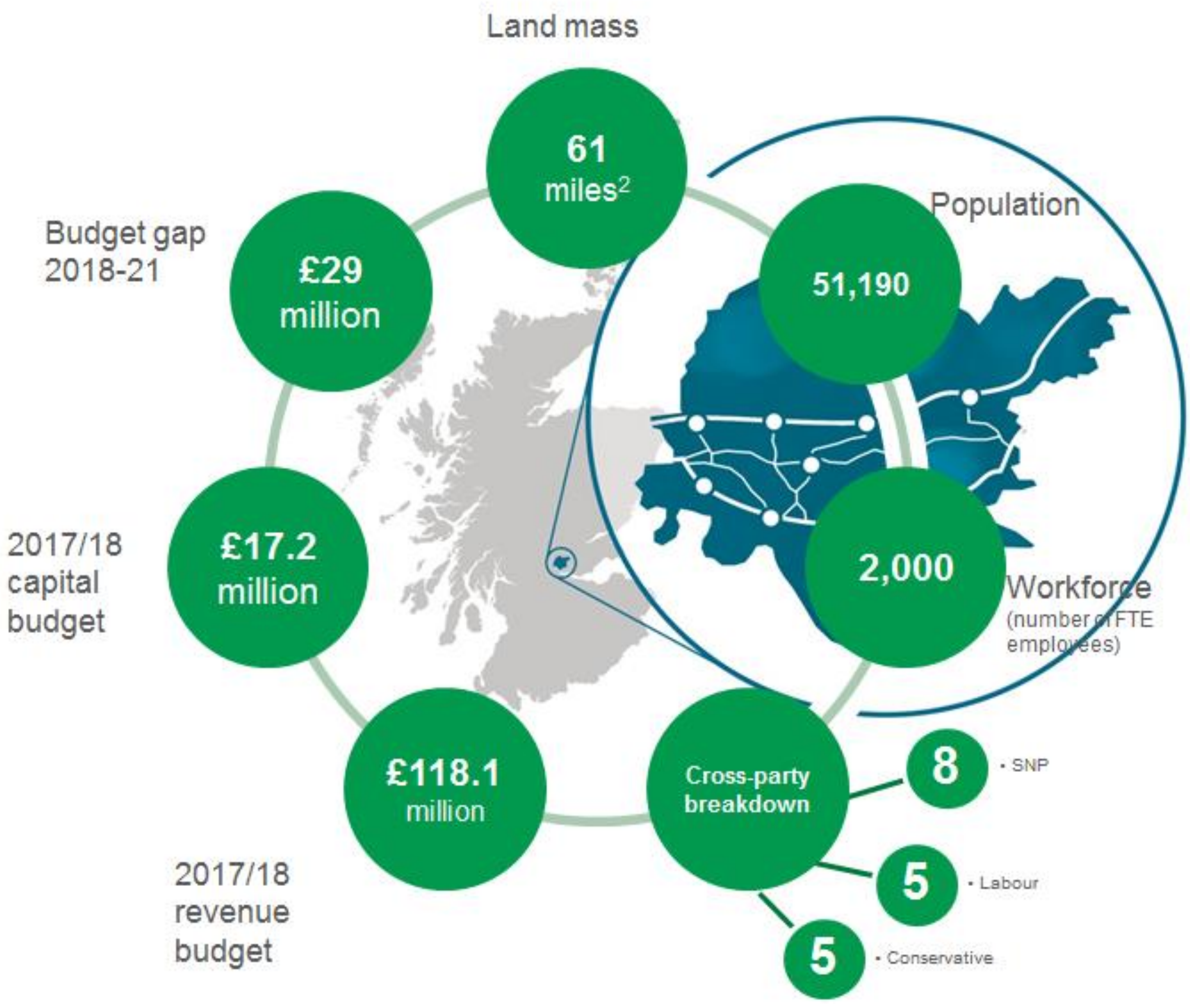
- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils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

Contents

Key facts



Capital expenditure includes spending on buildings and other assets needed to provide services, such as houses, schools and vehicles.

Revenue expenditure is day-to-day spend, such as employee costs and supplies and services.

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. Audit conclusions are reported each year through the Annual Audit Report, addressed to the Controller of Audit and the councillors. In addition, the Controller of Audit will present a Best Value Assurance Report (BVAR) to the Accounts Commission at least once during the five-year audit appointment for each council. This is the first BVAR on Clackmannanshire Council under the revised arrangements.

2. This report seeks to provide the Accounts Commission with assurance on the council's statutory duty to deliver Best Value, with a particular focus on the Commission's Strategic Audit Priorities covering:

   - the clarity of council priorities and the quality of long-term planning to achieve these
   - how effectively councils evaluate and implement options for significant changes in delivering services
   - how effectively councils ensure that councillors and officers have the right knowledge, skills and time to lead and manage delivery of council priorities
   - how effectively councils involve citizens in decisions about services
   - the quality of council public performance reporting to help citizens gauge improvement.

3. We are looking for councils to demonstrate Best Value by showing continuous improvement in how they deliver their priorities. The pace, depth and continuity of improvement are key to how well councils meet their priorities in future. Throughout this report we comment on the council's improvement over time and reflect our conclusions in the key messages.

4. Our audit approach is proportionate and risk-based: it reflects the context, risks and performance of the individual council. It also draws on the intelligence from audit scrutiny work carried out in previous years. In keeping with this approach we did initial work to define the scope of our audit. This included reviewing previous audit and inspection reports, council documents, initial meetings with senior officers and reflecting on our wider public sector knowledge and experience. Exhibit 1 (page 6) shows the key areas we focused on for our audit of Clackmannanshire Council.

Exhibit 1

Key areas of focus for our audit

	The council's vision and priorities
	Performance and outcomes against the council's priorities
	Financial management and financial planning
	Community engagement so that residents have a say in how services are provided
	Partnership working
	Self-evaluation
	Plans for achieving transformation

Source: Audit Scotland

5. The detailed audit work for this report took place between September and November 2017. Our audit work included:

- interviews with councillors, senior officers and partner organisations
- observing a range of council and committee meetings
- holding focus groups with council staff
- reviewing documents and performance information.

6. This report reflects the work done on the key areas of focus noted above. Our work covers a number of Best Value characteristics included in the statutory guidance (2004), but does not cover them all. Our audit work in the future, as part of the annual audit of the council, will include follow-up on the findings from this report. It will also include more detailed audit work on other Best Value areas, as appropriate.

7. We gratefully acknowledge the cooperation and assistance provided to the audit team by all councillors, officers and partners we contacted during the audit.

Key messages

1. **Clackmannanshire Council faces an acute financial position which requires it to achieve further savings of around £29 million over the next three years. This is a substantial saving in the context of the council's annual budget of £118 million. The council receives good quality information about its finances and has a clear understanding of the scale of the financial challenge.**

2. **The council has made significant savings over recent years but has yet to make the transformational changes necessary to secure its financial position. It has used reserves to balance budgets; this is not sustainable and the council must now make difficult decisions about the services it can afford to deliver. It is reviewing how it operates, and will have to balance the drive for savings with the need for sufficient officer time and skills to support change.**

3. **The council has well-established strategic priorities. But political instability in recent years has affected its focus and ability to make the decisions needed for lasting progress. Recently there are signs of more effective working relationships across political groups; this will be tested as the council deals with the difficult decisions it faces. Members and officers work constructively on a day-to-day basis. There is less evidence of coherent, combined political and officer leadership necessary to implement and maintain change.**

4. **Clackmannanshire has several areas of comparatively high deprivation and economic activity is lower than the Scottish average. Over a period of budget reductions and service cuts, the council has maintained service performance and customer satisfaction in a number of key areas. But the pace of improvement is slow in some areas and not evident in others.**

5. **The council works well with its partners to identify local priorities and to help deliver services. It worked closely with stakeholders in developing the new local outcome improvement plan (LOIP), which will be implemented by community planning partners, the Clackmannanshire Alliance. The LOIP includes a more focused set of local priorities, including specific geographic areas and particular groups of people, such as children and women. These provide a clear basis for prioritising resources in future.**

6. **In our report on Best Value and Community Planning in 2007 we concluded that the council faced significant challenges with limited resources. The council has made improvements in some areas, but the financial challenges are much more significant meaning that it now needs to take urgent and decisive action. Only then will the council be in a position to demonstrate the pace, depth and continuity of improvement associated with Best Value.**

Part 1

Does the council have clear strategic direction?

The council has well-established strategic priorities. But political instability in recent years has affected its focus and ability to make decisions needed for lasting progress

Recently there are signs of more effective working relationships across political groups; this will be tested as the council deals with the difficult decisions it faces.

Members and officers work constructively on a day-to-day basis. There is less evidence of coherent, combined political and officer leadership necessary to implement and maintain change.

The council is reviewing how it operates, and will have to balance the drive for savings with the need for sufficient officer time and skills to support change.

Clackmannanshire faces many challenges

8. Clackmannanshire is the smallest mainland council in Scotland. It serves more than 51,000 people over a 61 square mile area. The area's transport links have improved significantly in recent years with the reopening of the Stirling to Alloa railway and the construction of the Clackmannanshire Bridge.

9. Like most areas of Scotland, the population of Clackmannanshire is ageing; by 2033, one in four people in the council area will be over 65. Over the next 20 years the population is expected to decrease by 2.4 per cent, against a national expected increase in population of 8.8 per cent in the same period.

10. Clackmannanshire has significant concentrations of deprivation, including Alloa South and East and Tullibody North and South. People living in deprived areas have fewer resources and opportunities, for example in health and education. Nationally, Clackmannanshire has the eighth highest concentration of deprivation of the 32 Scottish councils. Full-time jobs in Clackmannanshire pay less than the Scottish average, and pay has fallen by six per cent since 2013, in contrast to a two per cent increase across Scotland.

11. The proportion of school leavers entering higher education in 2014/15 was 26 per cent, well below the Scotland rate of 38 per cent. There are around 9,000 children in Clackmannanshire, with around 2,000 (22 per cent) living in workless households and 2,400 (27 per cent) living in poverty.

The council has well-established strategic priorities

12. The council's vision and priorities are set out in the Council Plan 2012/17: *Taking Clackmannanshire Forward*. The vision is to deliver better services, better opportunities and better outcomes, for example improving people's

health and wellbeing, the area's economic strength and building strong communities. The Council Plan has nine priorities (Exhibit 2). Part 2 of this report considers progress against these priorities.

Exhibit 2

Clackmannanshire Council's strategic priorities 2012 to 2017

The Council Plan 2012/17 set out nine priorities:

- The area has a positive image and attracts people and businesses
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- Our public services are improving.

Source: Council Plan 2012/17: *Taking Clackmannanshire Forward*

13. In September 2017 the council endorsed Clackmannanshire's 2017-2027 local outcome improvement plan (LOIP). The LOIP was developed by Clackmannanshire's Community Planning Partnership, the Clackmannanshire Alliance, and provides a collective vision and focus for the area. The LOIP includes a more focused set of priorities which reflects the social and economic challenges that people in Clackmannanshire face. The council is developing a new corporate plan that sets out how it will achieve the new priorities.

Political instability in recent years has affected the council's focus and ability to make the decisions needed for lasting progress

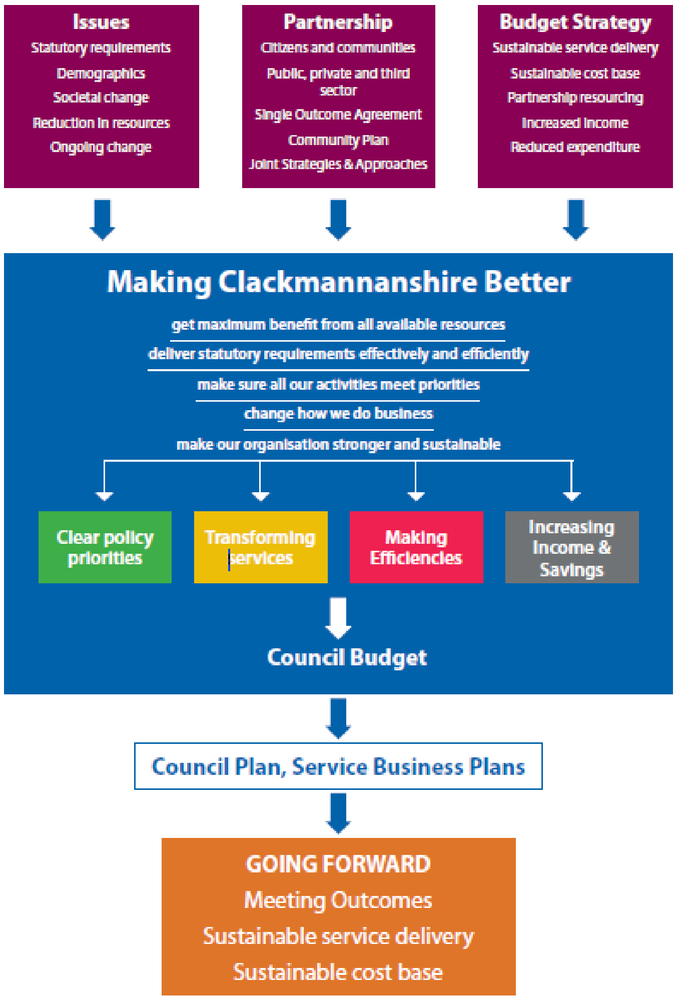
14. The council's acute financial position, which requires it to achieve further savings of around £29 million over the next three years, presents a major challenge to it achieving its strategic priorities.

15. In 2013, the SNP led council introduced a business transformation strategy, Making Clackmannanshire Better (MCB), as its response to the financial difficulties the council faced. MCB sets out how the council will reduce costs, deliver services in new and cost-effective ways and target resources effectively to the council's priorities. Exhibit 3 shows the links between MCB and the council's budget strategy, council and service plans.

Exhibit 3

The council's strategy for delivering services

The aims of MCB are reflected in its budget strategy, council and service plans.



Source: Making Clackmannanshire Better booklet, Clackmannanshire Council

16. The council has used MCB to better involve councillors in setting policy and making decisions. It set up a member forum and members receive monthly updates on corporate developments and the council's progress in delivering savings.

17. In 2014 the council's external auditors reported that the council had developed three new target operating models for integrated services. The council intended to replicate these models across the council as a whole. In December 2014 the council rejected proposals for target operating models.

18. In 2015 the external auditors assessed the progress of MCB. Their findings and recommendations for improvement were presented to the Resources and Audit Committee in September 2015 in a report, *Delivering Change and Financial Sustainability*. The report highlighted concerns about the pace and scale of delivery.

19. In May 2016 the SNP administration resigned, following which Labour formed a new minority administration. In August 2016 the Labour administration presented an alternative to MCB, *Putting Customers First,* to improve services and more effectively achieve priority outcomes. This included community

consultation and proposals for reversing budget decisions by the previous administration. In February 2017 the Labour administration resigned following the council's failure to agree a budget for 2017/18 (Case study 1).

Case study 1
Councillors reversed decisions designed to improve the council's financial position

At the council meeting on 9 February 2017, two reports were presented by the chief executive and depute chief executive promoting and reiterating the need for transformational change and financial sustainability. This was to protect the council's financial position over the medium and long term. The reports clearly set out the financial challenges faced by the council, the need for organisational redesign, and the limited progress made in reducing its workforce through voluntary severance and redundancy. Councillors agreed:

- that compulsory redundancies could be used as a last resort once alternative approaches to severance had been exhausted
- to tender for external expertise to review and redesign how the council provides services.

A special council meeting took place on 23 February 2017 to agree the 2017/18 budget. The revenue budget presented incorporated the decisions agreed at the council's previous meeting. The administration put forward an amendment to reverse the decisions which it had proposed and voted through two weeks earlier. The amendment required a vote on changes to standing orders, which was defeated. The Labour administration resigned during the special meeting and the decision on the budget was deferred.

At the meeting on 23 February, despite not having an agreed budget, the council agreed to increase council tax by the maximum allowed, three per cent. Setting council tax without reference to an agreed budget is an exceptional situation but the council had a legal requirement to set its council tax. The council finally agreed its 2017/18 budget on 27 March 2017. The budget reversed the decisions agreed on 9 February.

20. The May 2017 local government elections resulted in an SNP minority administration. It reinstated MCB, bringing it together with the Council Plan under the heading of *Taking Clackmannanshire Forward*.

21. The council has not been able to achieve the transformation and change envisaged in MCB. A lack of consensus on the difficult decisions to be made has led to political instability. This has contributed to the council's lack of progress in implementing MCB and addressing its financial difficulties.

22. Following the May 2017 election, there are signs of more effective working relationships across political groups. There is broad consensus about the scale of the financial challenge facing the council and indications of a greater willingness to work together. Working relationships will be tested as the council deals with the difficult decisions it faces. A clear focus on the fact that the duty of Best Value is for the council as a whole and not only the administration of the day is central to making lasting progress.

23. The Accounts Commission has highlighted that good governance in councils requires good working relationships between members and officers. Getting these relationships right has a significant bearing on how well councils perform. Members and officers work constructively on a day-to-day basis. There is less evidence of coherent, combined officer and political leadership necessary to implement and maintain transformational change.

The council must now make difficult decisions to deliver services more efficiently

24. There have been notable differences in the level of savings agreed by the council across services. In recent years, corporate and housing services have made the largest savings relative to their overall budgets. This is already having an impact on services, which is considered in part 2 of the report.

25. Social services and education continue to make the lowest savings relative to their overall budgets. This is largely due to these services having been protected compared to other services. The council needs to consider whether it can continue to protect services to this degree given its financial difficulties.

26. The council agreed a new strategic model for providing services in March 2017. It plans to make initial annual savings of £1 million and create the conditions for improved services and further savings. The design includes three broad categories of council service:

- People - services focused on individuals, families or groups of individuals with certain needs

- Place - services focused on environments and geographic areas

- Performance - services which enable the council to deliver its people and place priorities.

27. The new model focuses on greater integration of services, with new ways of working across departments. The council plans to review all services to determine the level at which they are most effectively and efficiently delivered. It aims to generate savings by reducing the level of resources required to deliver services. In reviewing how it operates, the council will have to balance the drive for savings with the need for sufficient officer time and skills to support change.

28. The chief executive has discussed the draft organisational design with all elected members, trade union representatives and service managers. The proposals for implementing the strategic model, elements of which were first considered by the council in 2014, are still to be agreed by members. The council must now agree how it will deliver services under its new model to secure the anticipated savings.

Part 2

How well is the council performing?

Over a period of budget reductions and service cuts, the council has maintained service performance and customer satisfaction in a number of key areas. But the pace of improvement is slow in some areas and not evident in others

The council has maintained high performance in some areas, but areas of poor performance have more than doubled to around a third of all indicators.

The council's shared service arrangement with Stirling Council, for education and social services, ended. The council used this opportunity to redesign services, with early signs of improvement.

The council has maintained performance in a number of key areas despite financial pressures

29. The council's latest self-evaluation was presented to the Corporate Management Team in November 2016.[1] This highlighted that the benefits of MCB were not being realised. It also noted that the unplanned ending of shared education and social services with Stirling Council in 2015 had led to additional pressures at a time of rising demands for social services.

30. In 2007 we reported that the council’s performance varied across services. It had an above average proportion of performance indicators among the best performing councils in Scotland but also a slightly above average number among the worst performing councils[2]. Between 2011 and 2016 the council has maintained performance against a number of key indicators (Exhibit 4).

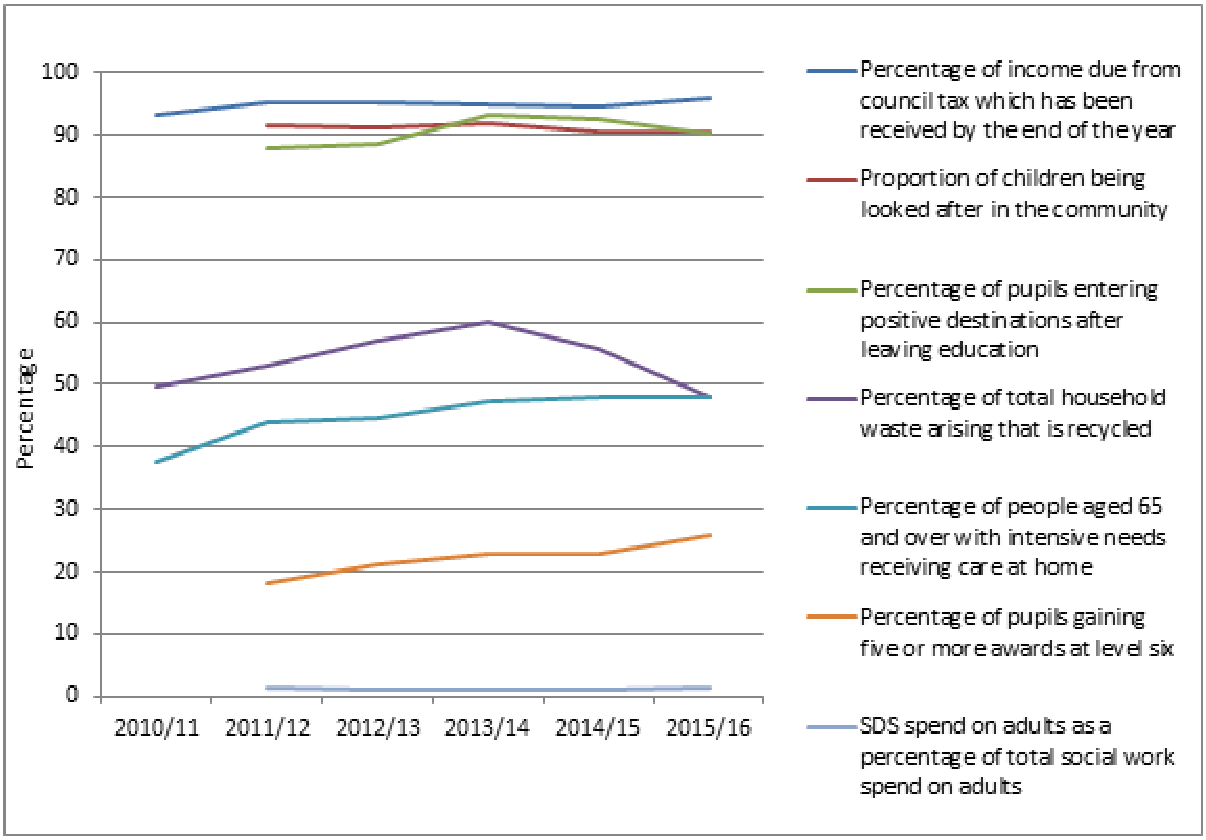
[1] PSIF Self Assessment: November 2016

[2] Audit Scotland, Clackmannanshire Council: the Audit of Best Value and Community Planning (2007)

Exhibit 4

Clackmannanshire Council's performance against selected indicators, 2010/11 to 2015/16

The council has maintained performance against a number of key indicators over the last five years.



Source: Audit Scotland and Local Government Benchmarking Framework, Improvement Service, 2015/16

The council performs well in some areas, but areas of poor performance have increased

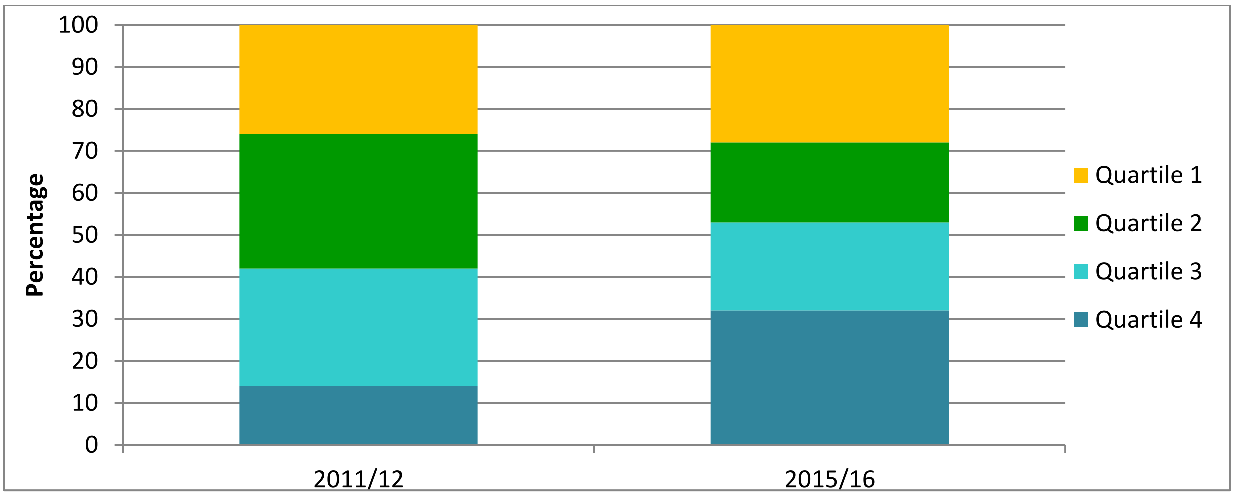
31. Similar to other councils in Scotland, the council has to deal with pressures including an ageing population, reduced social benefits, rising living costs, increasing poverty and vulnerability, and budget cuts. The council does however have more significant economic and social challenges compared to most other council areas. The council is trying to address these challenges alongside an acute financial position.

32. Exhibit 5 sets out how the council is performing relative to other councils using the Local Government Benchmarking Framework (LGBF). Between 2011/12 and 2015/16, the council has slightly increased the proportion of indicators where its performance is among the best in Scotland from 26 to 28 per cent. Over the same period the proportion of indicators where its performance is among the worst in Scotland has increased markedly, from 14 to 32 per cent.

Exhibit 5

Comparing the council's performance against other councils

The percentage of indicators where the council's performance is above average decreased from 58 per cent in 2011/12 to 47 per cent in 2015/16.



Note: measuring council performance involves considering how all councils are performing, from lowest to highest for each indicator. From this it is possible to see how one council compares to all councils. Relative performance against other councils is divided into four equal bands, or quartiles. The first quartile contains the best -performing councils for that indicator and the fourth quartile includes the poorest performing councils.

Source: Audit Scotland and Local Government Benchmarking Framework, Improvement Service, 2015/16

33. Children's and adult services account for half of the council's top scores. Children's services also account for nearly half of its lowest scoring indicators. Satisfaction levels are high despite outcomes remaining comparatively poor. In our Best Value report in 2007 we highlighted educational attainment was poor and required improvement. Average attainment levels at S4 have risen over time and are now around the national average. The proportion of pupils gaining five or more awards at level five and six remains in the bottom quartile and pupils entering positive destinations after school are among the lowest in Scotland.

34. In 2011/12 the council performed comparatively well across its corporate services indicators, but these now make up a third of the areas where the council's performance is poor. Part 1 of this report notes that corporate services budgets have had larger percentage cuts in recent years than other services, though there may be other reasons for the decline in performance. For example, the introduction of new centralised invoicing processes has been highlighted by the council as a reason for short-term decline in service performance.

35. Despite the challenges the council faces, in recent years it has won awards for elements of its services. In 2013 the council received a four star recognition for excellence from the European Foundation for Quality Management. It has also been recognised by the Convention of Scottish Local Authorities. For example, in 2017 the council won the Excellent People, Excellent Outcomes Award for its young parents project with NHS Forth Valley.

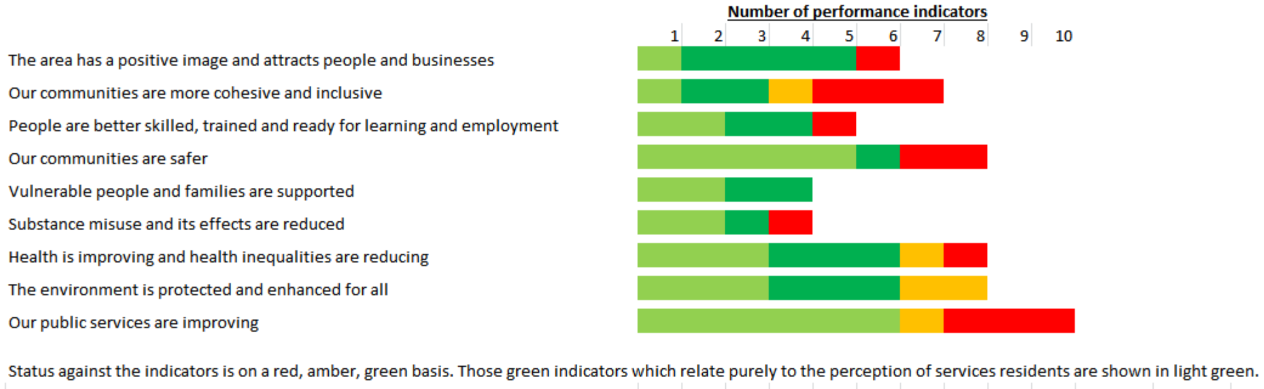
The council has maintained customer satisfaction despite falling performance in some areas

36. It is reasonable that all councils will have a mix of indicators across the quartiles. This is because councils will prioritise the budgets or services that support their overall priorities, meaning that lower priority services can be expected to score less well. Clackmannanshire's self-evaluation includes performance indicators organised under its nine priority areas. Exhibit 6 draws on the council's self-evaluation to show progress against these priorities.

Exhibit 6

Clackmannanshire Council's self-evaluation against its priorities

The council shows current status against priorities, but some information is not available and around half of the positive indicators (green) relate to perceptions of residents.



Source: Clackmannanshire Council self-evaluation reported to the corporate management team in November 2016

Note: Indicators in green are those that the council judges have met target. Those in light green relate to indicators met which relate purely to the perception of services by residents. Amber indicators are those in progress towards achievement. Red indicators are those which are below the council's targets and require attention.

37. Residents of Clackmannanshire have a positive perception of the services they receive. The 2016 Citizen's Panel results reveal highly positive perceptions of Clackmannanshire and its attractiveness to people and business: 96 per cent of residents feel they have good access to nature and open spaces, 91 per cent believe Clackmannanshire is a good place to live, and 74 per cent believe it has a good physical environment. Of the 43 indicators making up the green status in exhibit 6, 25 (58 per cent) relate directly to resident perceptions of services.

The council's shared service arrangement with Stirling Council, for education and social services, ended. The council used this opportunity to redesign services, with early signs of improvement

38. The council began discussions with Stirling Council for a shared service for education and social care in 2010 and agreed to have joint heads of service. A strategic agreement was reached in 2013. The councils were aiming to improve service quality and efficiency while maintaining their independence. The shared services worked on a lead authority model, with Stirling Council acting as lead for education services and Clackmannanshire Council as lead for social services. This covered management-level arrangements and some operational arrangements but separate governance arrangements continued within each council. This included separate reports being taken to each council by the shared services.

39. In 2015, the two councils commissioned a review of the shared service arrangements. The consultants concluded that over £1 million a year was being saved between the two councils and fully integrating services would create a further marginal saving.

40. The two councils agreed in August 2015 to continue considering options for shared services. In September 2015 Stirling Council issued a media statement that it intended to end the shared services. This was agreed by Stirling Council in October 2015 and was accepted by Clackmannanshire Council later that month.

41. Since the decision to end the shared service, the council has redesigned social care and education services and focused on improving performance. The council has appointed senior officers to lead the individual services. The shared service arrangement officially ended in March 2017.

Performance in social services declined during the transition from the shared service but the council is taking action to address this

42. The council had a short period of time to react to the end of the shared service. Its initial focus was on developing new strategies and ensuring that services continue to be delivered. The council appointed a new head of service who is also its chief social work officer in October 2016.

43. The end of the shared social work service meant the end of an arrangement to share the payroll costs of 28 staff with Stirling Council. The council also lost access to specialist support in areas including policy and planning and data analysis. This made service redesign more difficult.

44. Sickness rates among staff in the service had been high and increased during the transition to a single service. In adult care services the average number of days lost increased from 15.1 days in 2015/16 to 21.0 days in 2016/17. This is an increase of 39.2 per cent, and is well above the target rate of ten days. In child care services sickness rates increased from 7.4 days to 12.5 days, again against a target rate of ten days.

45. Other indicators show declining performance. The council is required to help people leaving care to plan their future. This is called a pathway plan. The percentage of people over 16 leaving care with an allocated pathway provider and a pathway plan has fallen from 89 per cent in 2014/15 to 55 per cent in 2016/17. The proportion of people leaving care with just an allocated pathway provider also fell from 100 per cent to 55 per cent over the same period.

46. The council has taken action to address declining performance with early signs of improvement. The 2017/18 Social Services Business Plan sets out how the council will redesign services for children and families and justice social work. The council has produced a Children's Services Plan and carried out a scrutiny review of social services. It has also reviewed intensive family support services. This has included a campaign to increase the number of local foster carers, and investment in independent living accommodation and self-directed support packages for looked after children. The council is currently forecasting a £642,000 underspend in its 2017/18 residential placements budget, compared to a £636,000 overspend last year.

The council is working as a 'challenge authority' to improve the performance of its education service

47. During 2016/17 the council appointed a new chief education officer and a new management team for its education service. The council's initial focus has been on implementing policies and procedures to support the new service.

48. The education service team has built on previous plans set up under the shared service and has appointed an analyst to improve evidence-based monitoring of improvement. The council reports improved attendance in schools and reduced exclusions. Local satisfaction with the education system is notably higher than the Scottish average (87 per cent compared to 78 per cent nationally).

49. In June 2016 Education Scotland provided the council with a report on the quality of its primary education based on inspection results between 2011 and

2015.[3] Forty per cent of primary schools were assessed as weak or satisfactory during this period. Across Scotland only 14 per cent of primary schools on average are classified as weak or satisfactory, with the vast majority receiving a more positive assessment.

50. There has been gradual improvement in outcomes for secondary school pupils. Attainment levels have risen and positive destinations for school leavers have increased, from 87 per cent ten years ago to 93 per cent in 2015/16.

51. In October 2017 the council reported progress against the Insight Benchmarking Tool developed by the Scottish Government. This allows councils to view progress against the national picture and a virtual comparator based on pupils with similar backgrounds. In most cases the council is in line with the virtual comparator. Education Scotland is planning to review the council's progress in more depth in 2018.

52. The council has been identified as one of nine challenge authorities by the Scottish Government. As a challenge authority it receives additional support. The council has been working with Education Scotland and the Scottish Government through this period of change. The council has also changed the structure of the service to allow closer working between local schools.

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[3] *The Quality of Primary Education in Clackmannanshire*, presented to councillors June 2016

Part 3

Is the council using its resources effectively?

The council faces an acute financial position which requires it to achieve further savings of £29 million over the next three years

The council receives good quality information about its finances and has a clear understanding of the scale of the financial challenge.

The council has made significant savings over recent years but has yet to make the transformational changes necessary to secure its financial position.

The council has used reserves to balance budgets; this is not sustainable and the council must now make difficult decisions about the services it can afford to deliver.

The council receives good quality information about its finances and has a clear understanding of the scale of the financial challenge

53. The council has effective arrangements for financial planning. Its budget strategy sets out its financial planning assumptions and indicative savings for a rolling four-year period. The council uses scenario planning to forecast funding gaps in a best, median (most likely) and worst case scenario. These scenarios, which it regularly reviews, are based on different sets of assumptions for variables such as Scottish Government funding and inflation.

54. The council is forecasting annual funding gaps for 2018/19 to 2020/21 of £13.1 million, £7.9 million and £7.7 million respectively. This is a cumulative funding gap of £28.7 million. As a proportion of net expenditure this is among the highest funding gaps of any Scottish local authority.

55. Making Clackmannanshire Better (MCB) is the council's response to its financial challenge. The business transformation strategy aims to:

- reduce expenditure
- maximise income
- redesign service provision
- implement other targeted initiatives to deliver high quality services from a sustainable cost base.

56. The council's budget strategy and its process for agreeing the annual budget are aligned with the aims of MCB. The council's process for setting its budget is well-established and involves:

- officers putting forward savings options, management efficiencies and suggestions for service redesign

- consultation with residents on savings options
- monthly member meetings to develop the budget and consider officer savings options
- consultation with trade union representatives.

57. Councillors have been made aware, for some time, of the scale of the challenge the council faces and are satisfied with the information provided by officers on the financial position. They receive regular, clearly set out reports updating them on predicted funding gaps and the council's progress in achieving agreed savings.

58. Detailed scrutiny of financial performance is delegated to the Audit and Finance Committee, which receives regular revenue and capital monitoring reports. These reports provide an overall picture of the budget position at a service level. The reports also forecast the outturn position for the year and include explanations for significant variances against budget. They provide detailed information which allows councillors to scrutinise the council's finances.

The council has made significant savings over recent years but has used reserves to balance budgets, which is not sustainable

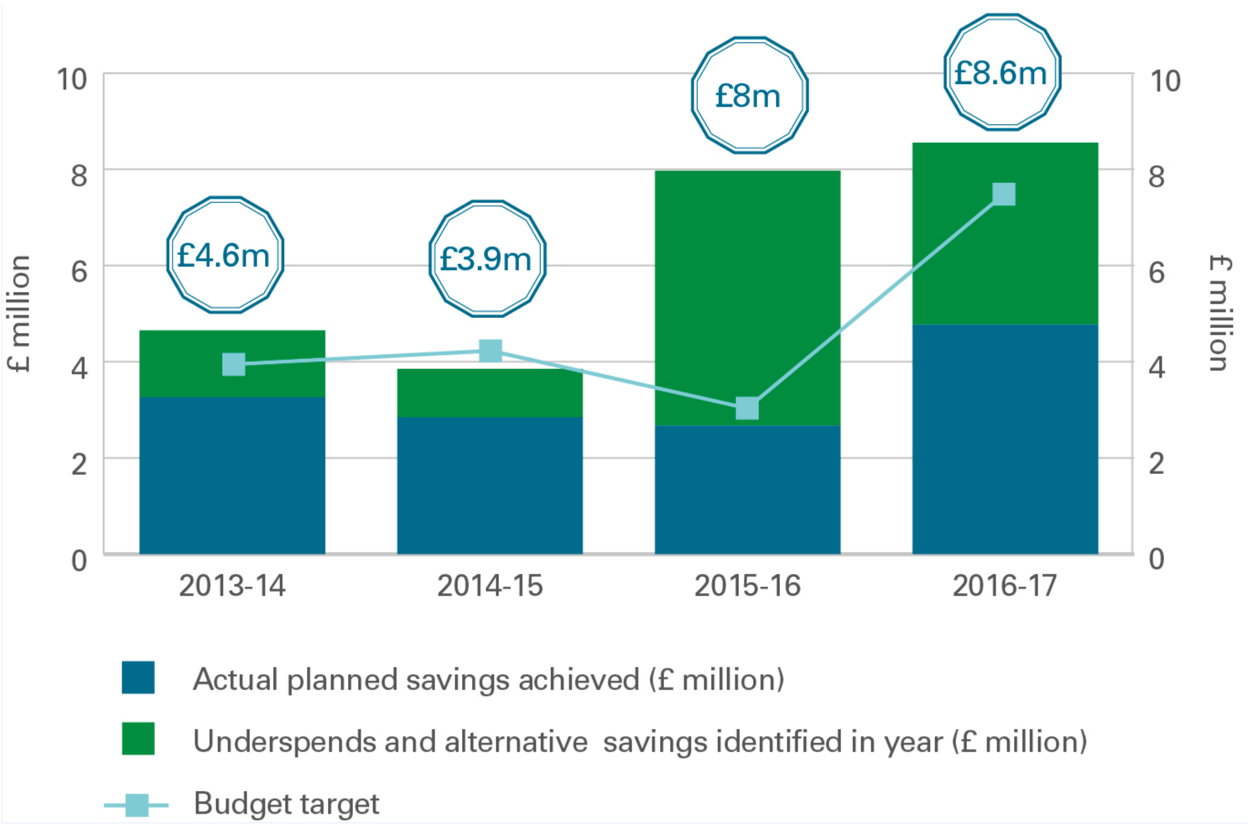
59. The council has managed its financial position in recent years through a combination of achieving agreed savings, use of reserves and underspending against budget.

60. In 2016/17 the council recorded an underspend of £1.2 million against its 2016/17 revenue budget of £118.1 million. The council did not achieve the full level of savings agreed in the 2016/17 budget but was able to deliver services within budget by identifying alternative savings, restricting spending and making net underspends within services. Exhibit 7 compares the savings made between years.

Exhibit 7

Breakdown of savings achieved against budget

The council has not fully achieved savings targets but has identified alternative savings and underspends



Source: Audit Scotland analysis of budget papers

61. Underspends have, in some cases, been achieved through additional reductions in spending on some services, for example services operating with unfilled vacancies. This is not sustainable. It places strain on staff and risks affecting the quality of services.

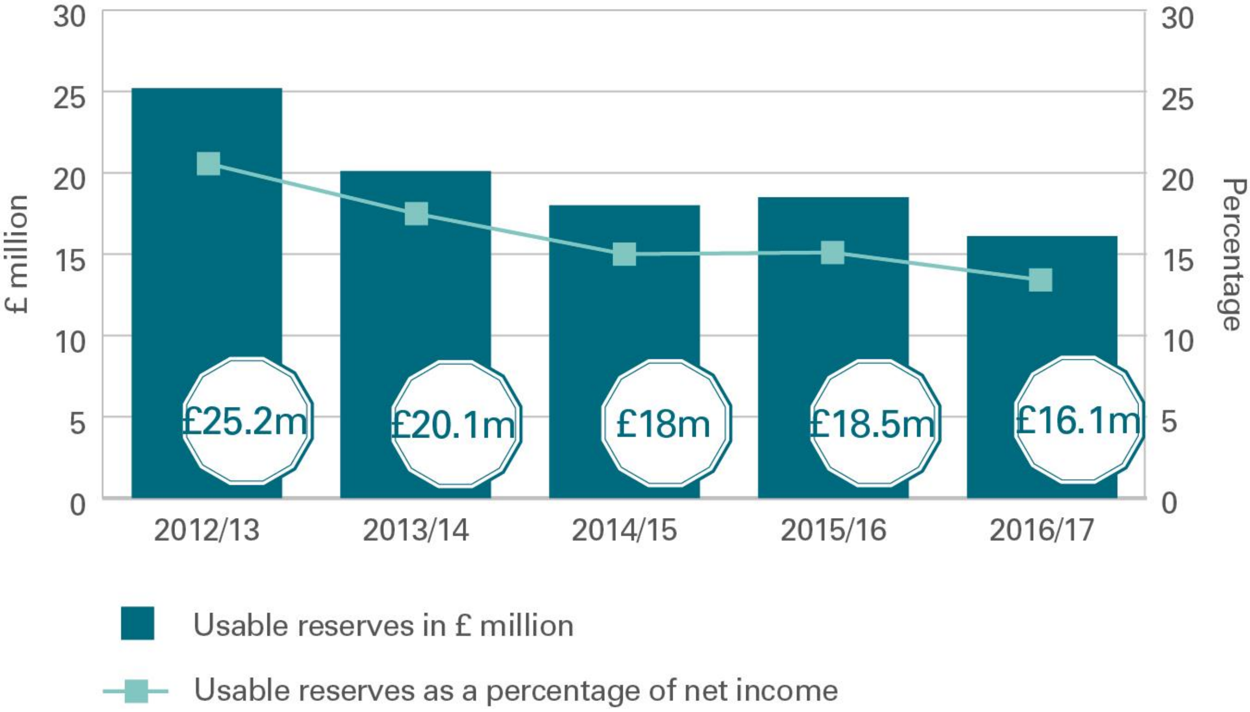
62. The council has agreed savings of £36 million since 2011 but has yet to make the transformational changes necessary to secure its financial position. As a result it has had to use £15 million of reserves over the same period to balance budgets. The council approved its 2017/18 budget in March 2017. It set a general services budget of £118.1 million, which included agreed savings of £6.8 million. This left a budget gap of £3.5 million which the council plans to meet through contributions from reserves.

63. The council agreed managed use of reserves was necessary to support the implementation of MCB but officers have regularly advised that it cannot continue to use reserves to balance budgets. The level of council reserves available to spend as a percentage of the council's annual net income has reduced over four years from 20.6 per cent in 2012/13 to 13.4 per cent in 2016/17. Between 2012/13 and 2016/17 usable reserves have decreased by £9.1 million to £16.1 million (Exhibit 8).

Exhibit 8

Usable reserves as a percentage of net income

The level of usable reserves has reduced significantly since 2012/13.



Source: Audited financial statements

64. The council reviews the level of its uncommitted reserves when setting the budget each year. The council's reserves strategy specifies that it should retain uncommitted reserves at a minimum level of three per cent of net expenditure. The uncommitted element of the general fund at 31 March 2017 was £4.8 million which represents 4.4 per cent of net expenditure.

65. The council was identified in *Local government in Scotland: Financial overview 2016/17* as one of three councils that would run out of general fund reserves within two to three years if it continued to use reserves at the level planned for 2016/17.

66. The council needs to make difficult decisions about its services and how they are provided to ensure it balances its finances. This is clear from the range of savings options put forward by officers as part of the 2018/19 budget process. Some of the options proposed would result in reductions in services from current levels.

The council has reduced its level of borrowing

67. The council has reduced its external debt by £33 million since 2010/11. This has been achieved by setting an advisory limit for capital expenditure to minimise the requirement for new borrowing.

68. The council holds outstanding loans of £146 million at 31 March 2017. This consists of external borrowing of £104 million and long-liabilities relating to three schools' public private partnership finance leases of £42 million. The council's borrowing remains within its external borrowing limit of £155 million for 2016/17 set out in its treasury management strategy. The council's borrowing as a proportion of income is relatively low compared to other Scottish councils.

There is scope for the council to further develop workforce planning

69. The council approved its Interim Workforce Strategy 2015/16 in October 2015. This set out the council's longer-term workforce planning objectives. The council identified that it needed to reduce its total workforce of 2,162 full-time equivalent (FTE) staff by approximately 320 to 350 FTE over the next few years (between 15 and 17 per cent of its workforce). In 2016/17, the council's take-up rate for voluntary redundancy was less than a third of that needed to meet its savings target.

70. The council has developed a draft organisational workforce plan covering 2017 to 2020. The draft plan sets out information on the skills and numbers of staff the council will need. It plans to achieve significant savings through changes to how it delivers services under its new strategic model. The council recognises that it will need to continue to refine workforce planning to ensure it achieves the savings required.

71. The council has made progress in reducing staff numbers but has struggled to attract and retain staff in key areas of the business. For example, it has found it difficult to recruit suitably qualified and experienced finance staff. As a result, the finance team has experienced staff turnover and levels of vacancies.

72. The council needs to address its high level of sickness absence. In 2015/16, the average number of days lost through sickness absence was 7.2 days for teachers and 13.4 days for other council employees. This is an improvement from 2012/13 when sickness absence was 15.7 days for teachers and 21.1 days for other council employees. The council's sickness absence remains among the highest in Scotland and does not compare favourably to the Scottish average of 6.1 days for teachers and 10.6 days for other employees.

73. The council's absence data for 2016/17, reported to the Scrutiny Committee in August 2017, shows that the combined sickness absence for teachers and other council employees was 14.7 days compared to its target of 11.3 days. The council is working to implement a revised policy for maximising attendance in an attempt to reduce absence.

74. The council's workforce plan states that it will survey staff on an annual basis to understand how they feel about working for the council. The council has not done this, with the last staff survey carried out in 2014.

The council has well-established arrangements for managing assets

75. The council has asset management plans in place across its main services. These plans set out how the council will maximise the performance of its assets and are linked to the priorities in the Council Plan. The property asset management plan has expired and the other plans are due to expire soon. The council is updating its asset management plans as part of its refresh of all strategic plans following the May 2017 election.

76. The council has completed a stock condition survey which will be used to inform officers and members of the viability of its housing assets. The council plans to develop a refreshed five-year asset management plan based on the results of the survey.

77. Effective management of property assets is an important means of generating savings and income, for example through asset rationalisation. The council undertakes an annual property review to identify buildings it no longer needs and can consider selling. The council also reviews leased and rental properties to ensure it uses its own properties whenever possible.

The council has achieved savings from procurement but there is scope for further improvement

78. The council has made savings through better procurement with, for example, £1.6 million of savings in 2015/16. This included savings of £0.8 million and £0.6 million in the procurement of temporary accommodation and insurance services respectively.

79. The council scored 46 per cent in a 2016 procurement assessment by Scotland Excel, Scotland's centre of procurement expertise for local authorities. This indicates that procurement practices can be improved. The council is reviewing the feedback it received from Scotland Excel and will prepare an action plan to take forward the recommendations.

Part 4

Is the council working well with its partners?

The council works well with its partners to identify local priorities and to help deliver services

The council worked closely with stakeholders in developing the new local outcome improvement plan which includes a more focused set of local priorities.

The council has well-established arrangements for engaging with its communities.

The council is working with Stirling Council to progress a City Deal to support regeneration in the area.

The council worked closely with stakeholders in developing the new local outcome improvement plan which includes a more focused set of local priorities

80. The council has well-established partnership working arrangements. It is an active member of the Clackmannanshire Alliance alongside representatives including local businesses, Forth Valley College, the NHS and police and fire services. The council worked closely with other members of the Clackmannanshire Alliance to develop the new local outcome improvement plan (LOIP).

81. The LOIP includes four strategic outcomes for Clackmannanshire:

- Clackmannanshire will be attractive to businesses and people and ensure fair opportunities for all
- our families, children and young people will have the best possible start in life
- women and girls will be confident and aspirational, and achieve their full potential
- our communities will be resilient and empowered so that they can thrive and flourish.

82. The LOIP was agreed after a local poverty assessment and a workshop with stakeholders, including third sector organisations and volunteer groups. The Clackmannanshire Alliance used an online consultation and five themed workshops to further develop the priorities and actions to achieve the strategic outcomes. These plans focus on improving local outcomes for women and children and residents in South Alloa, which evidence indicates are the most disadvantaged within Clackmannanshire's communities.

83. Exhibit 9 shows the performance of the council and its community partners against its previous SOA priorities based on national performance indicators. The exhibit shows that the partnership's performance is below that of council

areas with similar levels of deprivation, including its family group. This includes Fife, Falkirk, Renfrewshire, South Ayrshire, South Lanarkshire, West Lothian and Dumfries and Galloway councils.

Exhibit 9

Performance indicators ranked against other councils, filtered by priority areas

The council performs comparatively poorly in priority areas.

Priority Area for Council & Community Planning Partners	Indicator	Ranking (out of 32 councils)	Above or below Family Group?
Health is improving and health inequalities are reducing	Percentage of babies at a healthy birthweight	30	
	Percentage of primary 1 children who have body mass index classified as a healthy	4	
	Emergency admissions for age 65 and over per 100,000	3	
	Accident and Emergency attendance rates per 100,000	5	
	Well-Being measurement	31	In line
	Early mortality: European Age Standardised Rate of deaths for persons under 75	26	
People are better skilled, trained and ready for learning and employment	S4: Average tariff score - all pupils	16	In line
	Percentage of school leavers entering positive and sustained destinations (such as further education or training)	32	
Our communities are more cohesive and inclusive and Vulnerable people and families are supported	Percentage of population (aged 16-64) in receipt of out of work benefits	25	
	Percentage of children in poverty	27	
The area has a positive image and attracts people and businesses	Employment rate	28	
	Median weekly earnings for residents in community planning partnership area who are employed	19	
	Survival of new businesses (3 year period)	31	
Our environment is protected and enhanced for all	CO2 emissions (tonnes per capita)	28	
Our communities are and feel safer	Total crimes per 10,000 population	21	
	Number of dwelling fires per 10,000 population	24	

Key

	Ranking (out of 32 councils)	Above or below Family Group?	
Quartile 1			Above family group performance
Quartile 2			
Quartile 3			Below family group performance
Quartile 4			

Source: Audit Scotland and Local Government Benchmarking Framework, Improvement Service, 2015/16

84. In April 2016, the Improvement Service produced a Community Planning Outcomes Profile. This allows councils to compare how outcomes are changing for people in the ten per cent least and most deprived areas. The data only covers the period to 2012/13 but it indicates widening gaps in inequality across communities in Clackmannanshire. This contrasts with the national picture where the inequality gap is generally narrowing (Exhibit 10).

Exhibit 10

Comparison of most and least deprived areas against performance indicators

Inequalities are increasing among most indicators, which is in contrast to Scotland as a whole, where the gap between the most and least deprived areas is generally reducing.

Key
Gap is narrowing (green)
Gap is widening (red)

Inequality Indicators	Clackmannanshire: Size of gap between 10 per cent least deprived and most deprived data zones	Clackmannanshire: Percentage change in gap in period covered	Scottish Average: Size of gap between 10 per cent least deprived and most deprived data zones	Scottish Average: Percentage change in gap in period covered	Inequality gap greater or smaller than the Scottish picture	Time period covered
Percentage of children in poverty	32.5%	-6.7%	36.7%	-3.6%	Smaller	2009/10 - 2012/13
S4 Tariff Score	-115.2	25.5%	-86.6	-12.5%	Greater	2002/03 - 2012/13
Percentage of school leavers in positive and sustained destinations (such as further education or training)	-27.9%	9.5%	-15.3%	-3.0%	Greater	2007/08 - 2012/13
Percentage of population (aged 16-64) in receipt of out-of-work benefits	35.6%	0.5%	35.1%	-0.4%	Greater	2010/11 - 2012/13
Crime rate per 10,000 population	1,118	27.0%	796	-15.0%	Greater	2004/05 - 2010/11
Emergency hospital admissions per 100,000 population (65+)	8,629	0.7%	16,530	26.0%	Smaller	2002/03 - 2012/13

Note: The difference between the 10 per cent most deprived data zones and the 10 per cent least deprived data zones is called the inequality (by deprivation) gap. A data zone is an area based on 2001 Census data consisting of approximately 500 to 1,000 people.

Source: Community Planning Outcomes Profile, Improvement Service, April 2016

85. The council will need to work closely with its partners to improve performance, reduce its inequality gap and achieve its new strategic outcomes. It also needs to refresh service and financial plans to ensure its services are focused on the new priorities for the area. The Children and Young People's Service Plan 2017-2020 is the first such plan designed to achieve the priorities of the LOIP.

The council has well-established arrangements for engaging with its communities

86. The third sector in Clackmannanshire is a significant local asset with more than 250 voluntary organisations delivering services and activities. These organisations attracted more than £800,000 in funding to the area in 2016/17. The Clackmannanshire Third Sector Interface is the independent support and representative organisation for charities and volunteer organisations within Clackmannanshire. It welcomed the new approach to developing the LOIP particularly the widespread and open consultation.

87. The council consults with the public through its online Citizen’s Panel which is designed to be demographically representative. It also has a citizen space website which hosts consultations covering a range of local issues. The council provides information on its website about the results of some of the public consultations including what outcomes have been delivered.

88. In early 2017, the council consulted with a wide range of stakeholders on its budget proposals. This involved a range of groups including community partners, local businesses and service users.

89. The council's service reviews often involve working with the people who use the service. For example, the council surveyed school children, teachers and parents to assess how well children's services were meeting demand and identify what improvements could be made.

90. The council has demonstrated that it can engage with and support its communities to achieve local aspirations. The Bowmar Action Plan has been

developed by a broad range of people in the community of Bowmar supported by the council and a local charity. The plan highlights the strengths of the community and sets out an ambitious plan for action to improve the lives of those living in Bowmar.

91. The council is at an early stage of working through the implications of the Community Empowerment (Scotland) Act 2015.

The council has transferred adult social care services to its health and social care partnership, but it is too early to assess the impact

92. Clackmannanshire and Stirling Integration Joint Board (IJB), which provides health and social care services across the council areas, began in April 2016. The IJB includes Clackmannanshire Council, Stirling Council and NHS Forth Valley. The IJB approved its Strategic Plan 2016-19 in February 2016, setting out its objectives and priorities over the three-year period.

93. In 2017, the council transferred operational responsibility for adult social care services to the IJB. It is too early to assess what impact this has had on services, particularly as Stirling Council and NHS Forth Valley are working towards delegating services in the same way.

The council is working with Stirling Council to progress a City Deal to support regeneration in the area

94. City Deals provide city regions with the opportunity to deliver infrastructure (such as housing and business parks), innovation and employment projects to improve economic performance. The UK and Scottish governments both provide funding with councils contributing additional funding. Clackmannanshire and Stirling councils entered a joint bid for a City Deal which was approved in 2016, although negotiations over funding and delivery are ongoing with the UK Government.[4]

95. The council has worked with Scottish Futures Trust (SFT) to develop Clackmannanshire's part of the joint bid. The council, through the SFT, worked with partner organisations such as Skills Development Scotland, Clackmannanshire Business and Scottish Enterprise to help decide how to use any City Deal funds for Clackmannanshire. Further workshops with other local partners have taken place.

96. The full submission to the UK Government is not yet complete, but the council has agreed it will cover three themes:

- investor confidence - increasing private sector investment in the area
- inclusive growth - developing the local workforce
- sustainable place - investment in green jobs, green infrastructure and green energy.

97. City Deal funding will be spent in specific areas of Clackmannanshire, in keeping with the more targeted nature of the new LOIP. Plans include infrastructure investment in Alloa and Sauchie. The UK Government's 2017 Autumn Budget Statement confirmed that progress is being made in relation to the deal.

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[4] Timeline for the City Deal submission included in the City Deal Programme Update, published February 2017

Part 5

Is the council demonstrating continuous improvement?

The council has made improvements in some areas since 2007, but its financial challenges are significant and it now needs to take urgent and decisive action

The council has effective arrangements for financial planning and has worked well with partners to identify priorities. It has maintained service performance and customer satisfaction in a number of key areas while making significant savings. It now needs to make the transformational changes necessary to secure its financial position.

The council is developing an ambitious programme for change and improvement. Effective political and officer leadership will be necessary to successfully implement these plans.

The council may benefit from external support to help improvement.

The council has demonstrated improvement in some areas since 2007 but further progress is required

98. Our 2007 Best Value report found that Clackmannanshire Council faced significant challenges with limited capacity and significant improvements to make. At that time we concluded that it had established a wide-ranging improvement plan with an ambitious timescale and councillors and officers needed to provide stronger leadership in supporting continuous improvement.

99. Over the period from 2007 to 2014 the council's external auditors reported that the council was performing well and making improvements. In 2015, the external auditors highlighted concerns with the pace and scale of delivery of the council's business transformation programme. They assessed progress as part of their annual audit and reported in September 2015 that the council was making insufficient progress in addressing its significant short to medium-term financial challenges.[5] With demographic changes and ongoing demand pressures, the external auditors did not believe this approach was financially sustainable.

100. The external auditors found that officers had invested significant time and attention to presenting alternative financial scenarios, financial modelling options and leading practices from elsewhere, but progress was limited. The

[5] *Delivering Change and Financial Sustainability,* presented to Resources and Audit Committee September 2015

auditors also reported that significant and difficult decisions, such as those around schools estates strategy, leisure services and reviews of discretionary spending, had been deferred for over a year.

101. The external auditors noted a lack of political consensus around some of the more difficult areas for decision and prioritisation. A wide range of views existed, with some councillors accepting that prioritisation and difficult decisions were inevitable while others still regarded the use of reserves as the main solution to the medium-term financial challenges. This had resulted in a lack of direction for officers.

102. In March 2016 the Shared Risk Assessment by Audit Scotland and other scrutiny agencies identified that Best Value audit work should be carried out to review leadership, governance and financial sustainability. A new approach to auditing Best Value was agreed by the Accounts Commission in 2016. Clackmannanshire Council was included in the first group of councils to receive this Best Value Assurance Report.

103. Since 2007 the council has managed to make improvements and maintain service performance in some areas. Considerable senior officer time and effort has been spent managing the impact of political change, for example designing alternative models for service delivery, redesigning governance and administrative arrangements and preparing new budgets. The council has also established effective arrangements for financial planning and worked well with partners to identify tighter focused priorities. The challenges facing local government have changed significantly since the 2007 report and some areas for improvement identified in the previous audit remain (Exhibit 11).

Exhibit 11

Comparing selected Best Value judgements, 2007 and 2018

The council has demonstrated improvement in some areas but further progress is required at a time when it faces acute financial challenges.

Controller of Audit judgement 2007	Controller of Audit judgement 2018
Members and officers of the council need to provide stronger leadership for continuous improvement. They need to review political and managerial structures, establish a clearer strategic focus with fewer, clearer priorities, clarify scrutiny arrangements, and make community planning and engagement with local communities more effective.	The council has well-established strategic priorities. But political instability in recent years has affected its focus and ability to make the decisions needed for lasting progress. Recently there are signs of more effective working relationships across political groups; this will be tested as the council deals with the difficult decisions it faces. Members and officers work constructively on a day-to-day basis. There is less evidence of the coherent, combined political and officer leadership necessary to implement and maintain change.
The council's overall vision is not consistently articulated in its corporate and community plans. The plans set out too many priorities and the council has insufficient capacity to meet the challenging timescales. The council has developed some effective partnerships, particularly for the delivery of community care services and in tackling antisocial behaviour. More generally, it needs	The council works well with its partners to identify local priorities and to help deliver services. It worked closely with stakeholders in developing the new local outcome improvement plan (LOIP), which will be implemented by community planning partners, the Clackmannanshire Alliance. The LOIP includes a more focused set of local priorities, including specific geographic areas and particular groups of people, such as children

to better demonstrate the impact of community planning. Along with community planning partners the council has developed new ways of identifying the needs of its communities, but these have had variable success and could be more effective.	and women. These provide a clear basis for prioritising resources in future.
The council's performance varies across services with an above average proportion of SPIs among the best performing councils in Scotland but also a slightly above average number among the worst performing councils.	Clackmannanshire has several areas of comparatively high deprivation and economic activity is lower than the Scottish average. Over a period of budget reductions and service cuts, the council has maintained service performance and customer satisfaction in a number of key areas. But the pace of improvement is slow in some areas and not evident in others.
The council has improved its financial management and budgetary control systems in recent years, but there is scope for further improvements.	The council receives good quality information about its finances and has a clear understanding of the scale of the financial challenge.
Clackmannanshire Council faces significant challenges with limited capacity. Its efforts to promote Best Value have not progressed as planned and it needs to improve in a number of areas. It has established a wide-ranging improvement plan with an ambitious timescale for delivery.	The council has made improvements in some areas, but the financial challenges are much more significant meaning that it now needs to take urgent and decisive action. Only then will the council be in a position to demonstrate the pace, depth and continuity of improvement associated with Best Value.

Source: Clackmannanshire Council: the audit of Best Value and Community Planning. Prepared by Audit Scotland for the Accounts Commission, September 2007

The council now needs to take urgent and decisive action to secure its financial position

104. The council's predicted budget gap in 2018/19 is 26 per cent more than the gap it has had in any of the previous seven years. Its biggest annual saving over that period was six years ago and was 80 per cent of what is required in 2018/19. The council has been regularly advised, for some time, of the scale of the financial challenge and the importance of taking the difficult decisions needed to secure its financial position.

105. The council has not fully achieved its plans for transformational change. At the time of our audit, the council was developing a comprehensive and ambitious programme of change based on work undertaken under Making Clackmannanshire Better. This has four main themes:

- using target operating models to deliver services
- taking forward a whole organisation redesign and associated structure
- developing workforce strategies quickly to ensure it has a supported and fit-for-purpose workforce
- committing to delivering services digitally.

106. There are similarities between the council's refreshed transformation programme and previous unsuccessful approaches. In 2014, the external auditors highlighted that a pilot exercise in Tullibody had developed three new target operating models for integrated services. The models, once fully tested,

were to be replicated across the council as a whole. The external auditors noted that this approach offered the potential for significant cost reductions and better outcomes for the communities of Clackmannanshire. The external auditors reported limited evidence of the lessons learned from the Tullibody pilot being rolled out across the council and in December 2014 the council rejected proposals for target operating models and the use of compulsory redundancy as a last resort.

107. As noted in Part 1 of this report, the council is redesigning its organisational structure to help it achieve its programme of transformation. This includes significantly changing its senior management structures. The council will need to balance having less senior officer resource with its ability to make the changes and improvements required. This includes making the most of opportunities such as the City Deal.

The council may benefit from external support to help improvement

108. There are some examples of the council using external support to help make improvement. The housing and revenues services have been successful in making savings and improvements following a review by an external consultant (Case study 2).

Case study 2

Working with an external consultant the council changed its management and approach in housing and revenues services

At the time of the consultant's review processing times for new claims and changes to housing benefit claims were worsening and significantly longer than the Scottish average. Both services were facing significant budget cuts and were striving to provide more efficient and effective services. The review found that:

- different services within housing found it difficult to work with each other to provide a streamlined service for customers
- the wrong things were being measured, which led to focus in the wrong areas
- a number of practices were wasteful or not adding value
- staff spent much of their time trying to fix issues arising from poor customer service.

A range of changes and improvements were made as a result of the review. The council reduced staff levels by 13 per cent between September 2014 and March 2016 and were still able to:

- reduce housing revenue account budget spend by £720,000
- reduce the time taken to process: void properties by 50 per cent; housing repairs by 66 per cent; new benefit claims by 28 per cent and changes of circumstances by 58 per cent
- reduce reoccurring housing repair jobs from 24 per cent to two per cent
- reduce rent arrears by five per cent in pilot areas
- reduce the percentage of new tenants going into arrears from 59 per cent to 37 per cent
- increase the percentage of homeless housed from 57 per cent to 87 per cent
- increase key customer satisfaction scores
- increase council tax collection rates to the council's highest rate since 2009.

The council has continued to identify savings and make improvements.

Case Study – Transforming Housing Services: Clackmannanshire Council, June 2016

109. In setting its 2017/18 budget, the council rejected proposals to provide money for external support and assistance to deliver improvement. Given the scale of its financial challenge, the council should consider how it could use external support to help improvement.

Recommendations

Councillors and officers should build on their constructive working relationships to provide the coherent, combined leadership necessary to secure the council's financial position.

The council should consider savings options and decide how best to direct resources to priorities. It should work with communities to develop options and prepare for the difficult decisions it has to make.

The council should further develop its working relationships with community planning partners to ensure their combined resource is directed towards the strategic local outcomes.

The council should balance the drive for savings with the need for sufficient officer time and skills to support change. It should also consider how it could make more use of external assistance to support improvement.

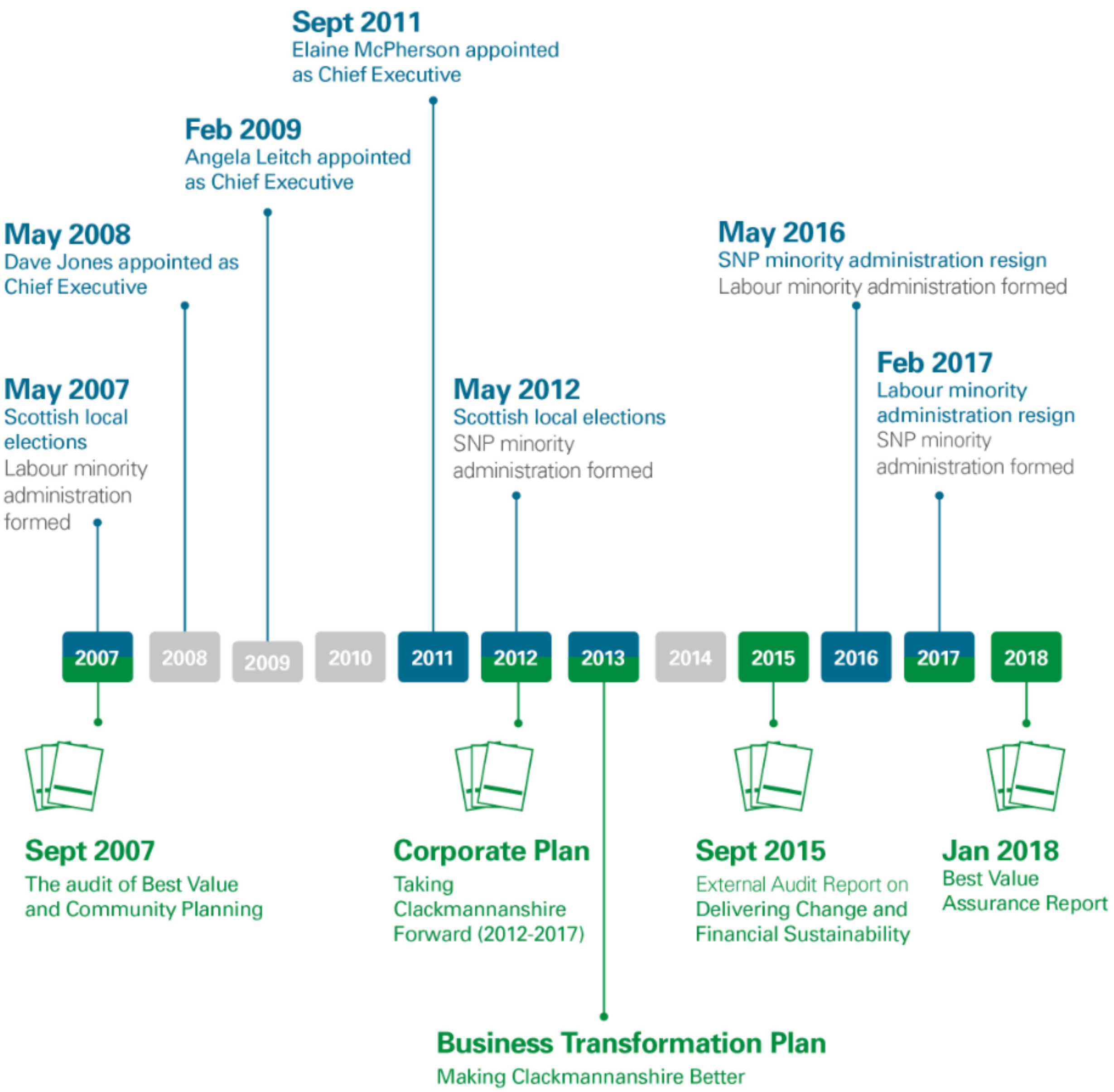
Next steps

Future audit work

110. Auditing Best Value is a continuous process that forms part of the annual audit of every council. Audit conclusions will be reported each year through the Annual Audit Report. As part of our annual audit work we will follow-up the progress the council is making in response to this report.

111. Our audit work will continue to be shaped by the Shared Risk Assessment. This is a joint approach agreed by the Accounts Commission, Audit Scotland and other scrutiny partners such as Education Scotland and the Care Inspectorate, using information about local government to plan scrutiny activity that is proportionate and based on risk. This approach will contribute to the audit intelligence and help us decide about the timing of audits and the focus of audit work at individual councils.

Appendix 1
Best Value audit timeline



September 2007 – The Audit of Best Value and Community Planning:

The Accounts Commission published its first Best Value report on the council in September 2007. The Commission's 2007 findings highlighted progress was slow due to the council's limited capacity, high number of priorities and lengthy list of improvements needed. The council was facing challenges in terms of its scale, social and economic characteristics, location and limited transport links. It highlighted areas of improvement including the need for effective leadership by elected members and sharper prioritisation of vision, priorities and policies with resource decisions.

January 2018 - Best Value Assurance Report

The Controller of Audit will present a Best Value Assurance Report to the Accounts Commission at least once during the five-year appointment for each council. This is the sixth of its kind. The 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.

Clackmannanshire Council

Best Value Assurance Report

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