

Corporate Policy and Strategy Committee

10.00am, Tuesday 7 August 2018

Accounts Commission – Local Government in Scotland – Challenges and Performance 2018 - referral from the Governance, Risk and Best Value Committee

| | |
|---------------|-----|
| Item number | 8.5 |
| Report number | |
| Wards | All |

Executive summary

The Governance, Risk and Best Value Committee on 5 June 2018 considered a report detailing the Accounts Commission's complementary, forward-looking report assessing councils' readiness to confront the growing challenges that lay ahead following its earlier Scotland-wide review of 2016/17 local government financial performance.

The report has been referred to the Corporate Policy and Strategy Committee for its consideration.

Terms of Referral

Accounts Commission – Local Government in Scotland – Challenges and Performance 2018

Terms of referral

- 1.1 On 5 June 2018 the Governance, Risk and Best Value Committee considered a report detailing the Accounts Commission's complementary, forward-looking report assessing councils' readiness to confront the growing challenges that lay ahead following its Scotland-wide review of 2016/17 local government financial performance.
- 1.2 The joint report by the Chief Executive and the Executive Director of Resources indicated that the report re-emphasised a number of previous messages of relevance to all councils in Scotland, including the need for robust financial and service planning, appropriately resourced transformational change programmes and close working with elected members and communities in prioritising services to deliver key outcomes and secure financial sustainability.
- 1.3 The Governance, Risk and Best Value Committee agreed:
 - 1.3.1 To note the report by the Executive Director of Resources.
 - 1.3.2 To refer the report to all Executive Committees for consideration, with particular emphasis on the issues raised in Paragraphs 3.4 and 3.6.3 of the report.

For Decision/Action

- 2.1 The Corporate Policy and Strategy Committee is asked to consider the attached Challenges and Performance 2018 report.

Background reading / external references

[Minute of Governance, Risk and Best Value Committee – 5 June 2018](#)

Laurence Rockey

Head of Strategy and Insight

Contact: Louise Williamson, Assistant Committee Officer

Email: louise.p.williamson@edinburgh.gov.uk | Tel: 0131 529 4264

Links

Appendices

Appendix 1 – Accounts Commission: Local Government in Scotland – Challenges and Performance 2018

Governance, Risk and Best Value Committee

10.00am, Tuesday, 5 June 2018

Accounts Commission: Local Government in Scotland – Challenges and Performance 2018

| | |
|---------------------|---------|
| Item number | 7.4 |
| Report number | |
| Executive/routine | Routine |
| Wards | n/a |
| Council Commitments | n/a |

Executive summary

Following the publication in November 2017 of its Scotland-wide review of 2016/17 local government financial performance, the Accounts Commission has now issued a complementary, forward-looking report assessing councils' readiness to confront the growing challenges that lie ahead. The report re-emphasises a number of previous messages of relevance to all councils in Scotland, including the need for robust financial and service planning, appropriately-resourced transformational change programmes and close working with elected members and communities in prioritising services to deliver key outcomes and secure financial sustainability.

Accounts Commission: Local Government in Scotland – Challenges and Performance 2018

1. Recommendations

- 1.1 Members of the Governance, Risk and Best Value Committee are asked to:
 - 1.1.1 note the contents of the report; and
 - 1.1.2 refer the report to the Finance and Resources Committee for its consideration.

2. Background

- 2.1 At the meeting of the Governance, Risk and Best Value Committee on 16 January 2018, members considered the key findings of the Accounts Commission's Financial Overview 2016/17 report. The report concluded that in light of increasing demand and reducing funding, the financial challenges facing all councils had continued to grow, with savings correspondingly more difficult to identify and greater use made of reserves, in some cases to support routine service delivery.
- 2.2 Given an accompanying increase in debt levels in some authorities, robust medium-term planning, transparent reporting and effective leadership were identified as being key to securing on-going financial sustainability. In confronting the challenges of necessary service redesign and prioritisation, close working amongst officers, councillors, stakeholders and partners will be vital.
- 2.3 As in 2016/17, the financial overview report has been supplemented by a follow-up *Challenges and Performance* report, released on 5 April 2018, providing a high-level, independent view of the challenges facing councils, assessing how well they are addressing these and what more they can do going forward. The recommendations of the report intentionally complement those set out in the earlier Financial Overview.
- 2.4 The *Challenges and Performance* report's findings are aimed primarily at councillors and senior officers, supporting them in their increasingly complex and demanding roles. As with previous similar reports, [a self-assessment checklist](#) (with the corresponding questions included at relevant points within the report) is provided to assist councillors in understanding their own council's position and scrutinising its performance, thereby informing the difficult decisions that

undoubtedly lie ahead. [An interactive online tool](#), facilitating inter-authority comparison of councils' performance, has also been developed.

- 2.5 As with similar previous publications, in view of its Scotland-wide coverage, the report's contents are correspondingly general, although the underlying issues presented resonate with those faced within Edinburgh. Other reports focusing specifically on the Council's activities are, however, regularly considered by the Finance and Resources and Governance, Risk and Best Value Committees. Of particular relevance is the Council's own [Annual Audit Report](#), considered by the Governance, Risk and Best Value Committee on 26 September 2017.

3. Main report

Overview of report and key messages

- 3.1 The Accounts Commission report comprises three distinct sections. The first (on pages 10 to 20) provides a succinct, high-level overview of the challenges facing all councils, with a useful summary of the key UK and Scottish policy drivers included on pages 11 to 13. This overview also incorporates commentary and analysis of the differing impacts of demographic change on key demand-led services across Scotland's councils, all set against a backdrop of on-going reductions in real-terms funding levels and significant legislative reform.
- 3.2 Exhibit 4 on page 19 confirms Edinburgh's estimated overall population growth as the second-highest in Scotland in proportionate terms between 2014 and 2039, increasing by 21% over this period. Within this overall increase, growth is particularly pronounced amongst those of pensionable age or above, amounting to almost 70%. Expected growth in those aged 0 to 5 is also amongst the highest in Scotland.
- 3.3 The report highlights the resulting increase in the proportion of councils' budgets allocated to education and, in particular, health and social care, with a consequent impact on "non-protected" services outside these areas such as cultural services, regulatory functions and corporate services. This emphasises not only the importance of effective service prioritisation but the need to consider different and innovative ways of managing demand within these core areas. Against a backdrop of reducing resources, protection needs to be relative rather than absolute, with all functional areas requiring to contribute in meeting overall savings targets.
- 3.4 The second and third sections of the report then proceed to examine how councils have responded to these challenges, emphasising that further incremental changes will not be sufficient to deliver the required level of savings and sustain performance improvement. The report therefore reiterates the importance of longer-term financial planning, aligned with comprehensive workforce planning approaches, improved productivity and the importance of digital solutions to deliver savings and make services more efficient, as well as

the need for effective political and managerial leadership in considering all options for service delivery and transformation, underpinned by robust option appraisal.

Relevance to Edinburgh

- 3.5 As noted above, given the report's Scotland-wide coverage, there are few Edinburgh-specific references. The report also provides considerable contextual information, intentionally complementing and reinforcing recommendations included in the earlier *Financial Overview* report.
- 3.6 On this basis, rather than commenting in detail on specific report references, members' attention is drawn to a number of the points made with regard to the earlier report as follows:
- 3.6.1 the Council was one of the first in Scotland to introduce a long-term financial plan, doing so in 2009. The plan captures movements in key expenditure (and income) factors influencing the Council's activities. The content of the plan is reviewed on a regular basis, with the outcome of the most recent review to be reported to the Finance and Resources Committee on 12 June 2018;
- 3.6.2 the Council adopted a corporate charging policy framework in June 2014, with increases in most discretionary fees and charges linked to wider changes in inflation rates to supplement the level of investment in key services;
- 3.6.3 in line with the position for Scotland as a whole, the Council has afforded relative protection to education and social work services in recent years' budgets. As is set out in the report, however, given that expenditure in these areas accounts for over two-thirds of the Council's budget and is increasing with each year of relative protection, all areas need to contribute to addressing savings requirements going forward if financial sustainability is to be secured;
- 3.6.4 the Council was one of a minority in Scotland that increased their levels of reserves in 2016/17 against the backdrop of an overall Scotland-wide reduction of £32m. The Council's 2016/17 external audit concluded that an effective approach to the management of reserves was in place, with the combination of unallocated and earmarked reserves appropriate to the risks it faces and the annual Risks and Reserves report considered by the Finance and Resources Committee identified as an example of good practice. In this vein, the Council has applied earmarked reserves in 2017/18 in meeting, for example, building dilapidation liabilities and obligations associated with its waste disposal contract;

- 3.6.5 the Scotland-wide demand-driven nature of a number of service overspends in 2016/17 mirrors the experience in Edinburgh, with the 2018/19 budget framework subsequently providing additional investment in the areas of Health and Social Care and Safer and Stronger Communities. This additional investment is, however, only affordable through the identification of corresponding savings elsewhere within the budget, with a consequent need for much more fundamental consideration of what the Council does and how it does it;
- 3.6.6 enhanced senior officer and elected member scrutiny at the inception, development and implementation stages have seen significant improvements in the proportion of savings subsequently delivered in recent years, with nearly 90% by value delivered in both 2015/16 and 2016/17;
- 3.6.7 no use of general (unallocated) reserves was assumed in approving either the 2017/18 or 2018/19 budget. In view of external audit recommendations around enhancing in-year transparency of the use of earmarked reserves, however, a review of practice elsewhere is being undertaken and will be incorporated in subsequent Council-wide revenue monitoring reports;

4. Measures of success

- 4.1 The report reiterates a number of principles of sound financial management and assesses councils' current practices against these. The Council's own arrangements were assessed to be effective as part of the 2016/17 Annual Audit process, with expenditure contained within budget for the tenth successive year and almost 90% of approved savings delivered.
- 4.2 In the more immediate context of the 2018/19 financial year, the key targets are achieving a balanced overall budget outturn position and successful delivery of approved savings and key service performance indicators.

5. Financial impact

- 5.1 Delivery of a balanced budget in any given year is contingent upon the development, and subsequent delivery, of robust savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

6. Risk, policy, compliance and governance impact

- 6.1 An annual report on the risks inherent in the budget process is considered by the Finance and Resources Committee, usually in January, and referred to Council as part of setting the revenue and capital budgets.
- 6.2 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the expected service impacts outlined in the respective budget templates. Subsequent delivery is reported to the Finance and Resources Committee on a quarterly basis.
- 6.3 Wider progress in the delivery of targeted outcomes is assessed as part of annual performance updates, the most recent of which was reported to Council in [November 2017](#). Going forward, Executive Committees will consider an overview of performance relevant to their area, scrutinising indicators, improvement actions, issues and opportunities, on an annual basis.
- 6.4 The performance framework will be reviewed annually and will include refreshing the measures, actions, milestones and targets to ensure that the data collected is useful in terms of being able to measure performance and delivery against strategic aims, outcomes and commitments. This annual cycle will ensure that the framework provides timely information needed to lead and scrutinise performance but with enough flexibility to be able to change and adapt as necessary.
- 6.5 The effectiveness of the Council's wider governance framework is similarly assessed on an annual basis, with [the most recent such review](#) reported to the Governance, Risk and Best Value Committee on 28 November 2017.

7. Equalities impact

- 7.1 Proposals comprising the budget framework are assessed for their corresponding potential equalities and human rights impacts. The results of this assessment are reported to the Finance and Resources Committee to allow members to pay due regard to them in setting the Council's budget.

8. Sustainability impact

- 8.1 The proposals comprising the budget framework are also subject to an assessment of their likely corresponding carbon, climate change adaptation and sustainable development impacts, with the results reported to the Council as part of annual budget-setting.

9. Consultation and engagement

- 9.1 As in previous years, the Council's budget framework for 2018/23 was the subject of a number of weeks' engagement, with the key findings reported to the Finance and Resources Committee on 8 February 2018.

Stephen S. Moir

Executive Director of Resources

Andrew Kerr

Chief Executive

Contact: Hugh Dunn, Head of Finance

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

Contact: Laurence Rockey, Head of Strategy and Insight

E-mail: Laurence.rockey@edinburgh.gov.uk | Tel: 0131 469 3493

10. Background reading/external references

[City of Edinburgh Council 2016/17 Annual Audit Report to the Council and Controller of Audit](#), Governance, Risk and Best Value Committee, 26 September 2017

[Implementing the Programme for the Capital – Council Performance Framework 2017/22](#), City of Edinburgh Council, 23 November 2017

[Corporate Governance Framework 2016/17](#), Governance, Risk and Best Value Committee, 28 November 2017

[Accounts Commission – Local Government in Scotland – Financial Overview](#), Governance, Risk and Best Value Committee, 16 January 2018

11. Appendices

One – [Accounts Commission – Local Government in Scotland – Performance and Challenges 2018](#)