

PERTH AND KINROSS COUNCIL

3 OCTOBER 2018

AUDIT SCOTLAND'S REPORTS: LOCAL GOVERNMENT IN SCOTLAND, CHALLENGES AND PERFORMANCE 2018 LOCAL GOVERNMENT IN SCOTLAND, FINANCIAL OVERVIEW 2016/17

Report by Depute Chief Executive (Report No. 18/319)

This report highlights the key messages from, and the Council's response to, the Audit Scotland reports '[Local Government in Scotland, Challenges and Performance 2018](#)', published in April 2018; and '[Local Government in Scotland, Financial Overview 2016/17](#)', published in November 2017.

1 BACKGROUND / MAIN ISSUES

- 1.1 In April, Audit Scotland published its report '[Local Government in Scotland, Challenges and Performance 2018](#)'. This report draws on findings from '[Local Government in Scotland: Financial Overview 2016/17](#)', published in November 2017, and local government audit work (including annual audit reports, Best Value reports and national performance audits) and published performance data – to provide a high level, independent view of the challenges facing councils.
- 1.2 Part 1 of the Challenges and Performance Report considers the challenges facing councils. Part 2 looks at how councils are responding to these and Part 3 looks at the impact of them on council services. A self-assessment '[Scrutiny Tool Checklist for Councillors](#)' captures a number of potential questions.
- 1.3 Part 1 of the Financial Overview Report looks at councils' income and budgets, Part 2 at financial performance for 2016/17 and Part 3 at the financial outlook.
- 1.4 This report highlights Audit Scotland's key messages and recommendations and summarises the Council's current and planned activities in relation to these.

2 KEY MESSAGES – Challenges and Performance Report

- 2.1 The environment for councils is complex and changing with increasing levels of uncertainty. There are likely to be significant implications with the UK's withdrawal from the European Union and at the same time, the Scottish Government remains committed to a significant pace of reform with some major changes for local government at key stages of implementation. Alongside this are **substantial reductions in public spending** with **increasing demands** for many local public services.
- 2.2 **Transformational change is an essential** part of the agenda for councils. **Delivering savings is critical**, with forecast funding gaps higher than current

levels of reserves for some councils. Transformational work needs to be properly scoped, resourced and managed, underpinned by cohesive, decisive leadership involving officers, Councillors and their communities to address major challenges.

- 2.3 Councils must manage the **competing priorities of reducing costs and maintaining services for an ageing population**. In some areas, government funding will fall further than others as total population declines while older populations grow and demand for key services, like social care, increases.
- 2.4 Although there is evidence that Councils have done a considerable amount to manage the impact of continued budget reductions, there is **evidence that budget cuts are having an impact on services, and customer satisfaction** levels have fallen. Some services are not keeping up with demand and there is a risk that quality is being affected, so councils need to continue to work with communities to understand the impact of reduced spending and to clearly report this.
- 2.5 Audit Scotland acknowledges the work councils have done, but as pressures increase and funding reduces; their services need to be sustainable. The report includes key recommendations.

3. **Audit Scotland Recommendations** – Councils should:

- look to **the future** and understand how things may change (demographics, public spending, policy changes);
- use analysis to **inform priorities and long term financial and scenario planning** and the impact on services and their users;
- **evaluate and report the impact** that significant budget reductions, savings, workforce changes and service redesign are expected to have and have had on service delivery and quality;
- use the data to **report publicly** on the **quality of services** and user satisfaction; and
- **Clearly link budgets** to plans and outcomes.

3.1 **Perth and Kinross Council's position**

- 3.1.1 **Understanding the future** - the Council's financial position is currently sustainable. The Medium Term Financial Plan [[Report 8 17/317](#)], which is robustly managed, is set between September and February each year and identifies the challenges for the next five years. The impact of pressures and savings are measured and highlighted, including on customers and performance. Our level of reserves is reviewed annually and our capital programme was agreed by Council in June 2018 ([Report 12/212](#)). The [revenue and capital budgets](#) are reported quarterly to the Strategic Policy and Resources Committee.

- 3.1.2 We publicly **report our data** through a number of sources. The Council, members of the public and other stakeholders can see how we perform in key

areas compared to other local authorities through the [Local Government Benchmarking Framework 2016/17](#). We also report the performance of Council services through our online performance dashboard, [PKPerforms](#). As part of our commitment to transparency, we are developing an **open data portal** to give citizens access to non-personal and non-restricted data. Work continues to ensure a systematic approach to benchmarking, incorporating learning into our service improvements and helping to inform our priorities and scenario planning.

- 3.1.3 In terms of **quality of services**, the Care Inspectorate carries out announced and unannounced inspections of registered social work and housing support services, measuring key areas, including the quality of services and leadership. People who receive services, their families/carers and staff feed into this process providing valuable information on the quality and impact of the support they receive. These findings are reported to service committees and to the IJB.
- 3.1.4 We want to **embed systematic performance challenge** using partners and stakeholders as a matter of course in challenge and peer review and develop processes to challenge the performance of areas where meaningful benchmarking or market comparisons are difficult to achieve. As part of our transformation programme, we will be applying options' appraisal in a more systematic way across all parts of the Council and engaging with partners and wider stakeholders to understand the operating environment and to identify effective and sustainable options.
- 3.1.5 **Linking budgets** to plans and outcomes – refer to section 8 on financial outlook.
- 3.1.6 As part of our continuous improvement on strategic direction, we will continue to:
- implement our Transformation Programme achieving significant changes in service delivery and realising savings, **revising our governance arrangements** to make sure we deliver best value and that this work is fully aligned to our key objectives;
 - ensure **clear links between budget, service and workforce plans and outcomes** and clearly evidence that we have done this;
 - **evaluate the impact** of significant budget cuts on services and on services/service users.

4. **Audit Scotland Recommendations** – Councils should:

- work with communities so they are **actively involved** in decision-making;
- **understand the effect decisions** are expected to have on services and communities and see the **impact** of community empowerment;
- focus on the **delivery of priority outcomes** through working with communities to **understand their needs**; and
- establish effective **cross party relationships to work together** and make the sometimes difficult decisions needed to achieve priorities.

4.1 Perth and Kinross Council's position

- 4.1.1 Our [Local Action Partnerships](#) continue to **engage and work with local communities** to support participation and local decision-making. All have action plans outlining their actions to **address local inequalities** and all have carried out extensive Participatory Budgeting (PB) events which involved local people selecting projects for funding to address inequalities. In the 2017/18 PB events £221k was allocated to fund 151 local projects after 7,184 people participated and voted. 221 projects applied and over 24,600 votes were cast with people having up to three votes each. This work continues to be developed, as partnerships mature and we are **working towards meeting the Scottish Government's target** of 1% of council budgets being allocated this way. Our housing tenants have also been empowered to make decisions about improvements to their local area as part of our Estate Based Initiatives, now in its third year. In 2017/18, £200k was spent on **50 projects chosen by tenants** and this increased to £250k in 2018/19 and will continue to increase to £350k. Between 2016 and 2019 tenants will have decided the best way of spending £600k to improve their local communities.
- 4.1.2 In the 2018/19 budget setting, the Council allocated £600k per annum to a Community Investment Fund for the next two years to fund community identified projects.
- 4.1.3 Staff work in local areas identifying the needs of individuals as well as supporting collaboration with services and community groups to develop their **own solutions to local needs**. Work continues with Local Action Partnerships to develop evaluations and information on the impact and outcomes of their work, as well as exploring opportunities for fully engaging with wider communities, using tools such as the Place Standard and National Standards for Community Engagement. We will also test and learn from different methods of participatory budgeting with different communities.
- 4.1.4 As we implement our transformation programme and budget savings, we need to further evidence our improvement and **the effect decisions** are expected to have on services and communities and see the **impact** of community empowerment.
- 4.1.5 Our [Community Plan \(Local Outcomes Improvement Plan\) 2017-2027](#) was approved by Council in October 2017 as were our Local Action Partnerships/Local Action Plans. They were developed with community planning partners and feedback from local people. The plans focus on the **key priorities** to be addressed to meet our five strategic outcomes and those of the Action Partnerships to **address their inequalities**.
- 4.1.6 In relation to equalities and fairness, we are implementing key actions to promote equalities and human rights and tackle inequalities. This work is driven and progressed via the Equalities Operational Group, the Community Equalities Advisory Group and the Equalities Strategic Forum. The delivery of the recommendations of the [Fairness Commission Report](#) is progressed by

the [Community Planning Partnership Executive Officer Group](#), and reported to the [Community Planning Partnership Board](#).

4.1.7 As part of our continuous improvement in relation to partnership working, we will:

- support the implementation of the Community Plan and Local Action Plans to address inequalities, and continue to apply consistent standard for community engagement and participation;
- prepare an improvement plan in line with recommendations from the 2018 review of local decision making from [What Works Scotland](#). Deliver the next phase of Participatory Budgeting and implement the Community Investment Fund;
- refine the scrutiny and assurance functions of ALEOs and continue to work with the IJB and Health and Social Care Partnership to refine our governance arrangements; and
- demonstrate work on **cross party relationships to work together** and make the sometimes difficult decisions needed to achieve priorities.

5. Audit Scotland Recommendations

5.1 Councils should:

- **establish robust change strategies and develop realistic plans** for transforming services, incorporating: effective leadership and good governance; robust options appraisal; strong financial management; properly scoped and resourced plans; change strategies supported by realistic savings plans; and effective workforce planning should retain and recruit the right, skilled people to deliver sustainable future services; and
- make the most of **new technology** (streamline processes and communicate differently with service users).

5.2 Perth and Kinross Council's position

5.2.1 Our [Transformation Strategy 2015-2020](#) includes a programme of major projects to 2020, is supported by clear business and change plans and scrutinised by Strategic Policy and Resources Committee and the Member Officer Working Group. It is managed and led by service transformational boards and the Corporate Board, supporting achievements, managing risks and ensuring delivery. We are looking at opportunities to be more creative and entrepreneurial and develop our analysis of cost and performance as a driver for change.

5.2.2 Our Building Ambition – Developing Talent: [A Workforce Plan for Perth & Kinross Council 2018-2021](#) explains our journey of change and how we will continue to develop and support our employees within the changing context of public service reform, increasing demand and reducing budgets. **Workforce planning** is an ongoing and the Corporate Management Group will oversee the plans, ensuring we remain on track and anticipating changes. The core of the **Organisational Development Framework** identifies a focus on our

organisational story, purpose and ambitions, as this is what connects us with our communities and employees. We will be implementing our Human Resources projects relating to Job Families, Job and Organisation Design and Agile Working, and Recruit Within to support future change and transformation.

- 5.2.3 Our work with communities will continue to develop and we will work with [Local Action Partnerships](#) and other local representatives and people who use services to support service changes and empower local people; involving them and elected members in our programme of self-evaluation.
- 5.2.4 Learn, Innovate, Grow is the Council's organisational development framework which was approved in 2015, alongside the Council's Transformation Strategy ([Report No 15/292](#)). Our approach to supporting change and transformation is articulated around the Learn, Innovate, Grow framework which shows how we will evolve our organisational culture and act as enablers for transformation and continued growth. The framework drives a range of positive people practices, to promote leadership, learning, engagement and innovation, to support changing business needs and new ways of working with our communities.
- 5.2.5 Technology - our **digital and IT programme** is one of our biggest corporate transformation projects and continues to be rolled out. Key activities include development of the Corporate Digital Platform, Online Digital Services, Mobile Working and Open Data. There is an **ongoing corporate rollout of mobile working** and the Council is making use of the opportunities [mygov.scot](#) brings to deliver and apply for services online. We have digital champions who support this process, linking with individual members of staff to support learning and organising staff briefings and awareness sessions.
- 5.2.6 Branded '**MyPKC**' citizens can now report road and street lighting issues, as well as report missed bin collections and our tenants can report a housing repair online. Our plan is to increase the list of services available for customers on an expanded portal.
- 5.2.7 As part of our continuous improvement, we will continue to support greater alignment of financial asset and human resource priorities to maximise improvement and set the agenda for further transformation. Through our revised service planning process for 2019/20, we will work to further align our finances and workforce priorities into our overall business planning activities.
- 5.2.8 As part of our continuous improvement on performance and public performance reporting, we will:
- continue with the pace of change we need to meet future challenges as part of our transformation programme. We recognise that we need to do this in partnership with our community planning partners. In particular, we will take a systematic approach to benchmarking and customer engagement, demonstrating the ways in which people have and continue

- to influence service changes and improvements. This will be collated and published in our new performance/information hub on the Council website;
- as part of our transformation programme, we will be applying options' appraisal in a more systematic way across all parts of the Council and engaging with communities, partners, and wider stakeholders in this process; and
 - continue to assess the capacity of the workforce to deliver change and savings and will review our health and wellbeing strategy to make sure our procedures build organisational resilience, address mental health issues effectively and enhance productivity.
 - continue to support our people as the essential element of our ability to transform as an organisation.

6. SUMMARY OF IMPROVEMENT ACTIONS

- 6.1 As outlined throughout the report, we have a number of areas for continuous improvement, working in partnership to increase the pace of change and transformation to achieve positive outcomes for local people. These are summarised below.

Strategic Direction	Continue to implement our Transformation Programme achieving significant changes in service delivery and realising savings, revising our governance arrangements to make sure we deliver best value and that this work is fully aligned to our key objectives
	Continue to work to clearly link budget, service and workforce planning and outcomes and clearly evidence that we have done this.
	Continue to evaluate the impact of significant budget cuts on services and on services/service users.
	Through our revised service planning process for 2019/20, we will work to further align our finances and workforce priorities into our overall business planning activities.
Partnership Working	Prepare an improvement plan in line with recommendations from the 2018 review of local decision making from What Works Scotland . Deliver the next phase of Participatory Budgeting and implement the Community Investment Fund.
	Refine the scrutiny and assurance functions of ALEOs and continue to work with the IJB and Health and Social Care Partnership to refine our governance arrangements.
	Support the implementation of the Community Plan and Local Action Plans to address inequalities, and continue to apply consistent standard for community engagement and participation.
	Demonstrate work on cross party relationships to work together and make the sometimes difficult decisions needed to achieve priorities.

Performance, Improvement and Public Reporting	Continue with the pace of change we need to meet future challenges as part of our transformation programme. In particular, we will take a systematic approach to benchmarking and customer engagement , demonstrating the ways in which people have and continue to influence service changes and improvements.
	Apply options' appraisal in a more systematic way across all parts of the Council and engaging with communities, partners, and wider stakeholders in this process as part of our transformation programme.
	Continue to support greater alignment of financial asset and human resource priorities to maximise improvement and set the agenda for further transformation. Through our revised service planning process for 2019/20, we will work to further align our finances and workforce priorities into our overall business planning activities.
Use of Resources	Continue to support our people as the essential element of our ability to transform as an organisation.
	Continue to assess the capacity of the workforce to deliver change and savings and will review our health and wellbeing strategy to make sure our procedures build organisational resilience, address mental health issues effectively and enhance productivity.

7. KEY MESSAGES – Financial Overview Report

The next two sections summarise the issues and recommendations from the above report, with section 7 highlighting the questions the auditors suggest elected members and officials should be considering. These have been responded to in turn.

- 7.1 **Financial challenges continue to grow** and finding reductions are compounded by **increasing costs and demands** on services.
- 7.2 Councils are showing signs of increasing financial stress, finding it **increasingly difficult to identify and deliver savings** and more have drawn on reserves than previously, to fund their change programmes and routine service delivery. There is the **risk of some councils running out of General Fund reserves** within two or three years if they continue to use them at levels planned for 2017/18.
- 7.3 Debt increased by £836m in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Some councils are becoming concerned about the **affordability of costs associated with debt in future budgets**.
- 7.4 Councils' budget-setting processes for 2016/17 were complicated by the late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned,

indicating the **need for budget setting to become more robust and reliable**.

- 7.5 All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that **in several councils financial management could be improved**. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.
- 7.6 The **financial outlook for councils continues to be challenging**, with the need to deliver savings being increasingly critical to their financial sustainability. As such, **robust medium-term financial strategies and effective leadership** to deliver them are of increasing importance.

8. Audit Scotland Questions on the Financial Outlook for Councils

- 8.1 In the financial outlook section of the Financial Overview Report, Audit Scotland highlight questions that elected members and officers should be considering to ensure that Councils are preparing sufficiently for their financial future.
- 8.2 *How is your Council preparing for any further real terms reduction in Scottish Government funding?*
- a) The Council's most recent [Medium Term Financial Plan](#) was approved in October 2017 and is an assessment of the next five years.
 - b) The Council approved a Final Revenue Budget for 2018/19 and, importantly, Provisional Revenue Budgets for 2019/20 and 2020/21. The latter gives officers the authority to proceed with the change and transformation required to deliver necessary savings.
 - c) The Council's Transformation Programme is to 2020 and progress is regularly reported to the Strategic Policy and Resources Committee.
- 8.3 *If your council plans to raise Council Tax, do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents?*
- a) Each 1% increase in the Council Tax generates approximately £800k.
 - b) The 2018/19 Final Revenue Budget and 2019/20 and 2020/21 Provisional Revenue Budgets assume a 3% increase in Council Tax. The Medium Term Financial Plan assumes 3% in both 2021/22 and 2022/23.
 - c) In December 2017 and January 2018, the Council ran an online awareness raising campaign which included a survey setting out Council Tax options and how this contributed towards service delivery.
- 8.4 *Does your Council have a savings plan? What are the options to close future funding gaps?*

As per response in 8.2.

8.5 *What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps?*

- a) [Revenue Monitoring Report Four](#), approved by the Strategic Policy and Resources Committee in April 2018, approved the use of £8.775m Reserves in 2017/18. A significant element of this amount is related to the Revenue Budget Flexibility Scheme where the Council had approved the carry forward of under-spends from 2016/17.
- b) Reserves will be applied in 2018/19, 2019/20 and 2020/21 on a planned and sustainable basis.

8.6 *What particular financial challenges does your Council face?*

The Council faces significant financial challenges as a result of:

- a) An increasing demand for key services, including support for children and people with complex needs.
- b) Lower than Scottish average wages (9%), particularly in tourism, agriculture and hospitality.
- c) Significant in-work poverty and rural poverty across the area, as well as social isolation in rural areas.
- d) Our population is ageing significantly, with the 75+ population projected to increase by one third (+5,146) by 2026 and by 48% (+7,519) by 2031.
- e) Our general population is also projected to increase by 10% over the next 20 years, and we require to build 6,000 new households by 2027.
- f) Reduced level of funding of public services.

8.7 *Does your Council have a medium term financial strategy aligned with corporate objectives?*

As per response in 8.2.

8.8 *How does annual budget setting link to medium term financial planning?*

As per response in 8.2.

8.9 *What impact will savings have on the delivery of services? What are the potential risks?*

- a) All savings proposals include an assessment of the potential impact in relation to fairness, equalities, workforce, outcomes and performance, and customers which are completed by service management teams, reviewed by the Executive Officer Team and considered by elected members.

8.10 *How clearly does the Council's capital programme link with the asset management plan and corporate objectives?*

- a) The revised capital programme outline business case is based on the HM Treasury Green Book model and contains a 'Strategic Case' section. This section requires the strategic justification for a proposed project based on

how it meets both Council corporate objectives and how it relates to the relevant asset management plan.

8.11 *What additional training would elected members like to receive to develop further knowledge and skills in financial scrutiny?*

- a) Induction training on a range of finance related activities was offered to all elected members in the period following the local government elections in 2017.

8.12 *What measures in the Council's corporate and transformational plans are aimed at addressing the underlying demand for services?*

- a) In the [recent budget](#), approved in February 2018, the Council invested significant amounts in building community capacity to support initiatives to mitigate future increases in demand for public services.
- b) The transformation programme also includes specific projects that will militate against future pressures e.g. Homefirst.

9 CONCLUSION AND RECOMMENDATIONS

9.1 The Audit Scotland reports *Challenges and Performance 2018* and the *Financial Overview Report 2016/17*, highlight the key issues facing all councils across Scotland. This summary report highlights these and how the Council is responding robustly to these challenges through strategic planning, transformation and organisational development.

9.2 It is recommended that the Council:

- i) Notes the findings of these reports and the Council's response to these challenges.
- ii) Notes the areas of improvement currently being progressed.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	
Community Plan / Single Outcome Agreement	Yes
Corporate Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	None
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan / Single Outcome Agreement and Corporate Plan

- 1.1 The [Community Plan \(Local Outcomes Improvement Plan\) 2017-2027](#) and [Corporate Plan 2018-2022](#) have five strategic objectives, all of which apply to this [report](#).

2. Resource Implications

Financial

- 2.1 None.

Workforce

- 2.2 None.

Asset Management (land, property, IT)

- 2.3 None.

3. Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality

groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.2 None.

Strategic Environmental Assessment

3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.4 None.

Sustainability

3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.6 None.

Legal and Governance

3.7 None.

Risk

3.8 None.

4. Consultation

Internal

4.1 The Executive Officer Team were consulted and commented on this report.

External

4.2 None.

5. Communication

5.1 None.

2. BACKGROUND PAPERS

- Audit Scotland Report: [Local Government in Scotland, Challenges and Performance 2018](#).
- Audit Scotland: [Supplement – Scrutiny Tool Checklist for Councillors](#).
- Audit Scotland Report: [Local Government in Scotland, Financial Overview 2016/17](#).

- Summary of Findings from Best Value Assurance Reports: Scrutiny Committee 12 September 2018.

3. APPENDICES

There are no appendices.