

ABERDEEN CITY COUNCIL

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COMMITTEE	Audit, Risk & Scrutiny
DATE	11 <sup>th</sup> May 2015
DIRECTOR	Ewan Sutherland
TITLE OF REPORT	Audit Scotland National Reports
REPORT NUMBER:	CG/15/058

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1. PURPOSE OF REPORT

The purpose of this report is to present a summary of Audit Scotland national studies published in the last cycle together with any actions taken or agreed to be taken by the Council in response to these.

2. RECOMMENDATION(S)

that the Committee:–

(a) note the detail of the reports:-

- “Borrowing and Treasury Management”
- “An Overview of Local Government in Scotland 2015”
- “Update on Developing Financial Reporting”

and to give consideration to officers comments made in respect of each of the priorities identified within the report.

3. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

4. OTHER IMPLICATIONS

Every national Audit Scotland review is likely to have implications for this Council. The nature of the implications will vary depending on the subject matter. Officers are required to assess these and report to committees.

## 5. BACKGROUND/MAIN ISSUES

Audit Scotland has an annual programme of national reviews it undertakes. Some of these are specific to individual councils and Community Planning Partnerships, others are intended for local government and other public sector bodies more broadly.

Since the last meeting there have been a number of reports with direct significance for Aberdeen City Council.

- “Borrowing and Treasury Management”
- “An Overview of Local Government in Scotland 2015”
- “Update on Developing Financial Reporting”

The key findings of this report are:-

### A. Borrowing and Treasury Management

#### **Key messages**

1. *Councils have total debt of £14.8 billion of which £12.1 billion, 82%, is from borrowing. Debt commits councils to charges over the long term. There are different types of debt with different features and varying degrees of risk.*
2. *Borrowing is a key source of finance for councils to invest in vital public services. Overall borrowing has remained at around £12 billion for the last three years, with total assets of £39 billion. Councils have developed borrowing strategies to suit their own local priorities and needs, in response to the flexibility introduced by the Prudential Code in 2004. Seventeen councils have increased their borrowing levels, in real terms, over the last ten years.*
3. *Councils are following the general principles of the relevant codes of practice in demonstrating short-term affordability, but they are not always highlighting the strategic importance of borrowing and treasury management or clearly analysing and reporting the longterm affordability and sustainability of their borrowing. Councils need to develop detailed analysis to support borrowing decisions and to demonstrate they represent best value for the council.*
4. *Treasury management is a professionally run function in councils with appropriately qualified officers. Succession planning, ongoing training and the availability of appropriate professional qualifications are important. Councils have started to integrate their treasury management and capital investment functions which is a positive step.*
5. *Councils need to improve scrutiny of borrowing and treasury management. This is a complex and technical subject and officers need to provide wider training and support to councillors, and also*

*provide clearer, more accessible reports. The current governance structures in some councils could be improved to support more effective scrutiny.*

### **Recommendations**

*These recommendations focus on the evidence gathered and our findings on borrowing within councils. We suggest councils consider the wider relevance of these to total debt.*

#### **Council officers should:**

- *use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience. It should include how the borrowing strategy is informed by corporate priorities and capital investment needs. The strategy should include:*
  - *links to capital investment plans and corporate objectives*
  - *all borrowing and other debt*
  - *prudential indicators as a core part of the strategy*
  - *a clear assessment of the affordability and the impact on revenue budgets both in the short and long term*
- *create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy. It should include:– scenario planning to show the potential impact of different budget scenarios, income generation plans, and changes in external factors such as interest rates– analysis of capital financing options to compare affordability and sustainability between different debt and borrowing options– the use of indicators over a longer period than the minimum three years set by the Prudential Cod*
- *share strategies with other councils to help inform good practice, and exchange of ideas*
- *carry out joint planning with other councils to identify future qualification and training needs and enhance their capacity, in order to negotiate with training providers*
- *review the content of year-end reports to ensure they provide an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include appropriate indicators, comparative figures, and appropriate explanations.*

#### **Officer Response:-**

The Borrowing and Treasury Management report by Audit Scotland presents key findings in a number of areas and makes a number of recommendations for council officers.

It is important that officers take the time to fully consider the report and its recommendations and thereafter work to update current processes and/or develop new processes and reporting mechanisms to ensure the recommendations of the report are implemented. Reports will be presented to

council committees as appropriate for consideration and/or approval as necessary in due course.

## B. An Overview of Local Government in Scotland 2015

### **Key messages**

1. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms (allowing for inflation) to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes.
2. Many councils are now reporting gaps between their income and the cost of providing services. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances. However, there is limited evidence of longer-term financial planning, which is critical in providing that understanding.
3. Councils have managed the financial pressures well so far. Available performance information indicates that services have been improved or maintained. Public performance reporting is getting better but councillors need better financial and service information to help them set budgets and scrutinise performance. All councils prepared their annual accounts on time and met the required accounting standards.
4. Almost all councils have reduced staff numbers to help make savings but this is not sustainable. Councils are considering ways of delivering services more efficiently and need to get better at using local data and involving service users and local communities in developing options to improve services and help save money. They must implement planned changes quickly to achieve their required savings.
5. Councils need to ensure that the way they manage and control their work keeps pace with the quickly changing circumstances in which they operate. There can be no compromise on the importance of good governance, particularly where there are significant changes in personnel and systems. Not all councils systematically review governance when, for example, they change staff, management or political structures, or develop new ways of financing and delivering services. Community planning and health and social care integration require an ongoing focus on governance in partnership working, where the responsibility for good governance is shared and depends on a culture of trust.

## Recommendations

Audit Scotland make a number of recommendations intended to help councillors. With the support of council officers, councillors should assess the position in their council and, where they decide action is required, ensure the recommendations are implemented successfully.

### Councillors should:

- assess whether they have appropriate knowledge and expertise, in areas such as assessing financial and service performance, to carry out their role effectively. They should review their training needs and request the training and support they require to help them consider options, make decisions and scrutinise performance;
- ensure that council officers provide high-quality financial and performance information to support effective scrutiny and decision-making. This includes having relevant and up-to-date performance data and making good use of benchmarking. Performance information should also be clearly reported to the public to help them understand their council's performance;
- ensure that councils, when developing their priorities, use local socio-economic data and work with service users and local communities to understand their needs and explore ways of meeting them. Council budgets should then be targeted towards agreed priorities, including those designed to prevent or reduce service demand in future;
- ensure that they consider all practical options for delivering services to meet the needs of service users and local communities, within the resources available. They should consider carefully the benefits and risks related to each option and make sure they receive information about the impact of the option they choose, including monitoring the risks associated with change;
- ensure that their council has financial plans covering the short term (1-2 years), medium term (3-5 years) and longer term (5-10 years). These plans should set out the council's financial commitments, identify any challenges with the affordability of services and set out clearly how the council ensures its financial position is sustainable over an extended period;
- review their council's governance arrangements following significant changes in staff, management and political structures. This includes ensuring their current management teams have the skills and capacity to provide effective leadership and management of finances, services and improvement programmes, and having succession plans for when senior managers retire or leave the council;
- ensure their council has a comprehensive workforce strategy to help manage the impact of staff reductions. The strategy should ensure that

the council retains the ability to make changes and improvements, and is equipped to meet increased demand for services in the context of financial constraints.

**Officer Response:-**

This report has only recently been published and has not yet been considered by CMT. Prior to this it can be noted that with respect to Audit Scotland's recommendations:-

- member training, in particular, with respect to scrutiny has been significantly increased and improved in the last 12 months. This is reflected in the self-evaluation undertaken for this Committee;
- Audit Scotland have undertaken a review of councils' public performance reporting arrangements and noted improvement in Aberdeen City Council's. National benchmarking activity is ongoing through the Local Government Benchmarking Forum;
- This Council is positively identified within Audit Scotland's report for its long term financial management. The Council is also piloting a further improvement through an Outcome Based Budgeting approach which does take account of socio-economic data;
- The Council has undertaken long term financial planning as well as a workforce planning;
- This Committee has self-identified the need for clarity in terms of governance and scrutiny with respect to alternative models for delivery of services (ALEOs, shared arrangements).

## C. Update on Developing Financial Reporting

### **Conclusion by Audit Scotland**

*The case for comprehensive, transparent, reliable and timely reporting of public finances, as part of a strong fiscal framework, has never been stronger. It supports fiscal transparency and is essential for a clear understanding of financial opportunities and risks. This in turn informs decisions about how public money is used to deliver services. Fiscal transparency is increasingly important because of the continuing changes to Scotland's public finances. The Smith Commission agreement has far-reaching consequences for public finances in Scotland, and further underlines the need for strong financial reporting.*

*The Scottish Government, and the Scottish public sector generally, have a good record of financial management and reporting. The Scottish Government has continued to improve and develop its reporting framework since we reported in July 2013. We welcome the Scottish Government's plans to further develop its financial reporting.*

*The Scotland Act 2012, and the changes anticipated to flow from the Smith Commission Agreement, mean the Scottish Government will be responsible for generating more of its revenue, and will have more responsibilities in terms of spending. The Scottish Government's budget will become more dependent on Scotland's economic performance. The amount the Scottish Government raises through taxation and spends on welfare will be affected by its policy decisions. This means that the Scottish Government will have more control over, and responsibility for, its finances. It has recognised the need to further develop its budget documents and annual accounts to reflect these new responsibilities.*

*The Smith Commission agreed that the Scottish Parliament should 'seek to expand and strengthen the independent scrutiny of Scotland's public finances in recognition of the additional variability and uncertainty that further tax and spending devolution will introduce into the budgeting process'. An important part of this will be scrutiny of economic forecasts and the increasing link between economic activity and Scottish Government revenues and spending. This report highlights that transparent financial reporting of the public finances in Scotland is also an essential component of an updated fiscal framework for Scotland. As the Scottish Parliament seeks to expand and strengthen scrutiny, it will be critical that this is underpinned by comprehensive and reliable financial information. This will lay the foundations for sustainable public finances and help the Scottish Government make policy decisions that are affordable in the long term. It will improve scrutiny, giving the Scottish Parliament and taxpayers the tools required to understand the Scottish public sector's finances and Scottish Government policy decisions. Developing a good fiscal reporting framework is fundamental to ensuring appropriate accountability in Scotland as more powers are devolved.*

*The Scottish Government now needs to set out details of how it proposes to further improve and enhance its financial reporting in this changing financial environment. We are committed to playing our part in helping Scotland develop a high-quality fiscal framework that reflects the Scottish Parliament's growing financial autonomy and the opportunities and challenges of the future. We will continue to monitor progress and report publicly as the Scottish Government develops its plans and as the new financial powers are introduced. We also continue to support the independent scrutiny of Scotland's public finances through all of our work.*

**Officer Response:-**

The Update on Developing Financial Reporting report by Audit Scotland provides current context in relation to Scotland's public finances and particularly the introduction of new powers under the Scotland Act 2012 and the further devolution of powers proposed by The Smith Commission.

The report makes clear the case for comprehensive, transparent, reliable and timely reporting of public finances, as part of a strong fiscal framework, and that this has never been stronger. It supports fiscal transparency and is essential for a clear understanding of financial opportunities and risks. This in turn informs decisions about how public money is used to deliver services. Fiscal transparency is increasingly important because of the continuing changes to Scotland's public finances. The Smith Commission agreement has far-reaching consequences for public finances in Scotland, and further underlines the need for strong financial reporting.

Aberdeen City Council will contribute to any information required by the Scottish Government and follow the principles of transparent financial reporting, including robust delivery of the annual accounts and other public performance reporting requirements.



## 6. IMPACT

The Audit Scotland report states that the impact of governance in local authorities is a key determinant of its effectiveness. Members and officers have a responsibility to ensure good governance positively impacts on the performance of Aberdeen City Council.

## 7. MANAGEMENT OF RISK

There are no identified material risks which would result from the approval of the recommendations in this report. The actions and recommendations contained in the report are a response to identified risks and are designed to mitigate these.

## 8. BACKGROUND PAPERS

Audit Scotland reports

- “Borrowing and Treasury Management”
- “An Overview of Local Government in Scotland 2015”
- “Update on Developing Financial Reporting”

## 9. REPORT AUTHOR DETAILS

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