

LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

Tuesday 7 June 2005

Session 2

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2005.

Applications for reproduction should be made in writing to the Licensing Division,
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by Astron.

CONTENTS

Tuesday 7 June 2005

	Col.
LOCAL AUTHORITY AUDITS	2679

LOCAL GOVERNMENT AND TRANSPORT COMMITTEE 20th Meeting 2005, Session 2

CONVENER

*Bristow Muldoon (Livingston) (Lab)

DEPUTY CONVENER

*Bruce Crawford (Mid Scotland and Fife) (SNP)

COMMITTEE MEMBERS

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

Dr Sylvia Jackson (Stirling) (Lab)

*Paul Martin (Glasgow Springburn) (Lab)

*Michael McMahon (Hamilton North and Bellshill) (Lab)

David Mundell (South of Scotland) (Con)

Tommy Sheridan (Glasgow) (SSP)

*Margaret Smith (Edinburgh West) (LD)

COMMITTEE SUBSTITUTES

*Bill Butler (Glasgow Anniesland) (Lab)

*Mr David Davidson (North East Scotland) (Con)

Colin Fox (Lothians) (SSP)

Mr Bruce McFee (West of Scotland) (SNP)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Caroline Gardner (Audit Scotland)

Alastair MacNish (Accounts Commission)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Euan Donald

LOCATION

Committee Room 5

Scottish Parliament

Local Government and Transport Committee

Tuesday 7 June 2005

[THE CONVENER *opened the meeting at 14:06*]

Local Authority Audits

The Convener (Bristow Muldoon): Before moving to the first item on the agenda, I record the apologies of Tommy Sheridan, Fergus Ewing and Sylvia Jackson, who will not be at any part of the meeting. I understand that Bill Butler is substituting for Sylvia Jackson. Is that correct?

Bill Butler (Glasgow Anniesland) (Lab): That is correct.

The Convener: There are also temporary apologies from Paul Martin, who will be here after dealing with some business at the Health Committee.

We move to item 1 on the agenda. It gives me great pleasure to welcome members of the Accounts Commission for their annual appearance, which is now a regular feature of the committee's business, to speak about local authority audits for the previous year. I welcome Alastair MacNish, the chairman of the Accounts Commission; Bill Magee, the secretary; David Pia, director of performance audit for Audit Scotland; Caroline Gardner, the deputy auditor general and controller of audit for Audit Scotland; and Gordon Smail, a senior manager in Audit Scotland. As usual, to start the meeting I shall offer you the opportunity to make some introductory remarks, after which we will have a question-and-answer session. Alastair, do you want to start?

Alastair MacNish (Accounts Commission): I will start with the key findings from the report "Overview of the local authority audits 2004", which is before the committee, and then give members a brief update on the best-value audits to date.

The overview report confirms that general financial stewardship remains sound across authorities in Scotland. That is the main statement. For the fifth consecutive year, council tax collection rates have improved, with an overall recovery rate of 92 per cent in 2004. That is a significant increase year on year, although we still have some way to go.

Interestingly enough, the overview report highlights the fact that the number of people attending council pools and leisure centres has

increased by more than half a million since the previous year. In terms of the health agenda, that is good news about public involvement in leisure activities.

Waste recycling increased to 12.3 per cent from just under 10 per cent in the year, although that figure is still far short of the 25 per cent target set by the Scottish Executive for 2006.

As the committee has already discussed, a major roads report was carried out, highlighting serious problems across the council areas. Up to 45 per cent of the roads for which local authorities are responsible require urgent attention, or at least further investigation. The commission strongly believes that a systematic programme of structural repairs, rather than temporary patching, is imperative. We also urge councils to make an annual public report on the condition of their road networks and the maintenance backlogs in their areas.

Audit committees have been established by all councils. Unfortunately, their effectiveness remains questionable in too many authorities. The lack of good performance management information hampers scrutiny. The Local Government and Transport Committee would be in exactly the same position if it did not have good information on which to make judgments. In several cases, the narrowness of the audit committees' remit is not helpful. We hope that that situation will improve as a consequence of the findings of the overview report.

A lot of attention has been given, particularly in the media, to the level of balances and reserves that councils have retained. It is true that the general fund balances alone increased by 20 per cent in 2004 to £377 million. However, the commission's concern is not particularly with the levels, but with whether each council has a policy on balances that is clear, transparent and communicated openly to the public in its area. I would be happy to return to that issue later.

Over the past few years, governance has been a major issue for the commission. We are pleased that elected members are becoming more involved with best value and community planning, but more relevant training and support for members is required. Councils are putting a considerable amount of time and effort into the strategy and policy of community planning. However, as yet there is limited evidence of real outcomes as a result of that effort. The commission, through Audit Scotland, will report on that later in the financial year.

Public performance reporting is improving, but the material that is used remains imbalanced, as it is heavily weighted towards good news rather than

what needs to be improved. That may not surprise committee members.

The best-value audit stems from an initial self-assessment by the council, followed by detailed examination by Audit Scotland, which uses—where appropriate—work carried out by the various inspectorates as well as the auditors' own examination. Five councils have so far been reported on, with a further three due in the next two months. By the end of the calendar year, a third of all councils will have had their first best-value audit.

One of the general conclusions so far is that there is a genuine commitment to the process on the part of the councils that have been reported on to date. Their self-assessment has been frank, open and honest. The best-value audit will not work unless that continues. If councils go back into a silo and are not honest with themselves, the audit will not achieve what we hope that it will achieve.

Another general conclusion is that, as a result of the audits, we have been able to sign off detailed improvement plans in all but one authority. Implementation of those plans will be monitored for the commission by Audit Scotland.

On a more general note, I personally believe that the best-value process is the most effective vehicle that we have in Scotland to improve the quality of service provision across not only local government but all areas of the public sector. I stress my personal belief that the best-value process requires to be extended across the whole public sector. My colleagues and I are happy to answer any questions.

The Convener: Thank you for those opening remarks.

Bruce Crawford (Mid Scotland and Fife) (SNP): I have a number of questions, convener, but if you think that I am going on for too long, let me know so that other members can come in.

The Convener: You may ask two or three questions first.

Bruce Crawford: I have questions on several matters that cause me concern. Paragraph 86 of the "Overview of the local authority audits 2004" describes some of the problems that exist in community care. Paragraph 87 mentions the usual stuff about how the provision of assistance with washing, shopping and so on can result in there being fewer old people in residential homes or national health service beds. The report also mentions that the adaptations and aids that are available through councils and the NHS can be particularly effective in reducing the need for community care services or a hospital visit.

I will try to do some joined-up thinking—that might seem surprising for a politician. We should consider those findings alongside the Kerr report, "Building a Health Service Fit for the Future", which is specific about what actions it requires community health partnerships to deliver:

- “ - supporting patients at home,
- preventing inappropriate hospital admission,
- identifying opportunities for more local diagnosis and treatment,
- enabling appropriate discharge and rehabilitation”.

There is a strong correlation between some of the things that are going wrong in local authorities and health boards and the core requirements of the Kerr report for delivery on the ground.

Your report concludes:

“it is an opportune time to revise national guidance on the respective responsibilities of health and council services in this area.”

Given the findings of your report and of the Kerr report, is that suggestion strong enough? Will just issuing new guidelines produce the improvement that we require? Do we not need to consider specifically what your report says, to compare it to the direction in which Kerr suggested we go and to make some meaningful changes and improvements? I am not sure that just issuing more guidelines will deliver improvement.

14:15

Alastair MacNish: You highlight an area on which I touched in the report. I refer to joint working with partners in community planning. There is no doubt that local government has taken seriously its statutory responsibility for community planning and that it has embarked on the process of creating joined-up thinking between local government and its health partners, in particular. It is still early days. Our report and the Kerr report show clearly that an awful lot more could be done, which could contribute significantly to improving the lot of individuals who receive the services.

At the moment, I am slightly wary of your suggestion that further specific instructions, rather than just national guidelines, be issued. Community planning is fairly new and we need a little more time to see whether it works. If after a year or two it has not worked, I will be right behind the suggestion that we go further. However, the parties need to be given a little time to develop the system. We also need to get genuine performance indicators that will allow us to audit output and to see how well the parties are working together, especially in areas such as community care. I am not dismissing your suggestion as unnecessary, but I do not think that the time is right to pursue it.

We should first give authorities an opportunity to deliver joint working.

The Convener: My area of West Lothian is widely regarded as having managed community care services innovatively, through partnership working. The recently established community health partnership brings together primary care and many social care services. It is perhaps too early for the Accounts Commission to examine that model now, but you may want to do so in about a year's time. I hope that it will achieve many of the outcomes that both your report and the Kerr report seek.

Bruce Crawford: The community health partnership model is a good one. However, we have had such models for some time. I recall clearly that in 1998 challenge funding was made available to Stirling Council and Perth and Kinross Council specifically to develop models for better integration and delivery of services in local areas. Local people do not really care where services come from, as long as they get them. It is seven years since the challenge funding was made available. West Lothian Council is developing models, but other authorities are slow to come up to the mark. I hope that you are right when you say that there will be a change over the next two years, Alastair, but at this stage I am highly sceptical about whether we will see the advance that everyone needs.

Alastair MacNish: Because greater account is being taken of best value, the overview report process will allow us clearly to identify best practice and to cascade it. On the previous occasion when I appeared before the committee, I said that the Convention of Scottish Local Authorities had a major role to play. Like the health sector, it needs to get best practice in joined-up working out into other areas. The amazing thing about the audit of best value is that the councils that have undergone it are telling other councils what it is about and how to approach it. There are good examples out there and other areas of Scotland need to get on board with those. I agree whole-heartedly with you. In fact, the West Lothian best-value report is due out in the next three or four weeks.

Bruce Crawford: We will have to settle for what we have got at the moment, but I am not convinced that that is enough.

Another area that I would like to consider briefly relates to the concept of following the public pound and how local authorities look after the resources that are given to outside bodies. I remember the guidance on that issue that emanated from the late 1990s—I think that that is where the concept came from. In some areas, there still seems to be considerable scope for improvement. Can you get underneath why concepts or influences that were

supposed to come from the guidance in the late 1990s have not percolated through into all those councils as they should have done?

Alastair MacNish: We commissioned a report on the issue from Audit Scotland—"Following the Public Pound" was issued last year. We were not comfortable with the findings and asked for further work to be carried out. That further report will be completed later this year. "Following the Public Pound" highlighted the rates issue, when councils moved many of their leisure services into trusts to avoid payments. We are uncomfortable with the fact that those arm's-length, major areas of responsibility are not subject to the same level of scrutiny as councils are. Part of Audit Scotland's remit is to consider that in far more detail. It is vital that the vast amount of money that goes to arm's-length provision should receive the same scrutiny as direct council expenditure does.

Caroline Gardner (Audit Scotland): In the report that is due out in the autumn, we are trying to distinguish between two groups of arm's-length funding. The first consists of the leisure trusts and so on, in which there are a small number of high-value transactions and large amounts of money are going in to deliver a service as a whole. The second relates to much larger numbers of smaller grants, often to voluntary organisations or community organisations. The councils need to pay attention to different issues in those two sets of circumstances. Through our report, we are trying to identify how well those two areas are being managed and to identify best practice so that everybody can come up to that standard.

Michael McMahon (Hamilton North and Bellshill) (Lab): Alastair, you said in your opening remarks that the Accounts Commission believes that governance is the key. Paragraph 106 of your report says:

"Sound governance arrangements underpin local authority financial and service performance".

Experience tells us that that is absolutely fundamental and that we should therefore be looking for signs of where it is not happening. We should also be trying to pick up early signs that there are problems, so that those problems do not eventually become a crisis. If we go as far back as the direct labour organisation situation in North Lanarkshire and the education department situation in the Borders, there were signals that there were problems before the crises emerged. Those situations concerned individual departments within councils, but we have recently seen a report of a whole council going into crisis. Within a two-year period, that council had lost its head of social work and its head of education; it had also lost senior figures in roads, human resources and a host of other departments. Were there flashing lights at any point? Why did it take

two years before things came to a head? In looking at good governance, how can we pick up on those things earlier?

Alastair MacNish: I will not comment specifically on the authority that you mention, other than to say that we are meeting the council on Thursday to hear about its recovery plan. There is a lack of proper financial performance management information across all authorities, but that information is required. It behoves officers to produce that information for elected members. However, if elected members are not given proper information, they should cry from the rooftops that they cannot make policy and strategy judgments on the basis of the information that they are receiving. Both parts of the equation are required.

The best-value audit is a major step forward in that it identifies such issues at an early stage and goes into far more depth than a simple probity audit does. That is why reports have come out in the past two or three months that have highlighted situations that are unacceptable to the public in certain areas. I must add that those situations are also unacceptable to the politicians in those areas. I hope that action will be taken on those matters.

Audits will be carried out for all councils in Scotland, which will result in better governance. If all councils followed the principles that are laid out in exhibit 19 on page 27 of the overview report, we would not have a problem. Some councils have kept the old system in which officers present information and the elected members sit back, but good governance is about elected members getting right into the middle of the issues. The Parliament and the Local Government and Transport Committee are good examples, in that they challenge issues up front. The local authorities are starting to do that more, as a result of which there will be better governance. However, elected members need proper training and support, which cannot be done overnight.

Michael McMahon: Your report mentions that scrutiny is a fundamental issue. How can local authorities and councillors be taught to scrutinise better?

Alastair MacNish: No elected member in Scotland would not be able to scrutinise the leaders and senior officers in their council if they were given the basic tools and relevant information. However, support is required. We are not talking about teaching granny to suck eggs; we are talking about proper support and relevant training. I have no concern that councillors cannot scrutinise properly if they are given the right training and support.

Michael McMahon: In your experience, can people who have failed to scrutinise and who have

allowed a crisis to emerge take a local authority out of that crisis?

Alastair MacNish: If a council anywhere in Scotland could not come up with an improvement or recovery plan, that would be unacceptable to the Accounts Commission and to the population in the area.

The Convener: I realise that you do not want to comment on individual councils, but, in general, if a local authority was unable to come up with a recovery plan that satisfied you, what subsequent action would you contemplate taking?

Alastair MacNish: We would report to the minister that we were not satisfied that the authority had put in place appropriate checks and balances and we would say that, in our view, improvement was unlikely. That is the ultimate sanction for the commission. We hope that no council will get into that situation and that all councils will take the necessary remedial action. So far, there has been no suggestion in any of the authorities that we have examined that they are not prepared to be vigilant and to take appropriate action on the shortcomings.

Michael McMahon: I want to follow up on a question that I asked earlier. I know that you are planning two years in advance for the best-value audits, but how can your organisation pick up on the flashing lights if a local authority does not do so?

Alastair MacNish: The statutory performance indicators and the various joint and individual reports tend to highlight issues on which a council is struggling. If all the indicators show that a council is going in one direction, the council would be put in advance of others in the programme of best-value audits. We have a planned programme, but it is not set in tablets of stone.

We need to improve the performance indicators that we use and the local authorities need to improve their ability to check their performance within their areas, which goes back to the issue of the information that is available. I am not complacent, but I am comfortable that we can identify at an earlier stage councils in which there is a need for urgent attention on various matters.

14:30

Mr David Davidson (North East Scotland) (Con): My question is a supplementary to Michael McMahon's. I appreciate the positive comments that you have made, but some time ago, when the McIntosh inquiry was going on and I was working in local government, I wrote a submission about the need for training almost before councillors start work—I promoted the idea of councillors attending a compulsory training course as soon as they are

elected. However, we have now got beyond that, because many councillors have got into difficulty with various council departments.

I accept that we do not want to go into such matters in too much detail, but is it not time that the Accounts Commission and Audit Scotland produced a template for training that is mandatory for all elected members, along with compulsory professional development, as happens in other professions? Is there a way in which the Accounts Commission and Audit Scotland between them can lay down a framework for training that will highlight areas to reinforce the fact that members have a responsibility to be up to speed? I thought that you were being flattering when you said that there was not a council in Scotland that could not audit properly, but I am sure that you meant that that was the case subject to proper training. Will you expand on that point?

Alastair MacNish: Over the past 10 years, a major role for COSLA has been to put in place training and support. However, I do not believe that that training has been delivered. Part of the problem was that many new councillors were elected in 1996, when the unitary authorities took over.

The Scottish Executive has set up an improvement service, which is now working with local authorities. In fact, of the five councils for which we have completed the best-value audit, two are actively working with the improvement service. The service's sole role is to improve the knowledge base and training of elected members and officers in matters where shortcomings have been apparent.

It is early days. The improvement service has been up and running for only two months. Its programme should bring results. If it does not, we would have to question why it was set up and examine such matters in due course. I have no reason to believe that the service will not achieve significant improvement in the training of and support to elected members so that they can play the role that we want them to.

Mr Davidson: Did your department and Audit Scotland have input into the framework that the service uses?

Alastair MacNish: The commission is not a department. There are 12 of us who meet once a month. Do you want to answer the question, Caroline?

Caroline Gardner: We have had early discussions with the improvement service, especially about the links between our best-value audits and the service's work with individual councils on local improvement agendas. One part of the exercise is finding out how the training that we recommend for members is best delivered.

However, we are still at the early stages of agreeing the terms on which we will work together.

Alastair MacNish: If the service had a spare week or two, I should be happy to explain all my frustrations with the public sector over the past 30 years, but I am sure that that would not be entirely relevant to its work.

Mr Davidson: I do not know. Good knowledge is always useful.

I wish to approach community care from a slightly different angle from the one that Bruce Crawford came from. Since the free personal care package was introduced, there does not seem to be uniformity of understanding of what councils are being requested to deliver. Because of that, different local authorities are approaching the matter in different ways. That has nothing to do with budgets; it is just the overall approach. I do not know whether anyone has any thoughts about how the system could be improved. It is just one of the aspects that you touch on gently in the report.

Caroline Gardner: As the overview report shows, we did a fair amount of work on community care last year. One of the reports that the Audit Committee has spent time looking at deals with the development of free personal care as a policy, particularly the ways in which it is budgeted and planned for. The issue of differing interpretation of responsibilities did not come out strongly in that work. More attention was paid to the difficulties that people have faced in knowing what demand was likely to look like, given the gaps in the information. Perhaps we should feed that issue into our follow-up work on free personal care.

Mr Davidson: Paragraph 89 of the overview report says:

"in all but one council, older people were waiting for care home places".

Have you discussed the problems with waiting lists with organisations such as Scottish Care?

Caroline Gardner: We have. In our work on the issue and in our current study on delayed discharges, we have advisory groups that bring in a range of interests around a particular service area and we look for opportunities to learn from the different providers in the sector.

Mr Davidson: I move on to something fresh. Roads are a major issue, particularly in rural parts of Scotland. Alastair MacNish said in his opening statement that 45 per cent of roads need upgrading—you recommend repairing rather than patching—and that there is a backlog of maintenance. That backlog accounts for millions of pounds across Scottish councils; councils can put a figure on it. How can the situation be resolved to bring upgrading up to date and what template

should councils adopt to deal with it and to move towards a regular maintenance procedure?

Alastair MacNish: First and foremost, I say that this year the Scottish Executive allocated significant additional moneys to local authorities so that they could try to deal with some of the serious roads issues that they faced. The problem has grown as years have passed. And the jury is out as to whose fault it is that there is such a big backlog. Local authorities always want flexibility in allocation of moneys and their elected members decide the priorities. The graph of expenditure on road maintenance in local authorities shows that, for whatever reason, the roads maintenance programme did not keep pace with the 18 per cent increase in road traffic and 27 per cent increase in the past 10 years in the number of registered vehicles in Scotland. Several councils did not even spend the money that was allocated theoretically in the grant-aided expenditure levels.

We are adamant that councils should go for structured repairs, because patching just postpones the evil day. It is a bit like the old days when schools would be only partly painted; the problem eventually got far worse and patching roads creates exactly the same situation. We are pushing councils to announce publicly and annually what their road network is like and what their backlog in roads maintenance is. Of course, if councils are going to be given extra money, we have to check that the figure is relevant and valid. Bringing the information out into the open is the best thing that the Accounts Commission and councils can do in order to identify where roads maintenance sits in the priorities that councils set in the context of scarce resources.

Mr Davidson: Are you suggesting that councils move into specific best-value audits of roads?

Alastair MacNish: That should not be a specific item. The best-value audit is a means by which we audit councils. Our passionate belief is that they should conduct best-value audits of every area for which they have responsibility. Councils do not need Audit Scotland to come along and examine their services from a best-value perspective; they should be doing that themselves. We hope that if a council had a major problem in a specific area, it would take the principles of best value and utilise them to try to solve it. Roads are a perfect example of an area that councils could consider in that light.

Bruce Crawford: Improving Scotland's roads is key to making our economy work better. There is too much batting back and forward between central and local government in respect of who is to blame. Whatever the situation was in the past and for whatever reason, we are where we are. This is all to do with the dying days of the Conservative Government and public expenditure

squeezes that forced councils to put capital finance from revenue projects into the roads budget. We could go on and on about that, but we are where we are. We have a massive backlog that is hindering Scotland's economy. Although I understand why the councils cherish our GAE system and the distribution system that lies behind it, I think that that system is stopping the money getting to the roads that need to be repaired. We will, to an extent, have to forget about history and concentrate on where we are today.

I wonder whether the Accounts Commission and Audit Scotland could ensure that local and central Government could agree to a compact that would address once and for all the scale of the problem, because the resources simply ain't there. It is true that local authorities should have been spending earlier, but we are where we are and, unless something significant happens to break the logjam, the roads will be left for goodness knows how long. Some organisation needs to be brave enough to knock together the heads of local and central Government to ensure that they come up with some sort of compact that will deliver a significant change. I was hoping that your report might be able to do that. Your organisation might not be in a position to go as far as I am suggesting, of course, but someone has to do it.

Alastair MacNish: We wanted the report to make as big an issue as possible out of a serious problem that can affect lives. Our statement that serious attention was required was not a throwaway line. If serious attention is not given to the issue in many parts of Scotland, lives will be at risk. Therefore, we have highlighted our belief that local government and central Government need to have a serious discussion about the resources that are required to solve the problem. Local government is proud of the principle behind the GAE system, although it has always been unhappy about how the money is allocated. At the same time, however, if you hypothecate specific sums to an area, council leaders will be unhappy because they will not be able to move those resources into areas that they view as being priorities for their councils. There is a problem about how to resolve the problem of how much money has to be spent in a certain area and how much should be spent in ways that the local authorities, who would point out that they are democratically elected to make decisions on behalf of the population of their areas, see fit.

We have highlighted an area that local government will not be able to walk away from. At least every year, local government will have to announce what the position is and what is going to be done about it. That is a significant step in the right direction. Additional money had to be found to improve waste recycling and the improvements are starting to be significant. Similarly, resources

will need to be found somewhere to tackle the serious problem of road maintenance across Scotland.

The Convener: I agree that road maintenance is a serious issue that needs to be addressed and that the condition of many roads needs to be dramatically improved. A concern that I suspect some local authorities might raise relates to the concern that the authorities whose roads were in the worst condition would be given the most resources to address that. Other local authorities might complain that they are being penalised for having dealt properly with their roads, even though that meant incurring an opportunity cost with regard to other services. How can we address that serious issue and ensure that we do not reward people who have not prioritised the issue as they should have?

Alastair MacNish: You are making the prodigal son analogy. The decisions that local government has made on roads have been partly because, for many years, we had mild winters. That meant that the roads budget was underspent each year and the money was transferred across to other areas of service. During that time, the roads started to deteriorate because, although there was no snow, there was severe frost and so on, which started to eat into the structure of the roads.

I would be disappointed if the outcome of our discussion was that the councils that had been inefficient were rewarded at the expense of those that had tackled the problem. A balance in that regard will have to be maintained in whatever agreement is reached. I hope that Audit Scotland and the Accounts Commission would take a view on that matter when decisions are made. There would be the same problem in many other areas. Should we throw money at a council that is, in inverted commas, not performing as well as others, or should we tackle the problem at its core? Sadly, funding for roads is a problem and money will need to be spent on them and the Government and local authorities will need to discuss further whether that happens within the current allocation to local authorities or from additional resources.

14:45

Margaret Smith (Edinburgh West) (LD): Let us go back and consider scrutiny, on which I have an observation to make. I was lucky enough to spend yesterday at the G8 parliamentarians conference here in the Scottish Parliament, which considered development in Africa. We looked not only at how donor countries can contribute, but at what developing countries can do for themselves. One of the key points that kept coming up was about governance and scrutiny of what happens to the money that is spent. Here I am, on day 2 of the

week, doing exactly the same thing—although the scenario is slightly different, the same issue remains key.

I have a question about audit committees in our councils. If I read correctly between the lines of what you say in paragraph 33 of your report, you suggest that although some councils have specific audit committees, some do not; those councils' audit scrutiny role is carried out by subject scrutiny panels rather than by a specific audit committee. Will you give us an idea of how that breaks down? How many councils are organised in that way? Would it be worth going down the route that we take in Parliament, which is that subject committees such as this have an interest in audit, but we also have a specific Audit Committee, which is convened, incidentally, by an Opposition member?

Alastair MacNish: First, all councils have an audit committee. They might not call it that, but they all now have one. We are well shot of the situation of two years ago. We have been pushing the new approach so that all councils now have an audit committee.

I made a point about the narrowness of the remit of audit committees in my introduction. I do not speak for the Scottish Executive, nor would I wish to, but coming before a committee is not a pleasant experience for ministers because they are scrutinised. In too many councils, that major element of scrutiny does not take place.

I am fairly relaxed about an Opposition member or a member of the Administration sitting in the chair because an audit committee has to be independent—it has to tackle the issues from a non-party perspective in the council. Where that works well, there is genuine dialogue and improvement, but there is a long way to go. I hate to say it, but to a certain extent, the Audit Commission says to councils, "You must have an audit committee." I would rather convince people that they should have an audit committee than say that they must have one.

Back in the days when everything was process driven, people ticked the box next to "We have an audit committee". That is unacceptable to us. Councils now have to do a job that is far greater than just having such a committee. I return to proper performance management information. How can one have a genuine audit unless the proper information exists? Time and again, it happens that a council gets to the end of the year and has spent, for example, £1.2 million of its budget when it expected to spend £4 million, or worse, it happens the other way round and the council has spent £4 million when its budget was only £1.2 million. Proper scrutiny would identify such situations early.

We always come in after the event, so ours is in many ways an easy job to do because hindsight is a wonderful thing. If we can improve such situations in local authorities, that is a massive step forward. Much more activity and effort are being put into scrutiny and audit, but there is still a role for the basic internal audit.

I make this point in passing: we are very pleased with the improvement in internal audit sections in local government. Internal audit was always the tail end—if officers were not doing too well, they would be put into internal audit. That has changed and councils now require proper internal audit because that prevents many problems from occurring later.

Margaret Smith: I wish to pick up on the subject of the report “Following the Public Pound”, in which the Accounts Commission was involved. Can you bring us up to speed about the action that has been taken in that regard? Members have heard anecdotally that people often feel that the services that councils get from external organisations are very good. Councils get a good deal out of many voluntary sector organisations in particular, pound for pound. Scrutiny is important in that respect. As far as the capital that is involved in joint working, partnerships and arm’s-length companies is concerned, a tightening-up of the system and the mandatory rules is on the way. What is your general feeling about that?

Alastair MacNish: Caroline Gardner highlighted an area in which huge chunks of council services were being transferred to arm’s-length companies that are limited by guarantee or whatever. There is an issue with that, in that a massive amount of money is allocated for it, so proper scrutiny is required. Most of the companies concerned have quite a few councillors on their boards. Are those companies being scrutinised and challenged in the same way as local authorities are? As I said, many services that are provided by the voluntary sector provide excellent value for money. The same emphasis on scrutiny of them is required too, however.

The commission was not particularly happy with the first report, “Following the Public Pound”. It was one of the very few reports in which we were uncomfortable about whether we could say anything of any value to this committee or to our clients. We have asked for more work to be done on that and it will be available by the autumn. I cannot give you a specific answer on the matter, but I believe that it requires our attention. We need findings that have real value, both for the purposes of the committee’s remit and for local authorities. If I say anything about that now, it would be off the top of my head.

Mr Davidson: In your opening remarks, you said that there was no evidence of outcomes in

community planning and you went on to say that public reporting is not balanced. By inference, I suggest that you were saying that reporting tends to be skewed to show good news rather than anything difficult. What measures are available to you to allow you to flag that up and to produce material for parliamentary committees by a given date and time, through which they could expect to see a report that showed either improvement or failure?

Alastair MacNish: We do not have a statutory direction to impose on local government, nor should we. We have now raised the matter formally by way of this year’s overview report; we will report on that in turn. It will not come as a surprise to anyone that their council will tend to want to announce the good news, but balanced reports are needed. We will comment on whether each authority is producing a balanced report card on its performance.

It is not a sign of weakness, but a sign of strength if a council is able to be honest and to say that although it is doing X, Y and Z, it needs to do more work in some other area. That has been the greatest plus in the best-value audit so far. They might wish that they had not been, but the first five councils have been absolutely frank and honest in their self-assessment with respect to what they need to do. If a council does the opposite, we will be the first to say that that is unacceptable. If we do not continue with that approach, the whole exercise will have been a waste of time. I am delighted that, so far, councils are adopting a frank and honest approach. By its very nature, that becomes a public performance issue. I am reasonably confident that, without any statutory insistence, we will be able to develop that work in the short term, rather than just in the long term.

The Convener: You mentioned reserves and balances in your introductory remarks and you raised the question whether each council should have a clear set of policies that concern what the level of reserves and balances should be. I presume that such policies would take into account contingencies for which the funds might be used. How many councils have an explicit policy that describes why their balances are at a certain level?

Alastair MacNish: There has been huge hype in the media about the fact that money could have been used to cut council tax. I felt genuinely embarrassed for the leader of the City of Edinburgh Council, who said that the criticism was unfair. The City of Edinburgh Council has a clear policy and a figure that we would say is perfectly acceptable. Glasgow City Council is another major city council that has a clear policy on what the level of balances for emergencies should be. We welcome that. It was never meant to be a criticism;

unfortunately, the figure of £1 billion came out in the media and they homed in on it.

Councils must identify why they are running with the balances that they have: they must say that X is for emergencies and for other things that they have no control over. If they did not have those balances, council tax would shoot up in the next year, which would make no sense in terms of probity and good government. Councils also have hypothecated sums for better neighbourhood services which, if they are not spent in one year, can be carried forward. They would not want to write that money off so, of course, they carry it forward. Also, money that is required for capital programmes and major maintenance programmes is required to be separated and kept, so that can mount up.

Our concern was that there had been a 20 per cent increase in the general fund balance across Scotland. That was partly down to money not being spent and being hypothecated; however, it was also partly because councils were not aware of what the balances were going to be at the end of the year. That is why we highlighted it as a concern; we will continue to highlight it this year in the audits that are now taking place.

I do not think that the evidence that we got was as sound as we would have liked it to be regarding the number of councils that have a completely clear policy. We are gathering that information as part of the audit this year, but I do not know whether we have the figures that would give the committee a specific answer on that. We will get that information this year.

Caroline Gardner: As well as conducting the best-value audit that Alastair MacNish described, we are ensuring that the annual audit of every council is sharpened so that we can get to the issues that really matter. We plan to pick those up in next year's overview report and to get consistent evidence of the big issues that councils in Scotland face, which will come together to give the committee the story in the future.

The Convener: When you have a clearer figure on the policies that underlie the balances, do you intend to issue any advice to councils that you think might have too small or too large a contingency fund?

Alastair MacNish: It is always difficult and dangerous for a commission to tell councils that they need clear policies that are transparent and identifiable to their public and then to say that we do not like what they have announced publicly and transparently. We would always have views. Individually, we will have views on what is reasonable regarding income and expenditure in our own households. We will still ask questions and try to extrapolate information from a council if

we think that its figure is especially high or especially low.

You will notice that the overview report spells out how the balances of the four councils with the highest levels of balances are made up, but does not say whether that is good, bad or indifferent: it just explains that those are the figures. We need to identify clearly how councils have achieved those balances and whether they have done so in a transparent and open way. We will report on that and if a council is not being transparent—even if it has a reasonable balance—we will identify that as being unacceptable in the commission's view. The great thing about councils is that the more open they are, the better the public will understand the services that they receive. I hope that continuing down the road of best value will enable us to achieve that.

The Convener: In your report, you say that the reserves do not include the oil funds and harbour funds that the island authorities—Orkney Islands Council and Shetland Islands Council—have, which come to almost £600 million between the two authorities. Those funds were established to create a basis for a post-oil economy for the communities in those local authority areas. Do they have a well worked-out plan for how those funds are to be deployed in the future in order to achieve the aims for which they were set up?

Alastair MacNish: We have just completed the best-value report on Shetland Islands Council. The report makes it clear that the council provides good-quality services, although we had some concerns about the cost of those services and the use of resources, even given that it is an island authority. We have been pushing the island authorities for their programmes for future investment in their areas. They still have a lot of money, some of which is tied up in trusts, especially in Shetland. However, I do not think that we have any specific information to share with the committee.

The Convener: Okay. That brings us to the end of our questions. I thank Alastair MacNish and his colleagues from the Accounts Commission and Audit Scotland.

The next item is further consideration of a draft stage 1 report. It has been agreed that we will take the item in private.

15:01

Meeting continued in private until 16:08.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Wednesday 15 June 2005

PRICES AND SUBSCRIPTION RATES

OFFICIAL REPORT daily editions

Single copies: £5.00

Meetings of the Parliament annual subscriptions: £350.00

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75

Annual subscriptions: £150.00

Standing orders will be accepted at Document Supply.

Published in Edinburgh by Astron and available from:

Blackwell's Bookshop
53 South Bridge
Edinburgh EH1 1YS
0131 622 8222

Blackwell's Bookshops:
243-244 High Holborn
London WC1 7DZ
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh

Blackwell's Scottish Parliament Documentation
Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

Telephone orders and inquiries
0131 622 8283 or
0131 622 8258

Fax orders
0131 557 8149

E-mail orders
business.edinburgh@blackwell.co.uk

Subscriptions & Standing Orders
business.edinburgh@blackwell.co.uk

RNID TYPETALK calls welcome on
18001 0131 348 5412
Textphone 0845 270 0152

sp.info@scottish.parliament.uk

All documents are available on the Scottish Parliament website at:

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers

Printed in Scotland by Astron