

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Customer Services
Executive Director: Douglas Hendry



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9 September 2011

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 16 SEPTEMBER 2011** at **11:15 AM**, which you are requested to attend.

Douglas Hendry
Executive Director - Customer Services

BUSINESS

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST (IF ANY)**
- 3. MINUTES**
Audit Committee 24 June 2011 (Pages 1 - 6)
- 4. MANAGING ATTENDANCE 2010/2011**
Report by Head of Improvement and Strategic HR (Pages 7 - 32)
- 5. PERFORMANCE MANAGEMENT**
Report by Head of Improvement and Strategic HR (Pages 33 - 56)
- 6. ANNUAL REPORT BY AUDIT COMMITTEE 2010 - 2011**
Report by Chief Internal Auditor (Pages 57 - 64)
- 7. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2011 - 2012**
Report by Chief Internal Auditor (Pages 65 - 70)
- 8. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE**
Report by Chief Internal Auditor (Pages 71 - 114)
- 9. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2011 - 2012**
Report by Chief Internal Auditor (to follow)

- 10. AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2011 - 2012**
Report by Chief Internal Auditor (Pages 115 - 170)
- 11. EXTERNAL AUDIT ISA 260 REPORT**
Report by Grant Thornton UK LLP, External Auditors (to follow)
- 12. EXTERNAL AUDIT 2010/11 ACCOUNTS AUDIT**
Report by Grant Thornton UK LLP, External Auditors (to follow)
- 13. EXTERNAL AUDIT PROGRESS REPORT 2010 - 2011**
Report by Grant Thornton UK LLP, External Auditors (to follow)
- 14. RISK MANAGEMENT QUARTERLY UPDATE REPORT**
Report by Head of Strategic Finance (to follow)

AUDIT COMMITTEE

Martin Caldwell
Councillor George Freeman
Councillor David Kinniburgh
Ian M M Ross

Councillor Gordon Chalmers
Councillor Daniel Kelly
Councillor James Robb

Contact: Fiona McCallum

Tel. No. 01546 604406

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on FRIDAY, 24 JUNE 2011**

Present:

Mr Ian M M Ross (Chair)

Mr Martin Caldwell
Councillor George Freeman

Councillor Daniel Kelly

Attending:Charles Reppke, Head of Governance and Law
Bruce West, Head of Strategic Finance
Ian Nisbet, Chief Internal Auditor
Gary Devlin, Grant Thornton UK LLP
Angus Gilmour, Head of Planning and Regulatory Services (for
item 4)
Alan Morrison, Regulatory Services Manager (for item 4)**1. APOLOGIES FOR ABSENCE**

Apologies for absence were intimated from Councillors Gordon Chalmers, David Kinniburgh and James Robb.

2. DECLARATIONS OF INTEREST

None declared.

3. MINUTES

The Minutes of the Audit Committee meeting held on 4 March 2011 were approved as a correct record.

4. IMPLEMENTATION OF SERVICE REVIEW OF REGULATORY SERVICES

A report advising of progress with the implementation phase of the Service Review for Regulatory Services was considered.

Decision

1. Noted the progress of the implementation phase of the Service Review, particularly the focus on re-instating front line staff which will address previous concerns expressed by Members of the Audit Committee in relation to maintaining delivery of the Council's statutory duties; and
2. Agreed to request that a brief progress report be brought to the Audit Committee meeting in December 2011 followed by a fuller update brought to the Audit Committee meeting in June 2012.

(Reference: Report by Executive Director – Development and Infrastructure Services submitted)

5. STRATEGIC AUDIT PLAN 2011 - 2014

At its meeting on 4 March 2011 the Audit Committee considered the Strategic Audit Plan for 2011 – 2014 and Annual Audit Plan for 2011 – 2012. These plans provided an overview of the risk assessment process undertaken, detailed the core Financial Systems audits and outlined the allocation of audit days for the remaining sections of both plans. Having approved both Plans, the Committee requested that detailed analysis of the remaining sections be reported to the June Audit Committee. A report providing this information was before the Committee for consideration.

Decision

Noted the contents of the report.

(Reference: Report by Chief Internal Auditor, submitted)

6. INTERNAL AUDIT ANNUAL REPORT 2010 - 2011

Internal Audit has the responsibility to provide the Audit Committee with an Annual report that comments on the duties and audits carried out by the section throughout the financial year. The Annual Report for 2010 – 2011 was before the Committee for consideration.

Decision

Approved the Internal Audit Annual Report for 2010 – 2011.

(Reference: Report by Chief Internal Auditor dated 10 June 2011, submitted)

7. ANNUAL REPORT BY AUDIT COMMITTEE 2010 - 2011

A report summarising the work of the Audit Committee during 2010 – 2011 and outlining its view of the Council's internal control framework, risk management and governance arrangements was considered.

Decision

Noted and approved the contents of the latest draft of the Audit Committee Annual report for 2010 - 2011.

(Reference: Report by Chief Internal Auditor dated 30 May 2011, submitted)

8. CORPORATE GOVERNANCE IMPROVEMENT PLAN

A report detailing the Corporate Governance Improvement Plan and draft Joint Statement of Governance and Internal Control to accompany the 2010 – 2011 Annual Accounts was considered.

Decision

1. Noted the contents of the report; and

2. Approved the Corporate Governance Improvement Plan.

(Reference: Joint report by Executive Director – Customer Services and Head of Strategic Finance, submitted)

9. UNAUDITED ACCOUNTS 2010 - 2011

The Committee considered a report on the Unaudited 2010 – 2011 Annual Accounts which had previously been considered by the Council on 23 June 2011.

Decision

1. Noted the unaudited 2010 – 2011 Annual Accounts;
2. Noted the revised Remuneration report tabled at the meeting; and
3. Noted that clarification would be sought on whether or not there existed a Common Good Fund for Helensburgh.

(Reference: Report by Head of Strategic Finance dated 15 June 2011 and Unaudited Accounts for the Period 1 April 2010 to 31 March 2011, submitted and Revised Remuneration Report, tabled)

10. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2011 - 2012

An interim progress report covering the audit work performed by Internal Audit as at 27 May 2011 was considered.

Decision

Approved the progress made with the Annual Audit Plan for 2011 – 2012.

(Reference: Report by Chief Internal Auditor dated 10 June 2011, submitted)

11. EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2011 - 2012

Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. A report setting out the results from a review performed by Internal Audit for recommendations due to be implemented by 31 May 2011 was considered.

Decision

Noted and approved the contents of the report.

(Reference: Report by Chief Internal Auditor dated 10 June 2011, submitted)

12. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE

A report detailing final reports, summaries and action plans (where applicable) from recent audits was considered.

Decision

Noted the contents of the reports in respect of the following audits and that these will be followed up by Internal Audit:-

- a) Customer Services – Review of New Legislation
- b) Community Services – Review of Occupational Health Contract
- c) Customer Services – Review of ICO Follow Up
- d) Chief Executive's – Review of Community Engagement
- e) Customer Services – Review of Following the Public Pound
- f) Chief Executive's – Review of Community Planning Partnerships
- g) Chief Executive's – Review of Health and Safety
- h) Strategic Finance – Review of General Ledger Operations
- i) Customer Services – Review of Asset Management
- j) Strategic Finance – Review of Budget Monitoring
- k) Improvement and HR – Review of OD Learning and Development
- l) Strategic Finance – Review of Risk Management
- m) Chief Executive's - Equality
- n) Strategic Finance – Review of Treasury Management
- o) Community Services – Review of Business Continuity Planning
- p) Chief Executive's – Disciplinary and Grievance Procedures
- q) Customer Services – Review of Printing and Design
- r) Development and Infrastructure Services – Review of Argyll Air Services
- s) Review of Year End Stock
- t) Facility Services – Review of Sustainability
- u) Chief Executive's - Review of Car Allowances
- v) Community Services - Review of Short Term Contracts

(Reference: Report by Chief Internal Auditor, submitted)

13. INTERIM MANAGEMENT REPORT

The Council is required to have arrangements in place to ensure propriety, regularity and best value in its stewardship of public funds. It is the responsibility of management to establish adequate systems of internal control to ensure that resources are applied to the activities intended, fraud is prevented and detected, and resources used economically, efficiently and effectively.

As part of their interim audit, the Council's External Auditors have reviewed the effectiveness of the Council's core financial systems and financial management and budgetary control arrangements. In addition, they followed up the Council's progress in implementing recommendations agreed in their prior interim report.

A report advising of the key findings of this review and action plan was before the Committee for consideration.

Decision

Noted the contents of the report and that these will be followed up by Internal Audit.

(Reference: Report by Grant Thornton UK LLP, External Auditor dated June 2011, submitted)

14. REVIEW OF ARRANGEMENTS FOR INTERNATIONAL FINANCIAL REPORTING STANDARDS

Local Authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code will be based in International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009 - 2010 accounts and full published IFRS accounts for 2010 - 2011.

Consideration was given to a report which detailed the findings of an arrangement review carried out by the Council's External Auditors. The review provided feedback on the Council's approach to restatement and was not an audit of the restated balance sheet figures. Detailed work on the restated figures will take place during the 2010 - 2011 final accounts audit.

Decision

Noted the contents of the report and that these will be followed up by Internal Audit.

(Reference: Report by Grant Thornton UK LLP, External Auditor dated April 2011, submitted)

15. AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2011-2012

A report advising of a recently published report by Audit Scotland entitled "National Scrutiny Plan for Local Government 2011/12" was considered.

Decision

Noted the contents of the report and that these will be followed up by Internal Audit.

(Reference: Report by Chief Internal Auditor dated 30 May 2011, submitted)

16. NATIONAL FRAUD INITIATIVE (NFI) - NATIONAL EXERCISE 2010 - 2011

Audit Scotland reported in their National Fraud Initiative (NFI) 2008/09 report that Argyll and Bute Council had scope to improve their process in investigating matches. A report detailing progress being made by the Council with the NFI 2010 – 2011 national exercise matches was considered.

Decision

Noted the contents of the report and that the Strategic Management Team are receiving monthly progress reports regarding the investigation of NFI matches by the responsible Officers.

(Reference: Report by Chief Internal Auditor, submitted)

17. ANTI FRAUD STRATEGY

A report advising on future reporting to the Audit Committee of fraud activity was considered.

Decision

Noted the contents of the report.

(Reference: Report by Executive Director – Customer Services dated 17 June 2011, submitted)

18. RISK MANAGEMENT

A report updating the Committee on current progress in relation to the development of risk management was considered.

Decision

Noted the terms of this report.

(Reference: Report by Head of Strategic Finance dated 15 June 2011, submitted)

19. ASSURANCE AND IMPROVEMENT PLAN 2011 - 2014

Consideration was given to a report advising on the completion of the annual Shared Risk Assessment review of the Council by the Local Area Network of external scrutiny bodies and its update of the Assurance and Improvement Plan. The Plan outlines the current level of risk within the Council and sets out proposed external scrutiny for a rolling three year period.

Decision

Noted the contents of the report.

(Reference: Report by Chief Internal Auditor dated 10 June 2011, submitted)

ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****IMPROVEMENT AND HR****16 SEPTEMBER 2011**

MANAGING ATTENDANCE 2010/11

1. Summary

- 1.1. The following report provides details of the Council's sickness absence levels for financial year 2010/11 and comparisons have been drawn wherever possible with 2009/10. The report is divided into three parts with statistics in the first half, an update on initiatives to manage attendance in the second and, in accordance with the request made by the Audit Committee when the matter was last considered in March 2011, absence statistics by area in Appendix 1.
- 1.2. It should be noted that where average figures and costs are used in the course of this report, allowances should be made for rounding of decimal points.
- 1.3. Human Resources, with support from the Strategic Management Team, have invested considerable time and effort into improving absence recording mechanisms and introducing new initiatives. There is evidence that this work is beginning to pay dividends with each employee averaging 0.26 days less sickness in 2010/11 than in the previous year. This represents an estimated reduction of £32,215 in sickness absence costs when compared to 2009/10.
- 1.4. Whilst it is pleasing to see the average number of days sickness per employee has fallen from 9.79 to 9.53 days, further improvements are still possible and each individual has a part to play in this. Significant developments in attendance management have included:
 - Return-to-work interviews for all staff who have been off, however long or short their absence period. Robust monitoring arrangements are now in place to ensure return to work interviews are carried out on the employee's return to work after every single instance of sickness. Meetings of this type are widely regarded as the single most effective action that can be taken to reduce sickness absence.
 - Successful pilot and staged rollout of the Direct Absence Reporting phone line; a joint project between Human Resources and Payroll in partnership with Trade Unions. The provision of accurate and up-to-date information on each individual's absence levels allows managers to address any issues early thereby reducing the likelihood that an employee is likely to be absent again.
 - A new Maximising Attendance at Work Policy, including tighter triggers, has been drafted by HR and considered by the Strategic Management Team. It is currently subject to consultation with trade unions. Managers will be prompted to review the cases of those who reach the triggers so that suitable action can

be taken. This could include occupational health referrals, phased return to work, redeployment and, where appropriate, dismissal and/or disciplinary action.

- A tender has been drafted and a Prior Indication Notice issued in preparation for an Occupational Health and Welfare contract starting in January 2012. Occupational health and welfare services such as physiotherapy, counselling and medical examinations can help prevent employees from being absent in the first place as well as facilitating an earlier return to work for those who are off.

1.5. Each Head of Service has agreed a specific target for their service and the following additional support measures have been put in place to help them achieve these figures:

- The Council's occupational health advisers were asked to review the cases of 37 employees on long-term sickness. Human Resources are working closely with line managers to ensure that each individual is managed in accordance with advice provided by the Occupational Health Physician.
- Fourteen coaching and mentoring sessions on Return to Work Meetings were delivered by HR staff to managers during May and June 2011. These were run in Lochgilphead, Dunoon, Helensburgh, Oban, Campbeltown and Rothesay. Further courses are currently being arranged.

2. Recommendations

2.1. It is recommended the Audit Committee:

- Note the statistics for the full financial year 2010/11 and read the report in conjunction with the figures in Pyramid to enable further analysis by section and area.
- Recognise the improvements made in managing sickness absence that have been achieved over the past 12 months using widely practiced tools and techniques, and further evidenced by a reduction in sickness absence levels.

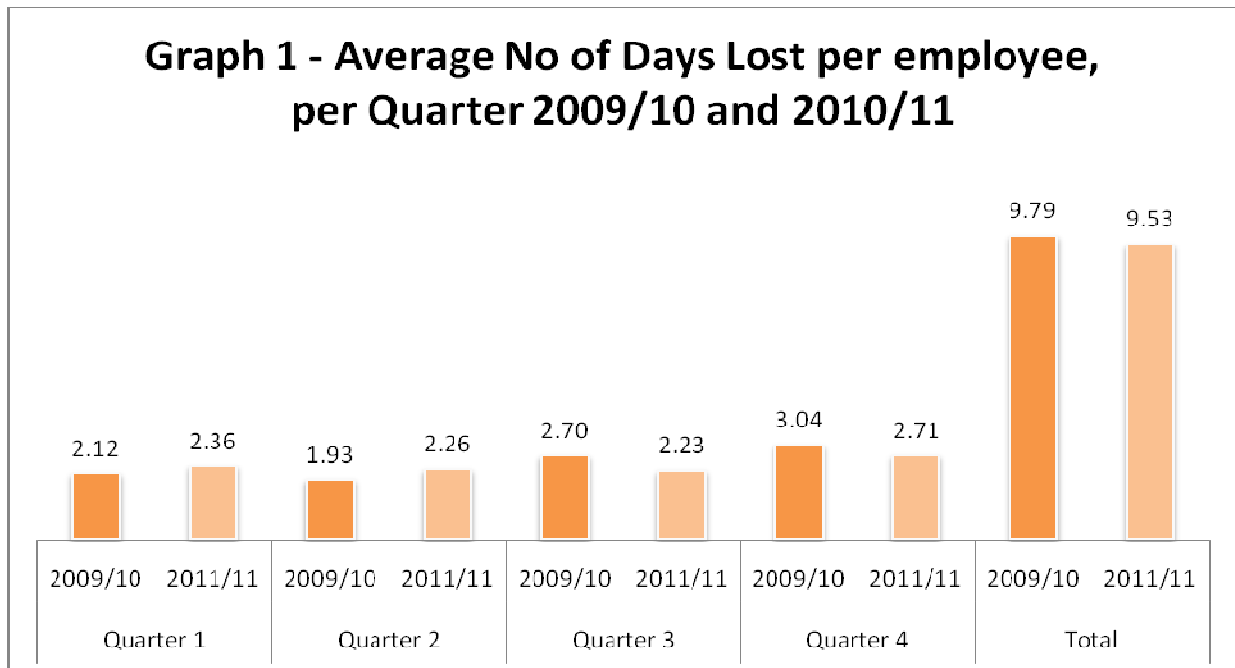
3. Detail

3.1. Absence Statistics

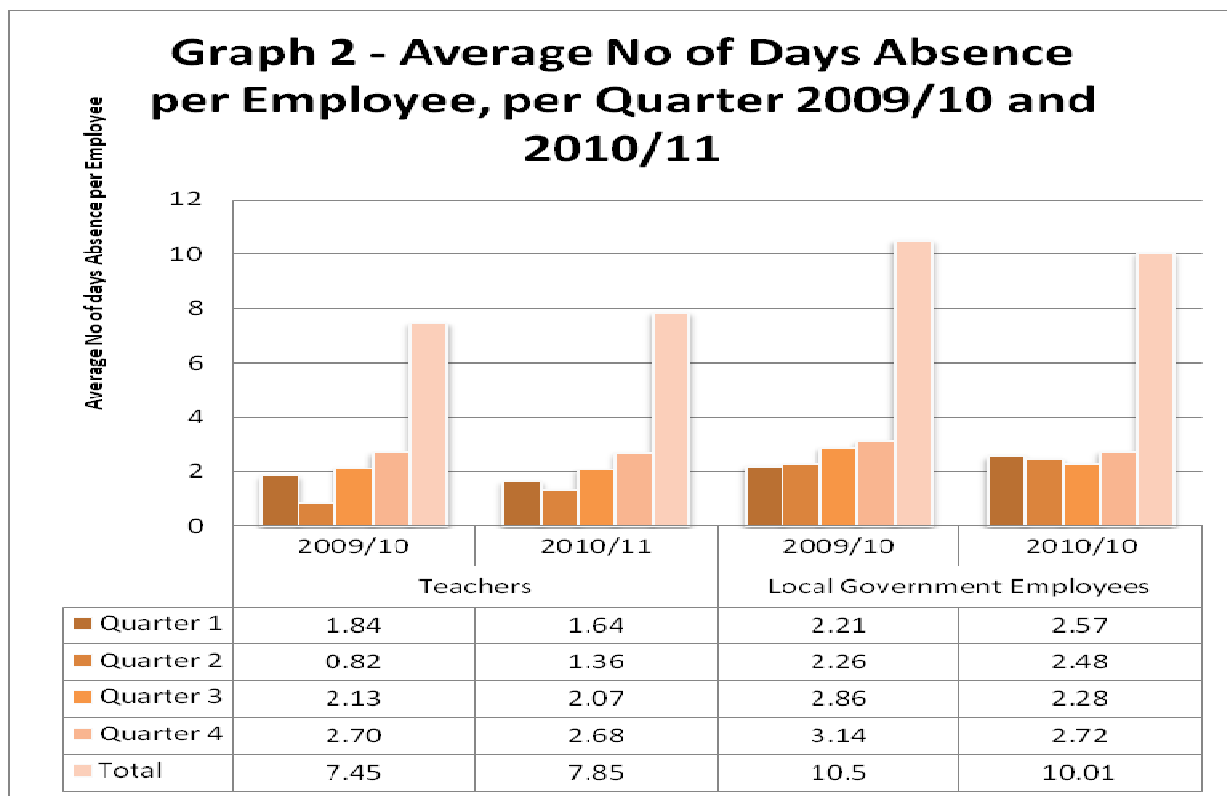
3.1.1. In general, sickness absence levels within the Council decreased over the 12 months between 1st April 2010 to 31st March 2011, predominately due to the concerted efforts of the Strategic Management Team allied with new initiatives introduced by Human Resources. This was all the more significant given improvements in data collection meant an employee's absence was more likely to be recorded and therefore reported. As Table 1 (below) illustrates, in 2010/11 each employee averaged 9.53 days sickness per employee, per year compared with 9.79 days in the previous year.

Table 1 – Average Number of Days Sickness Absence Per Employee Per Quarter, 1st April 2009 – 31st March 2011

	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Total	
	2009/ /10	2010/ 11	2009/ 10	2010/ 11	2009/ 10	2010/ 11	2009/ 10	2010 /11	2009 /10	2010/ 11
FTE Employees	4148 .99	4095. 49	4239. 06	3841. 15	4157.7 3	4564.3	4140.8 1	3989 .95	4171 .65	4130.7 0
FTE Working Days Lost	8812 .41	9679. 93	8192. 93	8666. 25	11218. 32	10178. 38	12600. 75	1083 0.57	4082 4.11	39355. 13
Average No of Days Lost per employee	2.12	2.36	1.93	2.26	2.70	2.23	3.04	2.71	9.79	9.53



3.1.2. Graph 2 gives a more detailed breakdown of sickness absence levels per category of staff, per quarter over two years between 1st April 2009 to 31st March 2011.



3.1.3. Teachers' absence increased overall by an average of 0.4 days per employee, per year, in contrast with local government employees whose absence fell by 0.49 days per employee, per year. Apart from a noticeable difference in teachers' staffing levels between Quarters 2 and 3, 2010/11, employment levels remained relatively static throughout this time.

Table 2a and 2b – Average Number of Days Sickness Per Employee Category Per Quarter, 1st April 2009 – 31st March 2011

Table 2a

	Teachers							
	2009/10				2010/11			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
FTE Employees	944.05	962.06	935.58	920.5	904.6	783.25	1087.07	907.62
FTE Working Days Lost	1737.89	791.13	1995.44	2482.51	1483.8	1066.35	2245.83	2434.31
Average No of Days Lost per employee	1.84	0.82	2.13	2.70	1.64	1.36	2.07	2.68

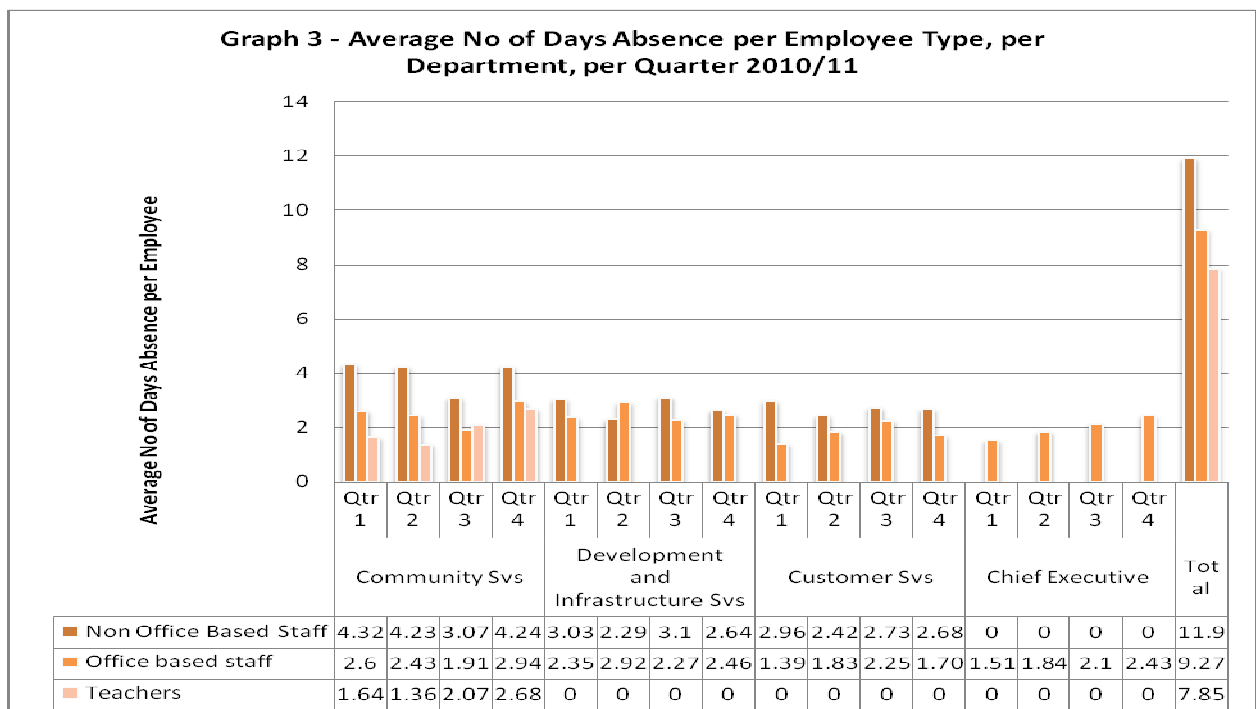
Table 2b

	Local Government Employees							
	2009/10				2010/11			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
FTE Employees	3204.94	3277	3222.1 5	3220. 31	3188.96	3061.3 5	3477.23	3082.33
FTE Working Days Lost	7074.52	7401.8	9222.8 8	10118 .24	8196.36	7602.4 5	7932.55	8396.26
Average No of Days Lost per employee	2.21	2.26	2.86	3.14	2.57	2.48	2.28	2.72

3.1.4. For the purposes of the Statutory performance Indicator, the average number of days sickness per employee reported to Audit Scotland for 2010/11 was:

- Local Government Employees – 10.01 days
- Teachers – 7.85 days

3.1.5. Of the different types of job, sickness levels remain highest amongst non-office based staff as illustrated by Graph 3. Although departmental comparisons are not possible owing to the reorganisation in 2010/11, analysis can still be done at a council wide level. This shows a negligible increase of 0.02 days in non-office based staff sickness which has risen from 11.88 days per employee per year, to an average of 11.90 days per employee, per year. On the other hand, attendance amongst office workers has improved with an average reduction of 0.54 days lost per employee taking the average number of day's sickness per employee per year from 9.81 to 9.27 days.



3.1.6. Tables 3a and 3b highlight variations in absence levels throughout 2010/11 by department and quarter. A generally higher incidence of minor ailments such as coughs, colds and flu usually results in increased sickness absence levels between October to March; further evidence of which can be seen in the split between long and short-term absence by department in Graph 4, Tables 4 and 5 giving the top 3 causes of short and long-term absence within the Council each quarter, and Graph 6 which highlights the frequency of absence.

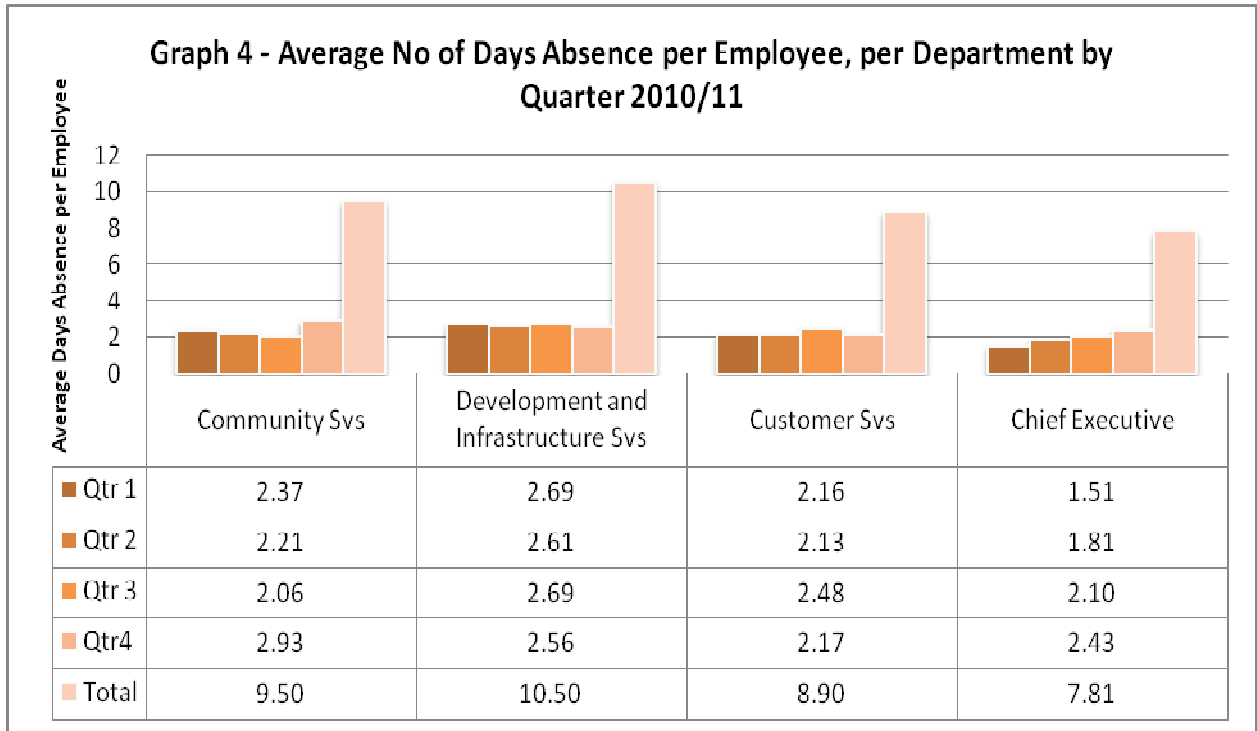
Table 3a and 3b – Average Number of Days Absence Per Employee Per Department, Per Quarter, 1st April 2010 – 31st March 2011

Table 3a

	Community Services				Development and Infrastructure			
	Qtr 1	Qtr2	Qtr3	Qtr4	Qtr 1	Qtr2	Qtr3	Qtr4
FTE Employee	2477.85	2343.5	2987	2417.08	800.61	706.8	781.3 1	767.33
FTE Days Lost	5870.89	5186.72	6154	7076.35	2154.6	184.58	2104. 84	1964.2 2
Av No Days Absence per employee	2.37	2.21	2.06	2.93	2.69	2.61	2.69	2.56

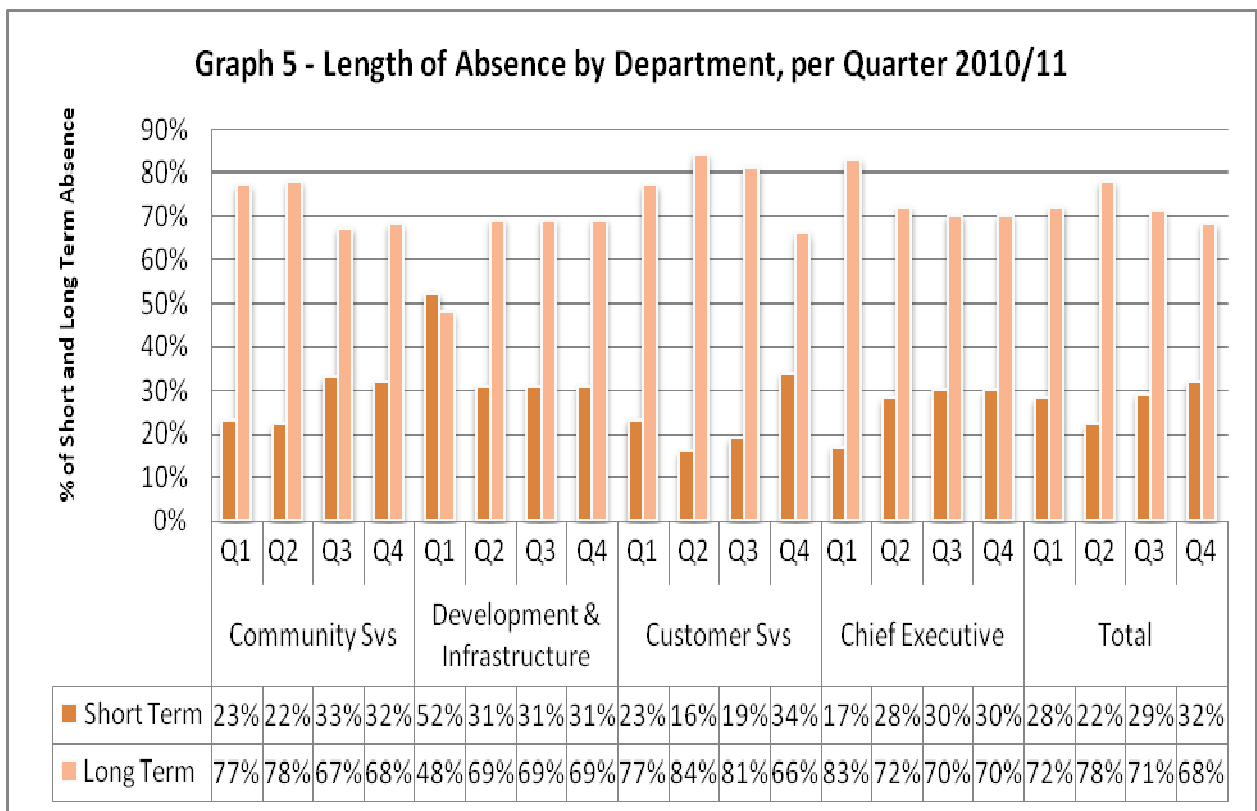
Table 3b

	Customer Services				Chief Executive			
	Qtr 1	Qtr2	Qtr3	Qtr4	Qtr 1	Qtr2	Qtr3	Qtr4
FTE Employee	656.38	627.57	646.44	650.99	158.72	163.37	149.8 4	154.55
FTE Days Lost	1415.66	1333.85	1605.5 2	1413.71	239.07	301.15	314.1	376.29
Av No Days Absence per employee	2.16	2.13	2.48	2.17	1.51	1.84	2.1	2.43



3.1.7. A fuller breakdown of sickness absence by Head of Service is available in Pyramid.

3.1.8. Graph 5 shows the split between long and short-term absence by department per quarter.

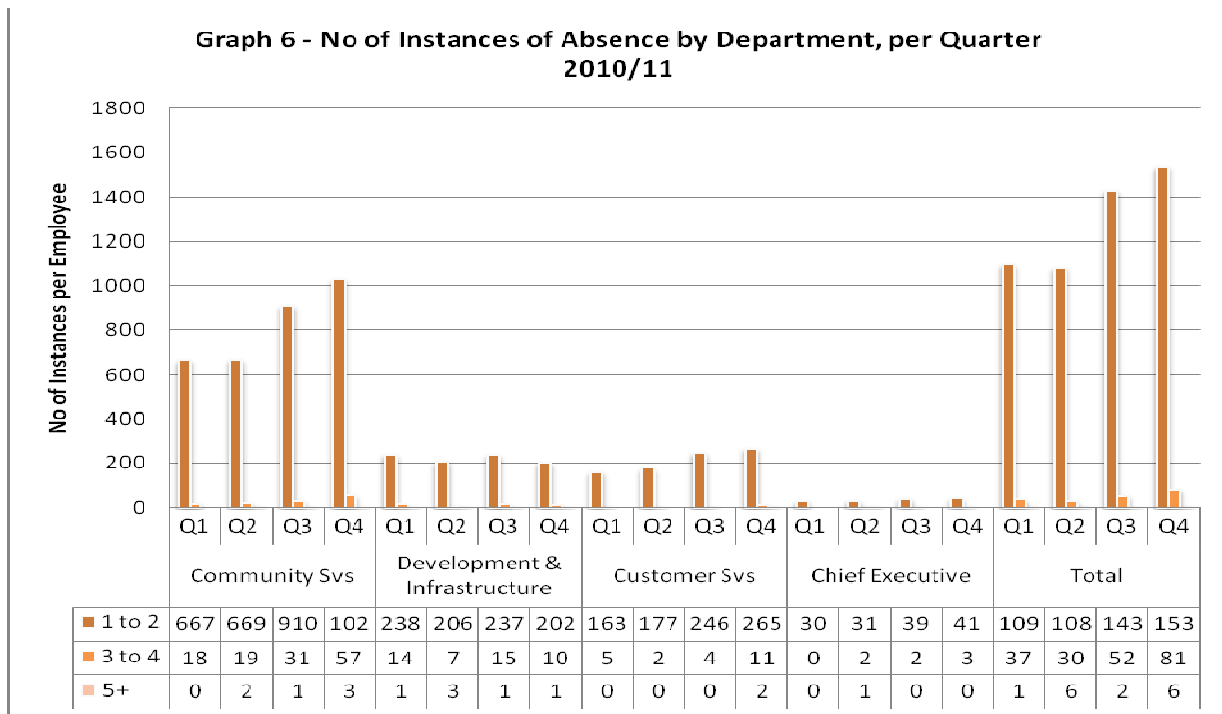


Qtr 1		Qtr 2		Qtr 3		Qtr 4		01/04/10-31/03/2011	
Reason	%	Reason	%	Reason	%	Reason	%	Reason	%
Musculoskeletal	19	Musculoskeletal	19	Infections (Colds, coughs, Flu)	19	Infections	33	Infections	24
Infections	16	Stress	16	Stress	17	Stomach, Liver, Kidney Infection	13	Musculo-skeletal	14
Stomach, Liver, Kidney, Digestion	16	Injury/Accident, Infections, Stomach, Liver, Kidney, Digestion	15	Musculoskeletal, Injury/Accident	14	Injury, Accident, Chest and Respiratory, Stress	11	Stress	13

Qtr 1		Qtr 2		Qtr 3		Qtr 4		01/04/10-31/03/2011	
Reason	%	Reason	%	Reason	%	Reason	%	Reason	%
Stress	32	Stress	26	Stress	23	Musculoskeletal	25	Musculo-skeletal, Stress	24
Musculoskeletal	22	Musculoskeletal	21	Musculoskeletal	22	Stress, Injury, Accident	21	Injury, Accident	19
Injury/Accident	12	Injury/Accident	16	Injury/Accident	19	Stomach, Liver, Kidney Infection	11	Stomach, Liver, Kidney Infection	10

3.1.9. Despite the increase in short-term absence between October 2010 to March 2011, long-term absence continued to account for around three-quarters of all days lost due to sickness across the Council. With this in mind, representatives from HR recently met with Serco, the Council's Occupational Health providers to review the cases of 37 employees currently on long-term sickness. As a result the Council has a better understanding of the effect of each individual's medical condition on their work and HR Officers are working closely with line managers to ensure each case is managed in accordance with the medical advice received. This exercise has proved to be so worthwhile that it will be repeated later on in the year, whilst provisions for case conferences have been built into the Occupational Health tender drafted by Human Resources.

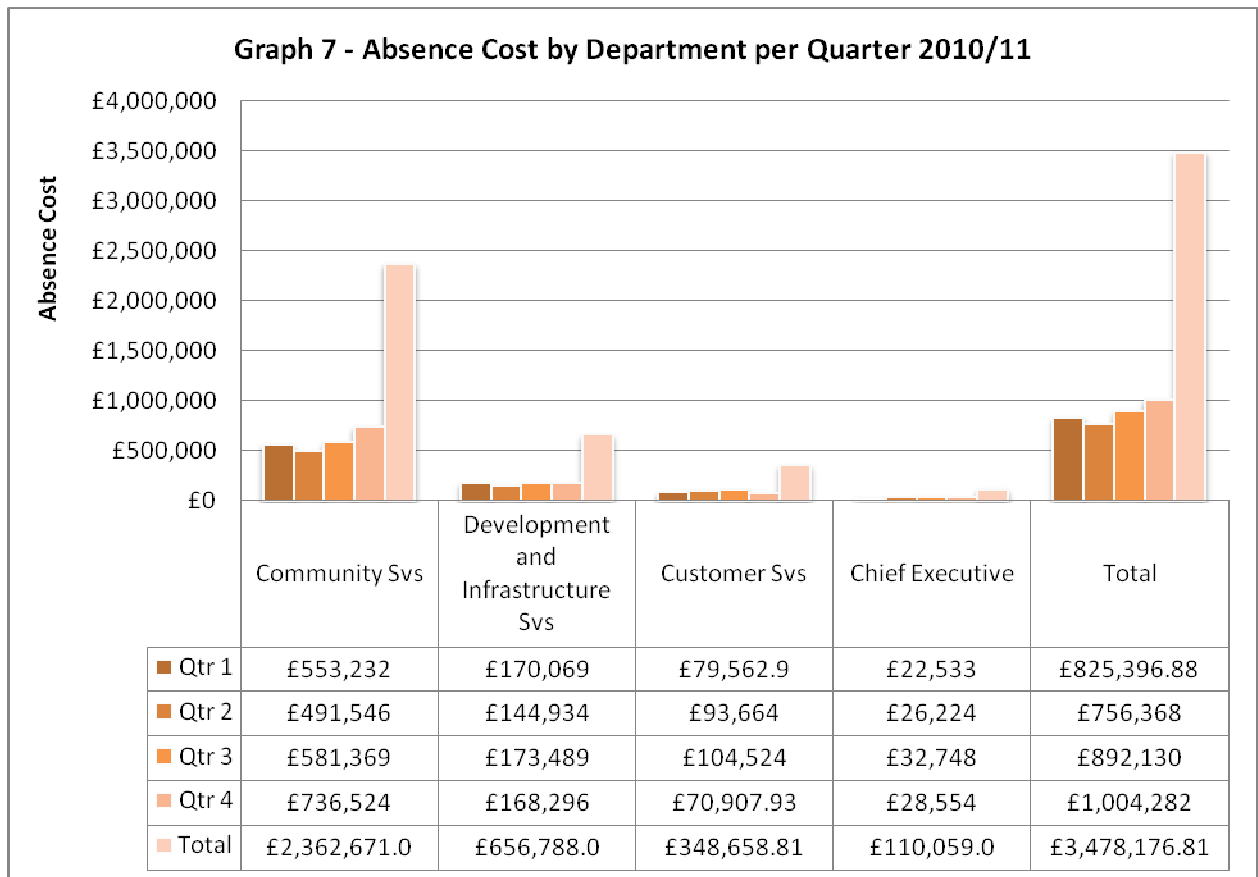
3.1.10. Graph 6 provides a breakdown of the number of instances of absence per employee, per quarter. Short-term absence can have a detrimental effect on service delivery and be exacerbated by mismanagement. If an employee is repeatedly absent for short periods this is likely both to undermine the individual's own performance and to be disruptive to colleagues and the wider organisation.



3.1.11. Research shows that where line managers have been trained in absence management there is a decrease in sickness absence rates and, as a starting point, the single most effective action to reduce absence is to consistently conduct return-to-work interviews for all staff who have been off, however long or short their absence period. Fourteen coaching and mentoring sessions for line managers were run by HR Officers during the months of May/June 2011 in each of the main administrative centres.

These sessions also included a section on the Equality Act 2010 to make managers aware of their legal obligations to make reasonable adjustments for any employees who are, or subsequently become disabled, during the course of their employment. Each individual session accommodated up to 20 attendees and additional workshops are currently being organised to complement the e-learning training course on attendance management which is already available on Learn-in-Bytes.

3.1.12. Costs are calculated based on the absent employee's daily salary multiplied by the number of working days that the person is off. Based on these calculations, sickness absence was estimated to cost the Council almost £3.5m in 2010/11, representing a substantial expense to the organisation. However, the initiatives introduced by Human Resources have started to generate savings with an estimated reduction in costs of £32,215 on the previous year.



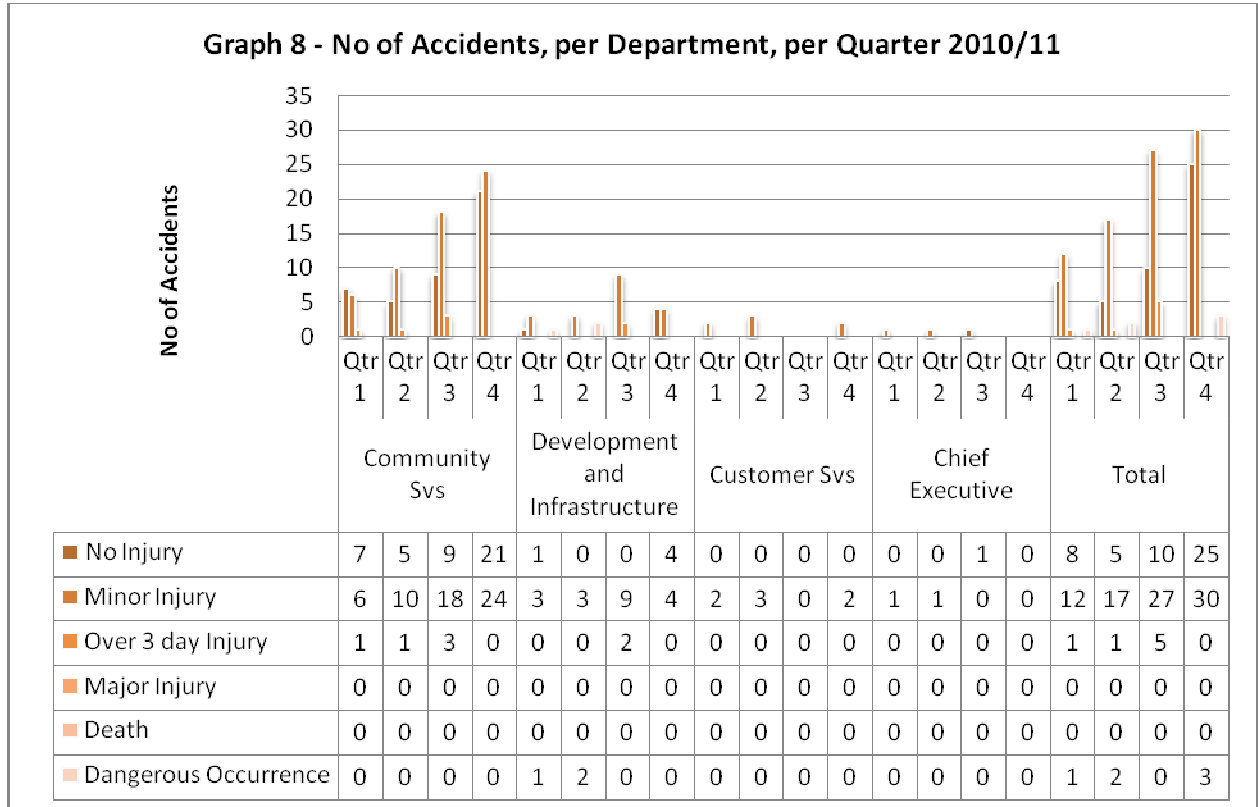
3.1.13. The Council continues to have a good health and safety record and only a small proportion of the incidents shown in Graph 8 were sufficiently serious to be reported to the Health and Safety Executive. Between 1st April 2010 to 31st March 2011 there were 12 reportable accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, 1995 placing the Council well below the national average for reportable events.

3.1.14. In 2000, the Council set itself targets to reduce the number of reportable accidents per year in line with the targets set out in the Health & Safety Executive's publication, 'Revitalising Health & Safety'. Now used as a benchmark, the Council has always performed well in terms of these targets, and through investment in Health and Safety, since 2007-08 has achieved year on year reductions in reportable accidents as follows:

Table 6 – Number of Reportable Accidents Per Year

Financial Year	Number of reportable accidents
2005-06	37
2006-07	39
2007-08	37
2008-09	31
2009-10	23
2010-11	12

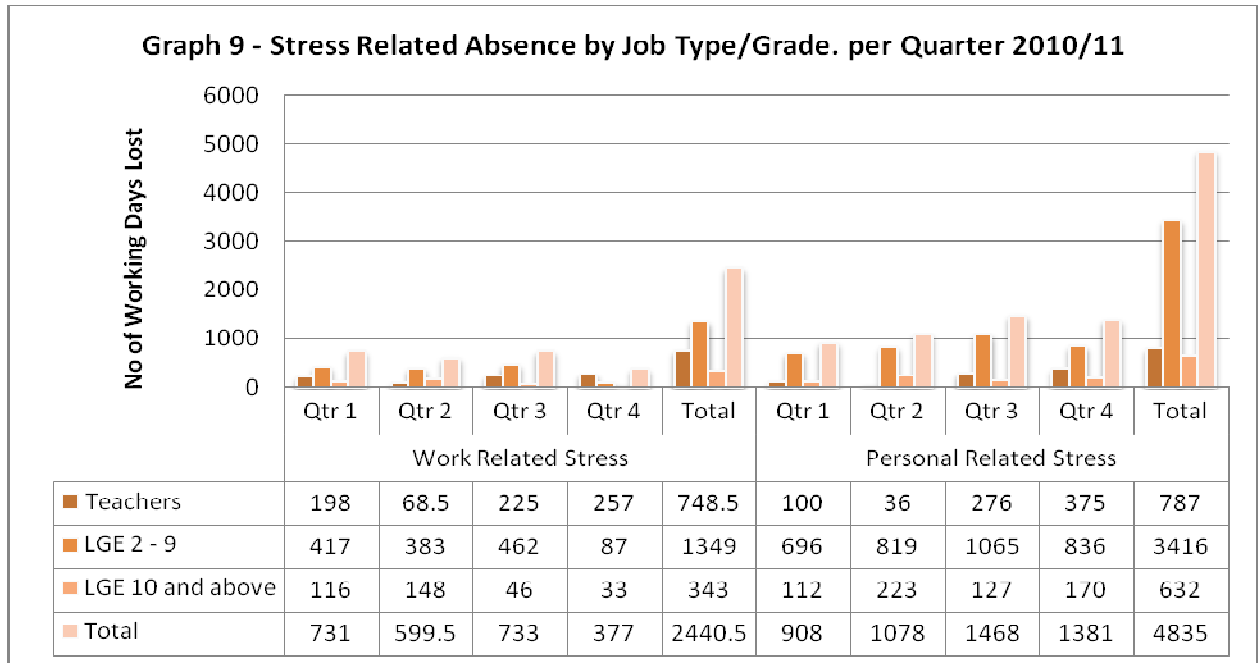
Graph 8 - No of Accidents, per Department, per Quarter 2010/11



3.2. Stress

3.2.1. Two-thirds of all stress-related absence (66%) was thought to be due to employees’ personal circumstances.

3.2.2. Graph 9 shows the number of working days lost due to stress related absence (both personal and work-related) across the Council by Grade/Job Type. From this it would appear that employees placed on grades LGE 2- 9 (equivalent to a full-time salary of £12,270 - £27,414), are most likely to be absent due to stress be it personal or work-related. This could simply be due to the high volumes of staff employed on these grades within the Council.



3.2.3. Table 7 enables comparison of stress related absence by grade over the two year period between 1st April 2009 -31st March 2011 and shows that despite the fall in stress related absence in Quarter 4 of 2010/11, stress levels overall in 2010/11 were slightly higher than in the previous year. Personal stress increased marginally amongst teachers and employees graded 10 and above (the latter being equivalent to a full-time salary of £26,753 and over), possibly as a result of a worsening global economic situation. There was a noticeable increase in the number of days teachers lost due to work-related stress when compared to 2009/10.

Table 7 – Working Days Lost Due to Stress By Grade, 1st April 209 – 31st March 2011

	Work Related Stress		Personal Related Stress		Total Working Days Lost	
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11
Teachers	558	748.5	641	787	1199	1535.5
LGE 2 - 9	1335	1349	3540	3416	4875	4765
LGE 10 and above	396	343	510	632	906	975
Total	2289	2440.5	4691	4835	6980	7275.5

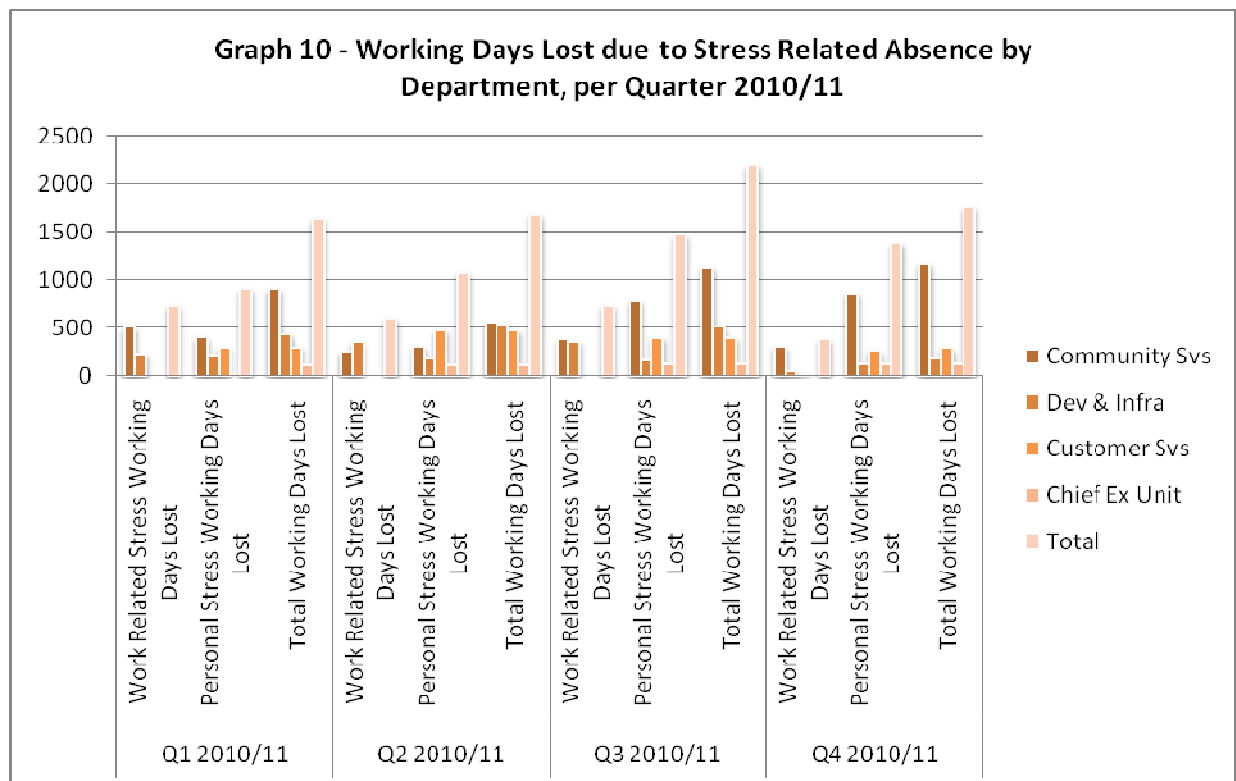
Table 8a, 8b and 8c together with Graph 10 provide a breakdown of stress-related absence by department.

Table 8a, 8b and 8c – Number of Working Days lost due to Work and Non-Work related Stress by Department, 1st April 2010 – 31st March 2011

Table 8a	Work Related Stress				
	Community Svs	Development and Infrastructure Svs	Customer Svs	Chief Executive	Total
Qtr 1	504	227	0	0	731
Qtr 2	249.5	350	0	0	599.5
Qtr 3	379	354	0	0	733
Qtr 4	307	48	22	0	377
Total	1439.5	979	22	0	2440.5

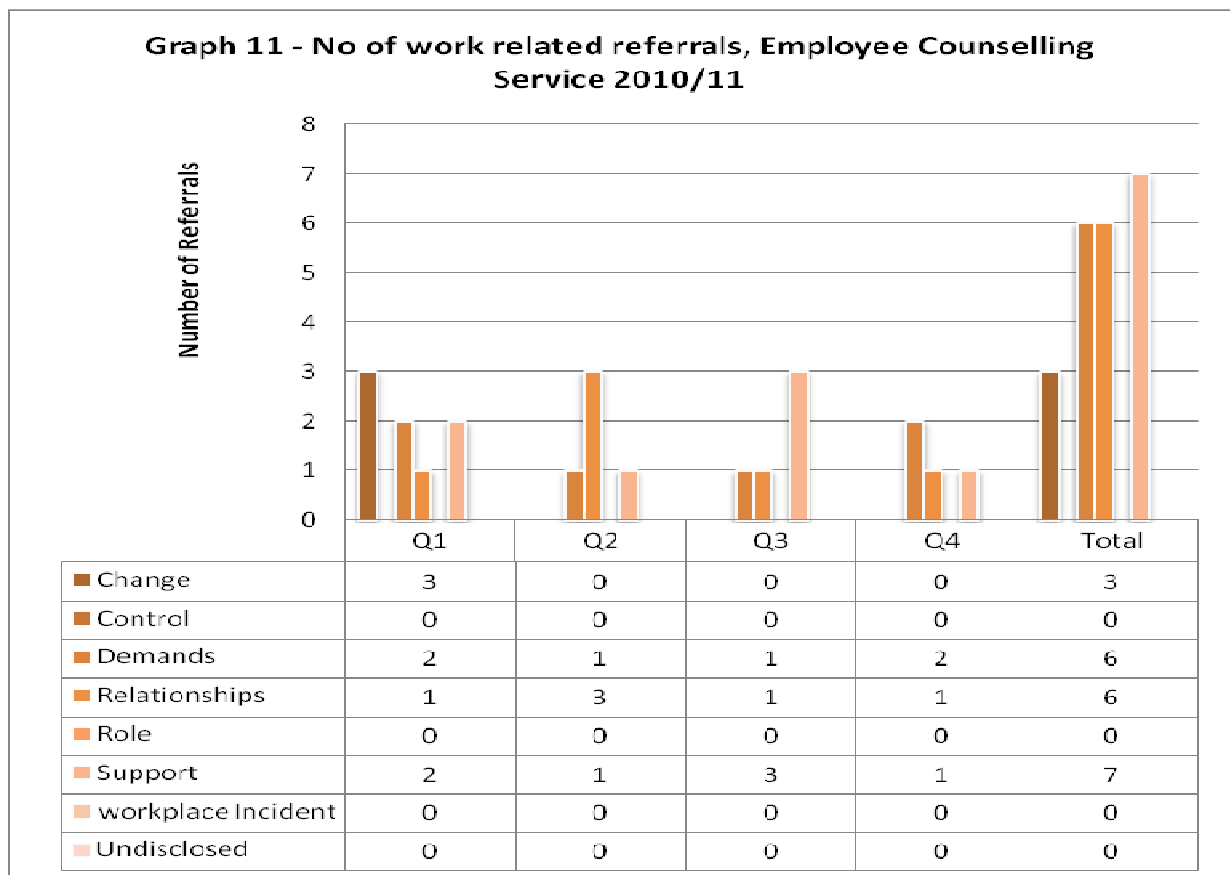
Table 8b	Personal Stress				
	Community Svs	Development and Infrastructure Svs	Customer Svs	Chief Executive	Total
Qtr 1	403	211	294	0	908
Qtr 2	308	180	476	144	1078
Qtr 3	780	162	398	128	1468
Qtr 4	860	127	266	128	1381
Total	2351	680	1434	370	4835

Table 8c	Work Related and Personal Stress 2010/11				
	Community Svs	Development and Infrastructure Svs	Customer Svs	Chief Executive	Total
Work Related Stress	1439.5	979	22	0	2440.5
Personal Stress	2351	680	1434	370	4835
Total	3790.5	1659	1456	370	7275.5

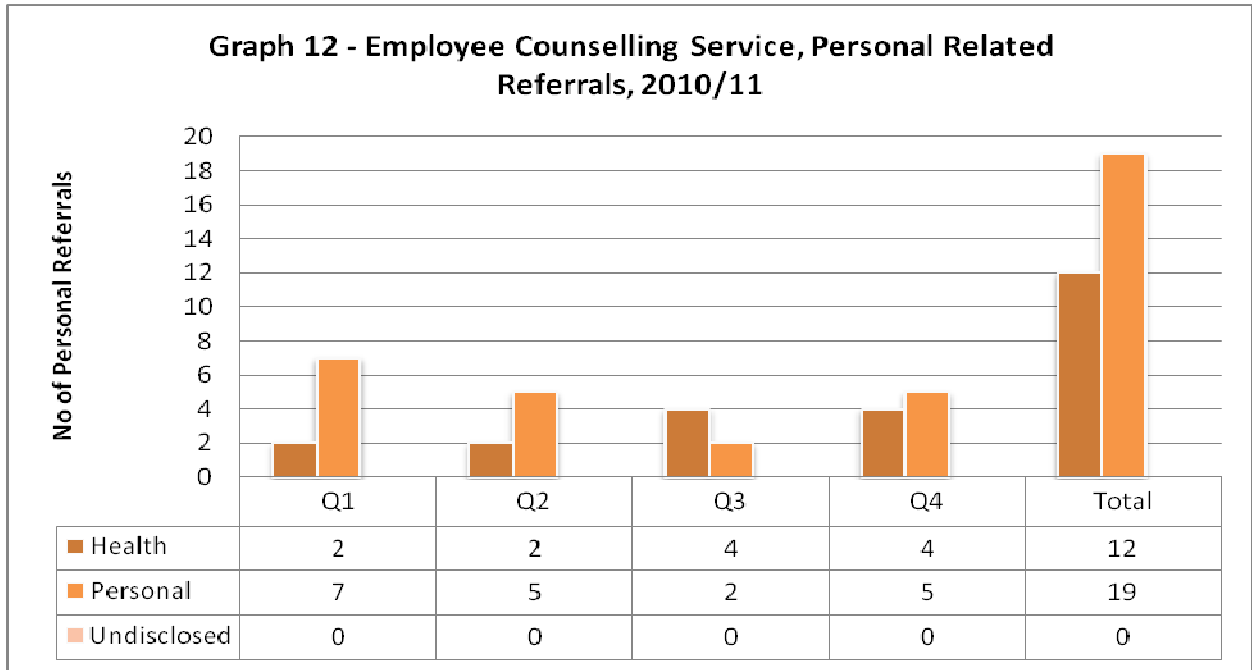


3.2.4. Fifty-three employees attended counselling between 1st April 2010 to 31st March 2011. Of these, 29 cited personal reasons for seeking counselling whilst 24 gave work-related explanations. All but 3 were self-referrals. Graph 11 shows that “support” was the most commonly cited work-related reason given for obtaining counselling, closely followed by “relationships” and “demands”. These categories refer to the HSE’s Management Standards for work-related stress as outlined below:

- Demands – workload, work patterns and work environment
- Control – How much say a person has in their work
- Support – Encouragement and resources provided by the Council, line management and colleagues
- Role – Employees understand their role within their service
- Change – How organisational change is managed and communicated within the Council
- Relationships – promoting positive working to avoid conflict and dealing with unacceptable behaviour

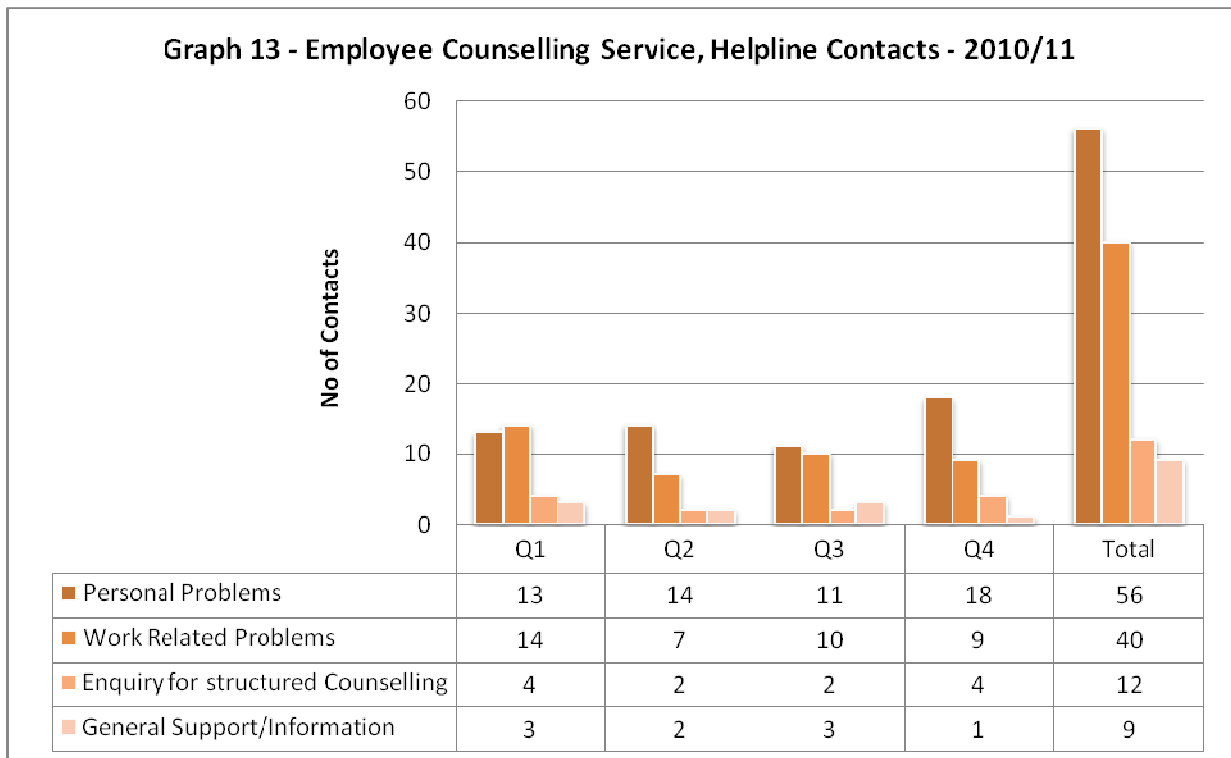


3.2.5. Graph 12 overleaf provides a breakdown of the personal reasons given by employees for seeking counselling.



3.2.6. There were a total of 87 return counselling appointments during the year.

3.2.7. In addition to structured counselling, the Employee Counselling Service operates an information helpline, 24 hours a day, 365 days a year. Graph 13 provides additional information with regard to contact with the helpline between 1st April 2010 – 31st March 2011.



- 3.2.8. Human Resources continue to promote the activities of the Employee Counselling Service to ensure all employees are aware of the information and support available to them. Feedback from Exit Questionnaires returned between October 2010 to March 2011 showed an increased awareness of the Service from 21% to 87% of all Exit Questionnaire respondents. Human Resources will continue to promote the activities of the Employee Counselling Service through posters, payslip messages, Cascade, The Hub, News Flash messages and correspondence with employees to ensure the message continues to reach those in even the largest, and most geographically dispersed departments.

As various nationwide studies have shown a strong link between financial and psychological wellbeing, representatives from HR met with the Money Advice Service in May 2011 to discuss arrangements for financial education seminars. These are being planned for November 2011 and will be run at the same time as the next round of redundancy seminars to make the most efficient use of the presenter's time.

- 3.2.9. Phase Three of the Modernisation Programme was unsettling for employees but feedback from Exit Questionnaires received between October 2010 and March 2011 suggested the considerable time and effort invested into ensuring communications were relevant, appropriate and consistent was worthwhile and despite the worrying times, may help to explain why absence attributed to work-related stress fell so dramatically in Quarter 4 2010/11.

3.3. Managing Absence – Major Initiatives

- 3.3.1. Effective absence management involves finding a balance between providing support to help employees with health problems stay in, and return to work, and taking consistent and firm action against employees that try to take advantage of the Council's occupational sick pay schemes. High absence levels reduce productivity as well as placing other employees under increased pressure and stress. The Council is committed to achieving further reductions in sickness absence costs by continuing to take a proactive approach to attendance management. With this in mind the Council's Improvement and HR service is actively involved in a number of major initiatives including:

- Physiotherapy Pilot in Helensburgh and Lomond
- Direct Absence Reporting Phone line
- Review of Occupational Health arrangements
- Review of the Managing Attendance Policy and Procedures
- Setting of Service specific targets for improvement

3.3 Physiotherapy Pilot

- 3.3.1 Musculoskeletal absence ranked in the Council's top three reasons for short and long term absence in each of the four quarters in 2010/11, accounting for just over a fifth (22%) of all days lost due to sickness overall. The Council has been piloting a physiotherapy service in the Helensburgh and Lomond area in partnership with West Dunbartonshire Council since mid January 2011 based on evidence from the National Institute of Clinical Excellence and other local authorities that early intervention for musculoskeletal conditions can assist employees to return to work

sooner, or even prevent them from being absent in the first place.

3.3.2 The Pilot has been promoted through an article in Work4ce, News Flash, Cascade, leaflets, payslip messages, through posters in workplaces in the Helensburgh and Lomond area, The Hub, as well as being incorporated into the E-learning managing attendance course, manual handling training and the coaching and mentoring sessions for managers. In addition, anyone who contacts the Direct Absence Reporting line with a back or musculoskeletal condition is provided with information on the Physiotherapy Pilot. Ongoing promotional activities will continue over the coming months.

3.3.3 Seventeen employees have now been referred to physiotherapy since the pilot began in January 2011. One employee has completed their treatment so far and is reporting a considerable improvement in movement. Had they not received treatment they felt it was highly likely they would have been absent from work again with the same condition.

3.4 Direct Absence Reporting Phone line

3.4.1 If sickness absence issues are to be addressed early, line managers need to be given accurate and up-to-date information on individual employee's absence levels. Following the centralisation of the HR team in April 2010, the Council developed a consistent means of collecting data but this is still a largely manual process meaning information can quickly become out of date.

3.4.2 Part of an initiative to improve reporting mechanisms and make sickness absence data available to managers in real time, a Direct Absence Reporting telephone line was trialled between February and March 2011 with 260 staff working within Piers and Harbours, Residential homes and Homecare staff in the Bute and Cowal area. It was manned by existing employees within Human Resources and payroll.

3.4.3 Forty-seven absences were reported during the 6 week pilot period as follows:

Pilot Group	Number of Absences in group
Piers and Harbours	4
Home Care – Bute & Cowal	10 (one employee had two periods)
Residential Homes	26 (with 6 employees having two periods)

3.4.4 Following positive feedback and ongoing consultation with trade unions, agreement was reached on 8th April 2011 to roll the project out across the Council. The Chief Executive's Unit were the first to go live on 3rd May 2011, and have been followed by Community Services (excluding Education/Leisure), Development & Infrastructure Services and Customer Services (exc. Catering & Cleaning). The remaining Services will be utilising the phone line by the end of September 2011. Opening hours have been extended to 7am on a trial basis in response to feedback received.

The Project Officer has been carrying out roadshows to ensure all managers are aware of the Project prior to implementation in each service. Updates have also been included in Cascade, on The Hub and in August 2011 payslips.

3.5 Review of Occupational Health Arrangements

3.5.1 A group consisting of representatives from Human Resources and Health and Safety was formed to review occupational health arrangements and a number of meetings held in order to agree requirements. A tender has been drafted and a Prior Indication Notice issued. The Council remains on target to complete the tendering exercise for an occupational health and welfare service by December 2011 with a view to starting any resulting contract in January 2012.

3.6 Service Specific Targets

3.6.1 Following agreement by SMT earlier in the year, service specific attendance targets are now available in Pyramid so that attendance can be measured and improved on a service by service basis. These are effective from 1st April 2011 and are as follows:

Table 10 – Target Number of Days Lost Per Employee by Service

Development & Infrastructure	Target days lost per employee
Roads & Amenity	9.86
Economic Development	7.90
Planning & Regulatory Services	9.86
Service Total	9.55
Community Services	
Adult Care	11.00
Children & Families	9.00
Community & Culture	9.00
Education - Primary Teaching	6.25
Education - Primary Non Teaching	5.75
Education - Secondary Teaching	6.50
Education - Secondary Non Teaching	8.5
Teaching	6.24
Non Teaching	9.14
Service Total	8.12
Customer Services	
Governance & Law	5.50
Support & Customer Services	7.00
Facility Services	9.50
Service Total	8.33
Chief Executive's Unit	
Strategic Finance	5.50
Improvement & Strategic HR	6.50
Service Total	6.30

3.6.2 The Strategic Management Team decided that it would be more beneficial to move from an overall Council target to individual service targets to recognise differences in jobs such as variations in physical and mental demands, health and safety requirements etc. Service targets also encourage greater ownership and therefore greater chances of achieving the target in conjunction with the proactive measures outlined earlier in this report.

3.6.3 Targets have been calculated with reference to the average number of days lost per employee in the top 8 performing Scottish Councils in 2009/10 as opposed to national statistics. The intention was to improve attendance so that Argyll and Bute Council would be placed in the top upper quartile of the best performing local authorities. Audit Scotland do not specify targets for Councils.

4 Conclusion

4.1 The Authority is taking an increasingly holistic and preventative approach to Attendance Management through the provision and use of cost effective support services such as Physiotherapy, the Employee Counselling Service and occupational health. These can help to keep employees at work or expedite the return of those who are absent.

4.2 Cumulatively, absence levels between 1st April 2010 – 31st March 2011 are marginally lower than the same time last year. It is encouraging to see the time and effort that is being invested into the introduction of new initiatives including the Direct Absence Reporting Phone Line is beginning to pay dividends. The Council recognises that further improvements are still possible and is committed to monitoring and reviewing its management practices in light of organisational changes and developments in best practice. This will be an ongoing process and will ensure the Council continues to achieve the reductions in sickness absence costs that are now being generated.

5 IMPLICATIONS

PERSONNEL Support services will continue to be promoted to employees and reviewed by the Council to ensure they are providing value for money and continue to meet requirements. The Managing Attendance Policy and Procedures are currently subject to a major review and will be communicated to all staff once complete. Promotional activities are in place to advise employees of changes to reporting procedures as the Direct Absence Reporting Phone line is rolled out across the Authority.

FINANCIAL Failure to properly manage sickness absence could lead to an increase in costs through sick pay and the cost of cover for the absent employee. The Council has, and will continue to face, significant budgetary constraints and needs to ensure it is making the most effective and efficient use of resources.

EQUALITY Internal and external support mechanisms such as Human Resources, Employee Counselling Service and Occupational Health

(including occupational physiotherapy) are available to staff within the Council.

LEGAL

Line managers need to be aware of the implications of the Equality Act 2010 when making any decisions that affect someone who may be disabled as defined by the Act. Failure to address incidences of work-related stress within the workplace may result in claims being raised against the Council.

For further information, please contact:

Jane Fowler
Head of Improvement and HR
Tel: 01546 604466

Appendix 1

1. Background Information

1.1.1 Argyll and Bute Council was the tenth best performing Council in terms of attendance levels in 2009/10. The actual average number of days lost per employee was 9.79 for 2009/10 and 9.53 in 2010/11. Rankings have still to be published for 2010/11.

1.1.2. For the purpose of the Statutory Performance Indicator, the average number of days sickness per employee reported to Audit Scotland for 2010/11 was:

- Teachers – 7.85 days
- Local Government Employees – 10.01 days

1.1.3 The current private sector absence rate is 6.9 days and the public sector rate is 9.6 days (Source: Chartered Institute of Personnel and Development 2010 Annual Absence Survey).

2. Absence Statistics By Area, 2010-2011

2.1.1 In 2010-11, Bute and Cowal had the second highest number of staff but the highest absence rates of all four areas within the Council. Staff here averaged 11.3 days of sickness per employee in 2010/11; 1.77 days more per person than the average member of staff within the Council. Mid Argyll, Kintryre and Islay were second highest with 9.4 days followed by Helensburgh and Lomond (8.8 days) then Oban, Lorn and the Isles (8.4 days).

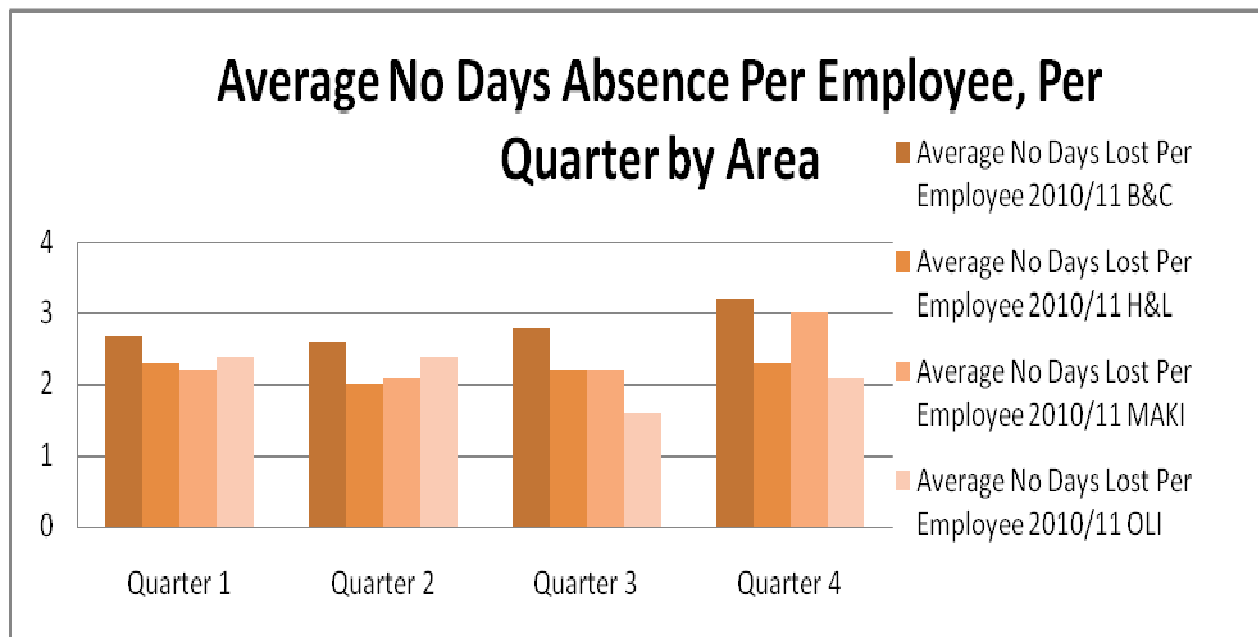
Tables 1a–1d, Average Number of Days Absence Per Employee, Per Area 2010-2011

1a	Bute and Cowal				
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
FTE	1044.11	1004.61	1051.23	990.20	1022.54
FTE WDL	2795.69	2592.01	2977.97	3185.45	11551.12
Average No of Days Absence per Em'ee	2.7	2.6	2.8	3.2	11.3
Cost	£232,142	£224,642	£246,263	£306,867	£1,009,914

1b	Mid Argyll, Kintyre and Islay				
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
FTE	1434.73	1327.71	1653.48	1391.47	1451.84
FTE WDL	3121.78	2748.92	3696.25	4123.87	13690.82
Average No of Days Absence per em'ee	2.2	2.1	2.2	3	9.4
Cost	£246,068	£217,086	£319,144	£343,160	£1,125,458

1c	Helensburgh & Lomond				
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
FTE	732.88	723.68	884.11	725.13	766.45
FTE WDL	1661.67	1440.12	1962.91	1649.37	6714.07
Average No of Days Absence per em'ee	2.3	2	2.2	2.3	8.8
Cost	£155,779	£147,933	£193,456	£170,696	£667,864

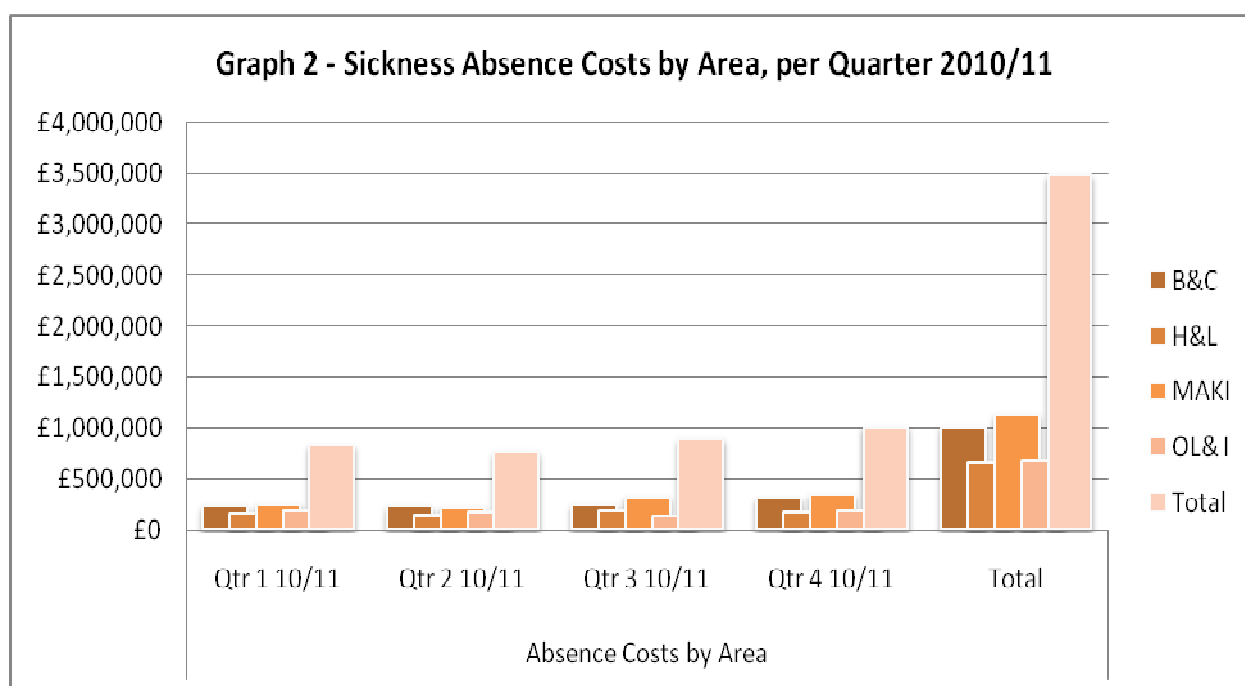
1d	Oban Lorn and Isles				
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
FTE	883.77	785.15	975.48	883.15	881.88
FTE WDL	2100.79	1885.2	1541.25	1871.88	7399.12
Average No of Days Absence per em'ee	2.4	2.4	1.6	2.1	8.4
Cost	£191,408	£166,707	£133,267	£183,558	£674,940



2.1.2 The estimated cost of absence was highest in Mid Argyll, Kintyre and Islay followed by Bute and Cowal. Absence costs will be determined by both the level of absence and the grade of those who are off. A more detailed breakdown of estimated sickness costs by area is provided in Table 2 below.

Table 2 – Sickness Absence Costs By Area, 2010 – 2011

	Absence Costs by Area				
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
B&C	£232,142	£224,642	£246,263	£306,867	£1,009,914
H&L	£155,779	£147,933	£193,456	£170,696	£667,864
MAKI	£246,068	£217,086	£319,144	£343,160	£1,125,458
OL&I	£191,408	£166,707	£133,267	£183,558	£674,940
Total	£825,397	£756,368	£892,130	£1,004,281	£3,478,176



2.1.3 Absence due to stress is predominately due to personal reasons across the Council though the personal/work-related split varies from area to area. Stress-related absence, and personal stress in particular (81%), is highest in the Mid Argyll, Kintyre and Islay area. Bute and Council has the second highest levels of stress-related absence with 57% personal stress and 43% work-related. Helensburgh and Lomond is next with around three-quarters (74%) of stress-related absence being for personal reasons, and a quarter (26%) work-related. The lowest area is Oban, Lorn and the Isles in terms of the overall number of days lost with 56% of work-related stress to 44% personal stress. Further information is provided in Tables 3a – 3d overleaf.

Tables 3a – 3d, Number of Days Lost Due to Stress By Area, 2010 – 2011

3a	Bute and Cowal				
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
FTE	1044.11	1004.61	1051.23	990.2	1022.538
Work Related Stress	285	246.5	302	143	976.5
Personal Related Stress	175	337	253	527	1292
Total	460	583.5	555	670	2268.5

3b	Mid Argyll, Kintyre and Islay				
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
FTE	1434.73	1327.71	1653.48	1391.47	1451.848
Work Related Stress	81	22	199	176	478
Personal Related Stress	341	470	710	493	2014
Total	422	492	909	669	2492

3c	Helensburgh and Lomond				
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
FTE	732.88	723.68	884.11	725.13	766.45
Work Related Stress	228	135	0	12	375
Personal Related Stress	237	226	385	194	1042
Total	465	361	385	206	1417

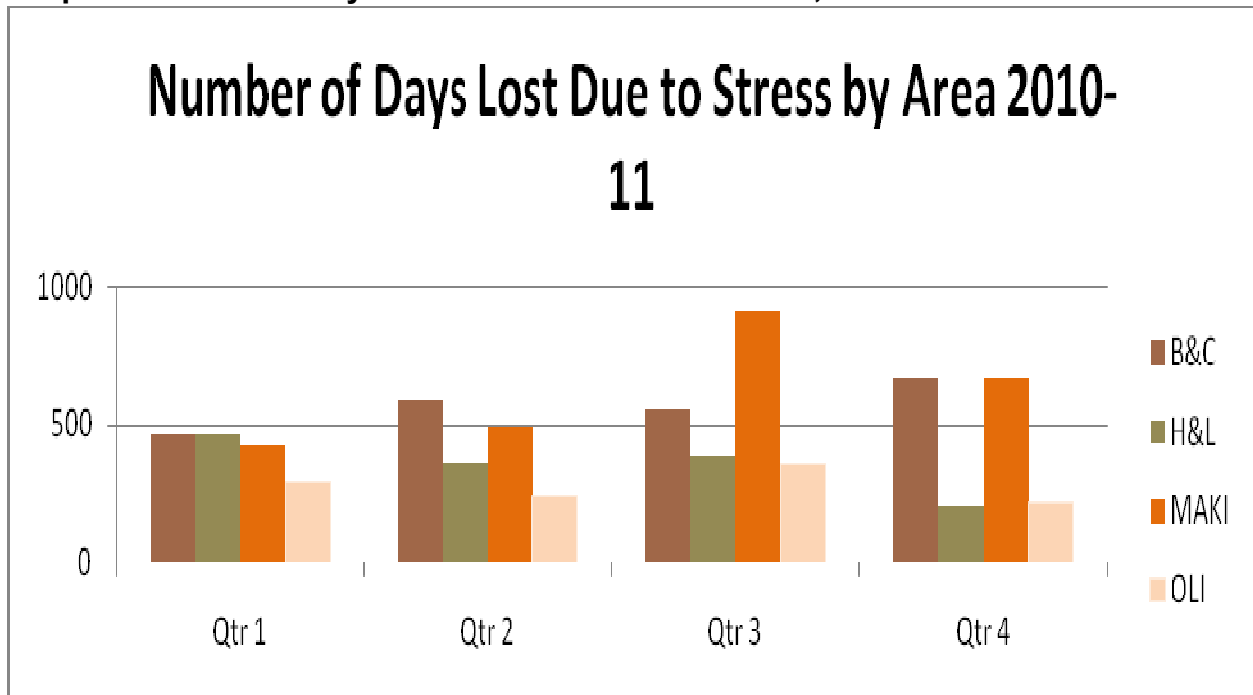
3d

Oban, Lorn and Isles					
	Qtr 1 10/11	Qtr 2 10/11	Qtr 3 10/11	Qtr 4 10/11	Total
FTE	883.77	785.15	975.48	883.15	881.8875
Work Related Stress	137	196	232	46	611
Personal Related Stress	155	45	120	167	487
Total	292	241	352	213	1098

Table 4 – Summary of Number of Days Lost Due to Stress by Area 2010-11

No of Days lost due to Stress					
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
B&C	460	583.5	555	670	2268.5
H&L	465	361	385	206	1417
MAKI	422	492	909	669	2492
OLI	292	241	352	213	1098
Total	1639	1677.5	2201	1758	7275.5

Graph 3 Number of Days Lost Due to Stress Per Area, 2010-11



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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE
16 SEPTEMBER 2011****CHIEF EXECUTIVE**

PERFORMANCE MANAGEMENT QUARTERLY REPORT

1 INTRODUCTION

- 1.1 This report updates the audit committee on the progress being made on managing performance across the Council.
- 1.2 The highlight of this report is the change that has been made to the Council scorecard which now reports directly on Corporate Outcomes contained within the Corporate Plan, which in turn contribute to national outcomes.

2 RECOMMENDATION

- 2.1 It is recommended that the Audit Committee note the progress being made in relation to performance management across the Council.

3 DETAIL

- 3.1 The Council has been developing its approach to performance management for a number of years, moving from performance information to performance management.
- 3.2 The PPMF, which is attached, has been refreshed in 2011 to reflect the new council structure.
- 3.3 The Council adopted a new Corporate Plan in 2011 that identified corporate outcomes and linked service outcomes to these. These are also mapped to the Scottish Government's National Outcomes.
- 3.4 A new Council scorecard was introduced to the Executive in August 2011 which shows progress against that Corporate Outcomes. This can be further interrogated link through to service outcomes.
- 3.5 The Community Planning Partnership has recently undertaken a self assessment of its effectiveness. Recommendations from this will feed into a revised community plan/SOA and to the structure of the partnership.
- 3.6 The Council is also reviewing its political management arrangements and recommendations will be considered in 2012.
- 3.7 Performance management as a core skill for Council employees is the next

key stage of refreshing the PPMF.

- 3.7 All of these issues will influence the PPMF and further updates and review will be carried out as appropriate.

4 CONCLUSION

- 4.1 The Planning and Performance Management Framework continues to be the structure against which performance is planned and measured. It will continue to be updated to reflect the ongoing improvements in the Council

5 IMPLICATIONS

Policy	None
Financial	The plans set out in the PPMF set out the financial objectives of the Council's service delivery commitments
Personnel	None
Legal	None
Equal Opportunities	None

Jane Fowler, Head of Improvement and HR

Argyll and Bute Council

Planning and Performance Management Framework



Version 18 – March 2011

Contact: Lynda Thomson
Improvement & Organisational Development Manager

Planning and Performance Management Framework

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1 Introduction

This document sets out a Planning and Performance Management Framework for Argyll and Bute Council.

The Local Government in Scotland Act 2003 creates a duty for Councils to make arrangements which secure best value. Best Value is continuous improvement in the performance of the Council's functions. In measuring the improvement of the performance of a Council's functions the Act says: "regard shall be had to the extent to which the outcomes of that performance have been improved". It is also a duty to make arrangements to report to the public the outcome of the performance of the Council's functions.

The Council has adopted this Planning and Performance Management Framework to ensure that services are focused on continuous improvement. **Appendix B** provides further detail on the Act and the accompanying statutory guidance.

This guidance has been developed to support officers and Elected Members to implement the Framework.

1.1 Overview of Planning and Performance Management Framework

The following topics are included in the Framework:

1. How the Council plans and manages performance at each level, from Community Planning Partnership to individual employees.
2. Council annual planning and performance reporting cycles including alignment with financial planning.
3. Linking the Framework to improvement activities such as Best Value reviews and risk management.
4. Reporting performance to the public.
5. Community Planning and performance management.
6. Using the Council's performance management software, Pyramid.

Planning at each level is accompanied by a performance scorecard incorporating the following themes:

- a) Resources
- b) Outcomes
- c) Improvement

1.2 Quality Control

Guidance for creating plans and performance scorecards is available from the Improvement & Organisational Development Team. Each Service and Department has identified a lead officer with responsibility to support managers in performance management within the Service or Department.

1.3 Evaluating the Framework

This Planning and Performance Management Framework is subject to review on a regular basis to ensure that the process:

- continues to be appropriate for the Council,
- is helping to achieve real improvement to Council services,
- demonstrates Best Value.

The Improvement & Organisational Development Team will take a lead to review this framework and report to the Strategic Management Team.

1.4 Resources and Help

For queries about and feedback on the framework, contact the key officer for the relevant Department:

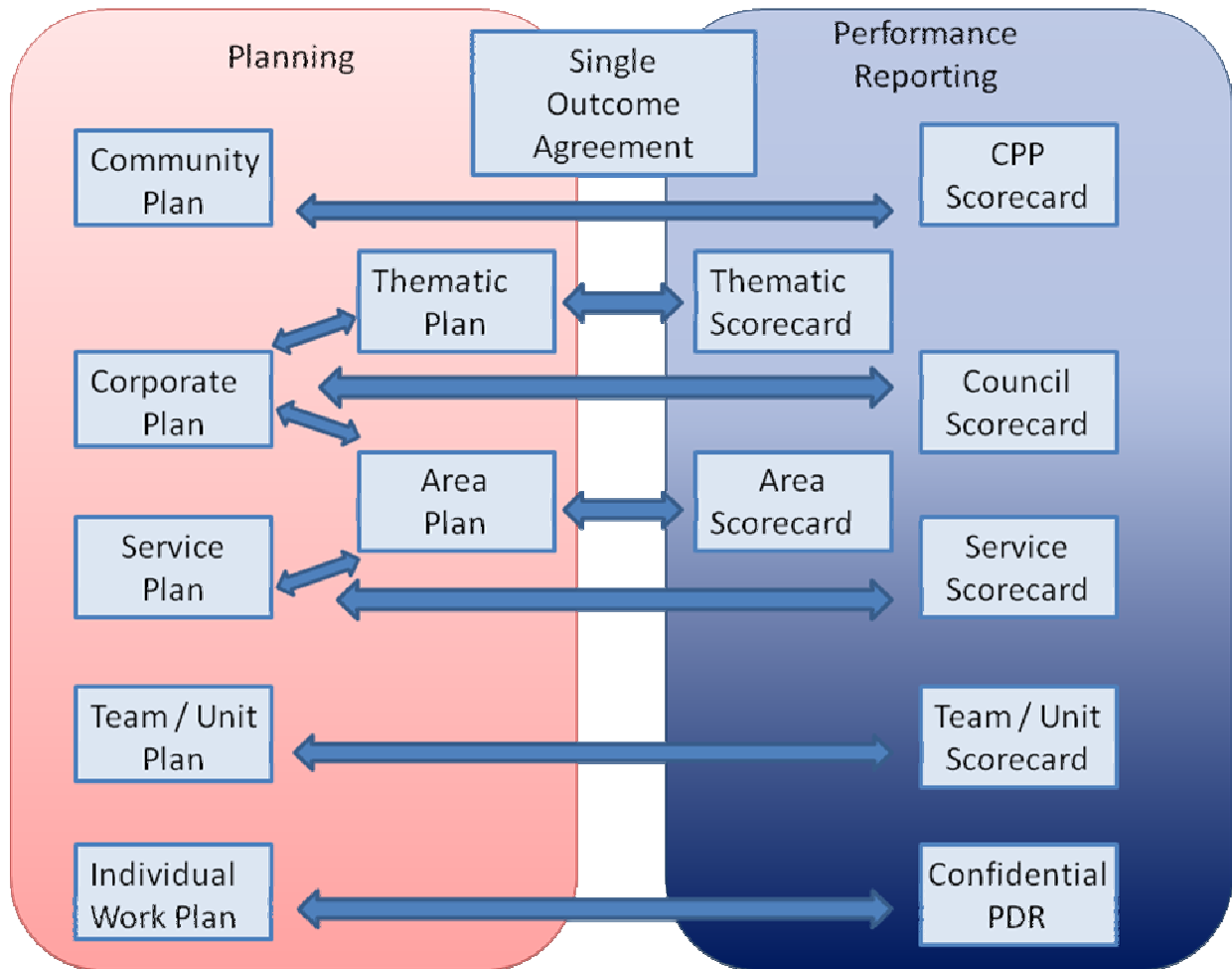
Chief Executives Unit	Lynda Thomson
Community Services	Helen Thornton
Customer Services	Janne Leckie
Development & Infrastructure Services	Lesley Sweetman

or contact the Improvement & Organisational Development Manager:

Lynda Thomson
Kilmory ext 4436
Lynda.thomson@argyll-bute.gov.uk

2 Council Planning and Performance Management Framework

This diagram illustrates planning and performance at every level of the Council.



2.1 Performance Management

Performance of each Plan is reported in a performance Scorecard. See **Appendix A** for details of scorecards.

Performance Scorecards are monitored on a cyclical basis as detailed in section 7 of this document.

3 Planning and Performance Management and Improvement

The Planning and Performance Management Framework is a core component of the improvement process for the Council, helping ensure delivery of the Council Improvement Plan. The Framework draws together many improvement activities to ensure that improvement is taking place in a coordinated manner, including:

- Council and Service performance scorecards
- Engagement with stakeholders
- Improvement plans resulting from: Best Value reviews, audits, inspections, sustainability and equalities impact assessments.
- Strategic and operational risk registers
- Higher level plans, e.g. Community Plan, Corporate Plan, Single Outcome Agreement
- Key performance measures, including statutory performance indicators
- Other performance information.

4 Risk Based Planning

The Council is taking a risk based approach to Corporate Planning. The benefits of this approach are:

- Plans are developed at each appropriate level of Council, providing
- Clarity of strategic direction and performance management at all levels of Council, through
- Costed plans which inform Members of budget implications in deciding what the Corporate Plan, Service Plans and Area Plans should contain, and
- A Performance Management Framework which allows for performance management to be undertaken at the most appropriate levels across the Council.

Risks will be monitored through the relevant performance scorecards.

5 Role of Elected Members

Elected Members have an important role in the Planning and Performance Management Framework.

5.1 Council

- Approves the Corporate Plan and sets the budget through approval of Service Plans.

5.2 Executive

- Recommends the Corporate Plan for consideration and approval by Full Council.
- Monitors performance through the Council Scorecard, which includes the Council Corporate Plan and Single Outcome Agreement.
- Monitors performance through the Departmental Scorecards.
- Spokespersons have a role on reporting performance on their portfolio to the Executive.

5.3 Policy and Performance Groups (PPGs)

- Set PPG Plans and monitor PPG scorecards.
- Work with the thematic Community Planning groups linked to PPGs.
- Spokespersons have a role on reporting performance on their portfolio to the relevant PPG

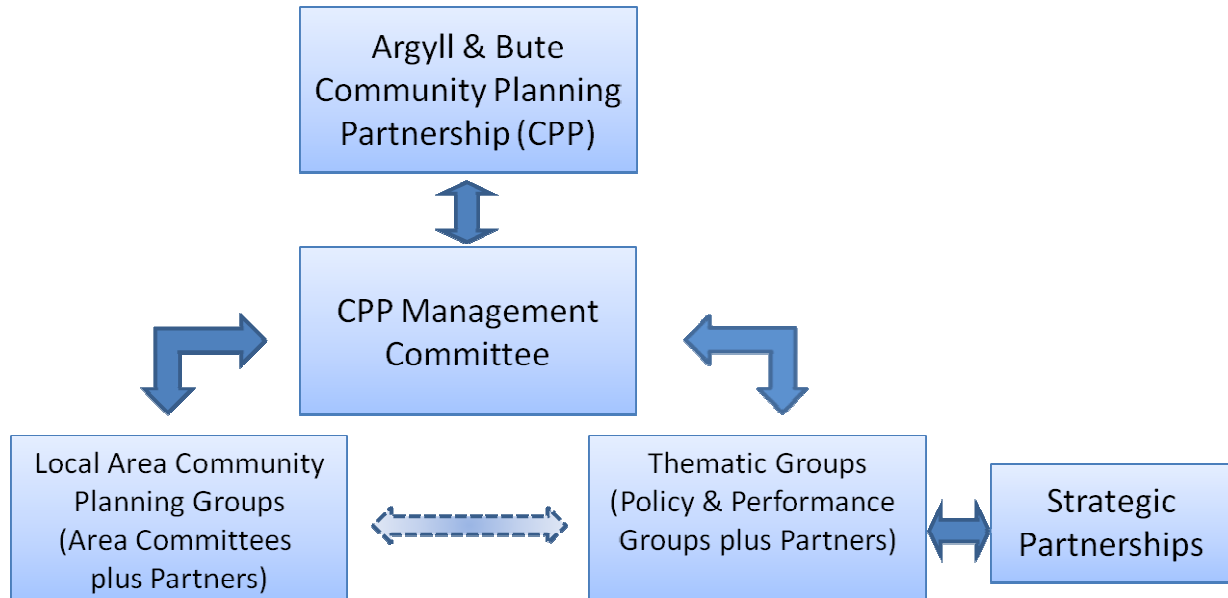
5.4 Area Committees

- Sets Area Plan and monitors Area Scorecard.
- Works with the Local Community Planning Groups (LCPGs) linked to the Council's Area Committees.

6 Community Planning and Performance Management

6.1 Community Planning Framework

The Planning and Performance Management Framework provides links between the priorities and performance of the Strategic Partnerships, Thematic Groups and Local Area Community Planning Groups.



The Community Planning Partnership (CPP) Management Committee will monitor the Community Plan. High level aims within the Community Plan will be translated into priorities which influence the Council and Service Plans of the Council or one or more of its Partners. Relevant Community Planning outcomes will be included in the Single Outcome Agreement (SOA). The Management Committee will monitor the outcomes in the SOA relevant to the Community Planning Partners.

The public sector Partners form an Executive Subgroup to address issues specific to them.

Thematic Leads will report performance to the Partnership.

Community Planning Partners will monitor their own performance and report progress to the CPP Management Committee.

6.2 Single Outcome Agreement

All outcomes contained in the Single Outcome Agreement will derive from the Council Corporate Plan, Partners' Strategic Plans and the Community Plan.

Measurement of the Single Outcome Agreement will be achieved via scorecards derived from performance information provided by the CPP partners.

7 Council Annual Planning and Performance Reporting Cycles

7.1 Service Planning and Finance

The integration of service planning and finance is a key part of the Planning and Performance Management Framework. In practice this means calculating the costs of proposed Outcomes and aligning Outcome-setting with Budget-setting, so that Outcomes are resourced and can be achieved.

An end of year Service Performance Review will take place annually, informing the annual review of the Single Outcome Agreement, and will feed into the following year's planning process.

7.2 Performance Management Cycle

Performance management occurs at all levels of the organisation with scorecards containing information appropriate to the topic and management level in the organisation.

Performance Scorecards will be reviewed as follows:

Scorecard	Review cycle	Who Reviews
Community Planning Partnership Scorecard	quarterly	CPP Management Committee
Council Scorecard	quarterly	SMT and the Executive
Departmental Scorecard	quarterly	Chief Executive and Executive
Service Scorecard	quarterly	Departmental Executive Director
Area Scorecard	quarterly	<ul style="list-style-type: none"> • Local Area Community Planning Group • Area Committee
Thematic Scorecard	quarterly	<ul style="list-style-type: none"> • Thematic Group • Policy & Performance Group
Team Scorecard	quarterly	<ul style="list-style-type: none"> • Head of Service • Team Leader

7.3 Benchmarking

All Scorecards will include benchmarking data where applicable.

8 Public Performance Reporting

The Council's Public Performance Reporting Framework sets out the basis for making information available in a way which is engaging and relevant to service users, including providing online access to information derived from the Council, Departmental, Area and Thematic scorecards.

9 Pyramid Performance Management System

The Council has a performance management software system called Pyramid, which is used to record performance information and generate performance scorecards. The system includes Council, Department, Service, Thematic and Area scorecards to provide the key management information required at all levels in the organisation and to measure achievement of Corporate Plan and Single Outcome Agreement deliverables.

The Council will provide an interface to enable community planning partners to record the performance management information required to measure their contribution to SOA and Community Plan deliverables.

For more information, contact the Performance Manager:

David Clements
Kilmory ext4205
david.clements@argyll-bute.gov.uk

10 Planning and Performance Management Scorecards

10.1 Community Planning

Stakeholders	All formal Community Planning Partners; service users; communities
Structure	CPP Management Committee ; range of partnership groups; thematic and area partnerships
Vision	Argyll and Bute Community Plan
Plan and priorities	Community Plan; informing Single Outcome Agreement
Translates downwards:	Community Plan informs Council Corporate Plan (and in turn Departmental/Service plans) and those of partners. Appropriate Community Planning Partner indicators tracked in Pyramid. Planning and performance information also cascades to inform thematic and area partnerships.

Performance Reporting

Type of report	Performance scorecard on the Community Plan, including the SOA
Measurements	Indicators to be outlined in CPP scorecard.
Reviewed by	Community Planning Management Committee Public annually
Scorecard themes	To be determined by Community Planning Partners, based on the Community Plan

10.2 Corporate Planning

Stakeholders	Council/Executive; PPGs; Area Committees; SMT; service users; communities
Vision	Reaching Our Potential Together Aligned Community Plan/Corporate Plan/Area Plans and SOA informed through Community Engagement Strategy. Corporate Plan and SOA.
Plan and priorities	Corporate Plan and SOA
Translates downwards:	Departmental/service plans, area plans and the work programmes of PPGs designed to deliver Corporate Plan Outcomes. Service plans in turn inform Team plans and individual work programmes. Corporate Plan Outcomes also translate down into thematic plans, e.g. Customer First strategy; Human Resources and Asset Management strategies.

Performance Reporting

Type of report	Council; Departmental; Service; Thematic and Area scorecards
Reviewed by	Council scorecard to SMT and Executive; Departmental scorecard to Chief Executive and the Executive; Service scorecard to DMT; Area scorecard to Area Committee; Thematic scorecard to PPG. Public reporting on website
Council Scorecard themes and measures	Outcomes <ul style="list-style-type: none"> • Customer Feedback • Corporate Plan outcomes Resources <ul style="list-style-type: none"> • People – PDR, absence • Financial – capital, revenue, efficiency savings • Assets - condition, suitability Improvement <ul style="list-style-type: none"> • Service Reviews • External Inspections • Internal Audit • Risk using Strategic Risk Register (SRR) <p>As appropriate, Scorecards also include measures of equalities and sustainability.</p>

10.3 Departmental Planning

Stakeholders	DMTs and Executive
Vision	From Corporate Plan and SOA
Plan and priorities	Departmental Plan containing Departmental contribution to Council Outcomes.
Translates downwards	Service Plans identify outcomes to support the Departmental contribution to the outcomes in the Corporate Plan, area and thematic plans as appropriate.

Performance reporting

Type of report	Departmental scorecard.
Reviewed by	Departmental scorecard to Chief Executive and the Executive; Departmental Plans inform Service Plans
Departmental Scorecard themes and measures	<p>Outcomes</p> <ul style="list-style-type: none"> • Customer Feedback and Community Engagement • Departmental Performance – contribution to Council Outcomes <p>Resources</p> <ul style="list-style-type: none"> • People – PDR, absence • Financial – capital, revenue, efficiency savings • Assets - condition, suitability <p>Improvement</p> <ul style="list-style-type: none"> • Service Reviews • External Inspections • Internal Audit • Risk <p>As appropriate, Scorecards also include measures of equalities and sustainability.</p>

10.4 Service Planning

Stakeholders	SMT, DMTs and Executive
Vision	From Departmental Plan, Corporate Plan and SOA
Plan and priorities	Service Plan containing service outcomes.
Translates downwards	Team plans identify activities to support service outcomes and area/thematic plans as appropriate.

Performance reporting

Type of report	Service scorecard.
Reviewed by	Service scorecard to DMTs; key information from Service scorecards incorporated into Departmental scorecard to Executive
Service Scorecard themes and measures	<p>Outcomes</p> <ul style="list-style-type: none"> • Customer Feedback and Community Engagement • Service Performance – contribution to Council Outcomes • People – PDR, absence • Financial – capital, revenue, efficiency savings • Assets - condition, suitability <p>Improvement</p> <ul style="list-style-type: none"> • Service Reviews • External Inspections • Internal Audit • Risk, using Operation Risk Register (ORR) <p>As appropriate, Scorecards also include measures of equalities and sustainability.</p>

10.5 Area Planning

Stakeholders	Local Community Planning Groups (LCPGs). Area Committees.
Vision	Area Plan aligned to Corporate Plan and Community Plan.
Plan and priorities	Area Plan containing area priorities.
Translates downwards	Service / Team plans identify activities to support area priorities. Partners' plans support Area Plans.

Performance reporting

Type of report	Area scorecard
Reviewed by	Local Community Planning Group Area Committee
Area Scorecard themes and measures	<p>Outcomes</p> <ul style="list-style-type: none"> • Customer Feedback and Community Engagement • Key success measures from Area Plan <p>Resources</p> <ul style="list-style-type: none"> • Area based Capital programme • Assets - condition, suitability <p>Community Engagement</p> <ul style="list-style-type: none"> • Shaping services <p>As appropriate, Scorecards also include measures of equalities and sustainability.</p>

10.6 Thematic Planning

Stakeholders	CPP Thematic Groups, Policy and Performance Groups, Strategic Boards.
Vision	From Corporate Plan, Community Plan and SOA
Plan and priorities	Annual Work Plan to support and scrutinise thematic elements of Corporate Plan and Community Plan
Translates downwards	<p>Service Plans and Partners' Plans identify activities to support thematic strategic outcomes from the SOA Community Plan and Corporate Plan.</p> <p>Other thematic plans e.g. Customer First strategy, HR strategy, Equality and Diversity Scheme, etc, report to the appropriate body which may be a Strategic Board.</p>

Performance reporting

Type of report	Thematic scorecard
Reviewed by	CPP Thematic Group, Policy and Performance Group, Strategic Board
Thematic Scorecard themes and measures	<p>Outcomes</p> <ul style="list-style-type: none"> • Customer Feedback • Key Service Performance – success measures from Service Plans, Corporate Plan, Partners' Plans <p>Community Engagement</p> <ul style="list-style-type: none"> • Shaping services <p>As appropriate, Scorecards also include measures of equalities and sustainability.</p>

10.7 Team Planning

Stakeholders	Heads of Service, Team or Unit Managers (including Head Teachers)
Vision	From Corporate, Area and Service Plans
Plan and priorities	Team or Unit plan containing Actions and Success Measures. Updated annually, linking to Service Plan.
Translates downwards	Links to individual work plans aligning personal professional development ultimately towards achieving the corporate vision of the Council.

Performance reporting

Type of report	Scorecard based on Team or Unit Plans.
Measurements	Team indicators to be identified. May include indicators used in higher level reports (e.g. service performance report) if appropriate
Reviewed by	Head of Service and appropriate manager quarterly
Team Scorecard themes and measures	<p>Teams' indicators need to be appropriate to the Team's purpose and location and may include:</p> <p>Outcomes</p> <ul style="list-style-type: none"> • Customer Feedback and Community Engagement • Service Performance – Service success measures <p>Resources</p> <ul style="list-style-type: none"> • People – PDR, absence • Financial – revenue, efficiency savings <p>Improvement</p> <ul style="list-style-type: none"> • Reviews, Inspections, Audits • Appropriate Operational Risks from the Service ORR <p>As appropriate, Scorecards also include measures of equalities and sustainability.</p>

10.8 Individual Planning

Individual Planning will follow the established Performance Review and Development process (PRD). In order to preserve confidentiality the detail of an individual PRD will not be recorded in a performance scorecard, and will not be included as part of the public performance reporting.

However, statistics on the number of PRDs carried out in each Team, Unit and Service will be reported in Team, Unit, Service, Departmental and Council Scorecards.

Stakeholders	Manager and individual
Vision	From Corporate, Service and Team Plans
Plan and priorities	Performance Review and Development / Continuous Professional Development Plan

Performance reporting

Type of report	PDR meeting with manager
Measurements	Regular progress reviews with managers. No strictly defined indicators
Reviewed by	Plan annually – review quarterly
Mechanism	Performance Review and Development (PRD) or Continuous Professional Development A scorecard is not used. The PRD is used to discuss progress against individual targets and support actions to improve.

Best Value Statutory Guidance

The following is an extract from the Local Government in Scotland Act 2003:

1 Local authorities' duty to secure best value

- (1) It is the duty of a local authority to make arrangements which secure best value.
- (2) Best value is continuous improvement in the performance of the authority's functions.
- (3) In securing best value, the local authority shall maintain an appropriate balance among-
 - (a) the quality of its performance of its functions;
 - (b) the cost to the authority of that performance; and
 - (c) the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.
- (4) In maintaining that balance, the local authority shall have regard to-
 - (a) efficiency;
 - (b) effectiveness;
 - (c) economy; and
 - (d) the need to meet the equal opportunity requirements.
- (5) The local authority shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.
- (6) In measuring the improvement of the performance of a local authority's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.
- (7) In this section, "equal opportunity requirements" has the same meaning as in Section L2 of Part II of Schedule 5 to the Scotland Act 1998 (c.46).

13 Publication by local authorities of information about finance and performance

- (1) It is the duty of a local authority to make arrangements for the reporting to the public of the outcome of the performance of its functions.

17 Community Planning Reports and information

- (1) A local authority shall publish from time to time reports on how it has implemented its duties under section 15 above, on what has been done by way of community planning in its area, on what were the results of that which was done and on what action has been taken to comply with section 59 below in the course of community planning.
- (2) A report on the results of what was done by way of community planning made under subsection (1) above shall include information about the improvement in the outcome of the performance of the functions and activities of the persons who participated in community planning during the period of the report.

The following is extracted from the Scottish Executive statutory guidance on Best Value.

Chapter 1: Commitment and Leadership

No	Guidance	Guidance Sub-section
2	That members have discussed, agreed and taken ownership of a vision (i.e. set of expectations) of where they see the local authority's services in 3-5 years' time and how the key elements of Best Value will contribute to those objectives. These key elements include:	<p>a) The need to secure continuous improvement;</p> <p>b) The need to provide customer and citizen focused public services;</p> <p>c) The need to achieve the best balance of cost and quality in delivering services;</p> <p>d) The need to have regard to economy, efficiency, effectiveness and the equal opportunity requirements;</p> <p>e) The need to contribute to the achievement of sustainable development;</p>
4	That members and senior managers ensure their approach to Best Value is reflected clearly in all mission statements, strategies, and plans at a corporate and service level. These in turn integrate priorities identified through community planning and show clearly how the authority is working with major partner organisations to provide services that meet stakeholder and community needs.	
5	That objectives and targets in mission statements, strategies and plans are realistic and achievable, are matched to financial and other resources and are explicitly translated into clear responsibilities for implementation.	

Chapter 3: Sound governance at a strategic, financial and operational level.

No	Guidance	Guidance Sub-section
A	A framework for planning and budgeting that includes detailed and realistic plans linked to available resources, to achieve the authority's goals (including community planning commitments) at a service delivery level. This means:	<p>2. That these actions are integrated with other operational activities to produce clear, cohesive plans across the whole authority that are agreed by elected members.</p> <p>3. That the authority's financial, human and operational resources are matched to its priorities through the integration of its service and budget planning processes.</p> <p>5. That action is taken in the next planning round to learn from success and address areas of under-performance.</p> <p>6. That other key processes are linked to or integrated with the planning cycle, including strategic analyses, stakeholder consultations, fundamental reviews, performance management, staff appraisal and development schemes, and public performance reporting.</p>
B	Effective performance management systems, which include the use of external comparison, through which performance issues can be identified, monitored and addressed	<p>6. That performance is reported on systematically to management, elected members, users and the public. The information provided in each case is relevant to its audience and clearly shows whether strategic and operational objectives and targets are being met. The reports are honest and balanced, and include information about what improvements are required during the forthcoming period.</p>

Chapter 4: Sound management of resources:

Num	Guidance	Guidance Sub-section
3	That employees are treated as a key strategic resource and the authority ensures that it has the organisational capacity to implement its plans and make full use of its staff. Staffing requirements are explicitly related to strategic and operational objectives in terms of numbers, skills, knowledge, deployment, and organisational structure.	

Chapter 6: Competitiveness, trading and the discharge of authority functions

No	Guidance	Guidance Sub-section
1	That service plans and business plans explicitly justify the nature and scale of work for which trading operations are required.	

Chapter 7: A contribution to sustainable development

No	Guidance	Guidance Sub-section
2	That contributing to the achievement of sustainable development is reflected in the authority's objectives and highlighted in all strategies and plans at corporate and services level.	
4	That 'quality of life' indicators are identified to measure performance in contributing to the achievement of sustainable development and reported to the public.	

Chapter 8: Equal opportunities arrangements

No	Guidance	Guidance Sub-section
1	That the encouragement of equal opportunities and meeting the equal opportunities requirements are reflected in the authority's objectives and highlighted in all plans at corporate and service level.	
3	That there is a commitment at both elected member and officer level to mainstream equalities within the Best Value framework:	c) equalities performance measures are identified to measure their performance in the delivery of equal opportunities and reported to the public;

Chapter 9: Joint Working

No	Guidance	Guidance Sub-section
2	That the authority is committed to working with partner organisations to ensure a joined up approach to meeting the needs of its stakeholders and communities. This includes:	a) agreeing respective roles and commitments; b) integrated management of resources where appropriate; c) effective monitoring of collective performance; d) joint problem solving.
5	That in undertaking its Community Planning duties the authority takes forward the joint vision of Community Planning Partnership and integrates joint objectives into its planning mechanisms.	

Chapter 10: Accountability

No	Guidance	Guidance Sub-section
1	That the authority has identified what information stakeholders need in order to form a view on the performance of the authority. It recognises that different sections of the community will have different needs in terms of getting information and responds accordingly. It presents this information in a form that people find useful, accessible and that allows stakeholders to form a clear view of the authority's overall performance.	
2	That in terms of its approach to Public Performance Reporting, the authority:	<p>a) Has clearly identified what information will be provided at a service activity level and which at a corporate level;</p> <p>b) Derives the information utilised in Public Performance Reporting from its performance management and information systems;</p> <p>c) Considers a range of media and conveys this information in one or a number of ways that make it easy for stakeholders to find out what they want to know;</p> <p>d) Includes clear guidance as to where and how stakeholders can access more detailed information on specific topics;</p> <p>e) Presents the information in a clear, easy-to-understand and concise form taking account of equalities and accessibility issues;</p> <p>f) Has an accessible feedback system which encourages stakeholders to comment on the information and mechanisms of Public Performance Reporting, and ensures this feedback is reviewed regularly to inform improvement activities.</p>
3	That the content of the authority's Public Performance Reporting is easy to understand and concise and includes:	<p>a) Information on what services the authority provides, what people can expect of them, and how people can get access to them;</p> <p>b) Information on what the authority has learned from consultation about what matters to its stakeholders and what it is doing to respond to these concerns;</p> <p>c) Information that shows how the authority is working with other bodies to best meet the needs of its communities through Community Planning;</p> <p>d) Information that allows the public to see that the authority is spending its money wisely and achieving value for money on behalf of its communities. It shows clearly that the authority is eliminating waste, focusing on priorities, achieving value for money, and doing things that work;</p> <p>e) Information that provides a rounded, honest and balanced picture of how the authority is performing;</p> <p>f) Trend information, comparative information, and performance against targets or benchmarks to help stakeholders assess how performance is changing;</p> <p>g) Information on what the authority is doing to improve its performance and impact, what targets it has for improvement, and what improvements have been achieved since it last reported.</p>
4	That the authority has regard to guidance produced under s13 in relation to reporting financial and performance information matters.	

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
16 SEPTEMBER 2011**

ANNUAL REPORT BY AUDIT COMMITTEE 2010 – 2011 - FINAL

1. SUMMARY

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government (the Code) a draft annual Audit Committee report was presented to the Audit Committee 24 June 2011 for review. The final annual report and committee's Terms of Reference are attached in Appendix 1.

2. RECOMMENDATIONS

2.1 The contents of this report and appendix are noted and approved by the Audit Committee for submission to the Council.

3. DETAILS

3.1 The attached report summarises the work of the Audit Committee during 2010 – 2011 and outlines its view of the Council's internal control framework, risk management and governance arrangements. The annual report is attached in Appendix1, for final approval by the Audit Committee.

3.2 Attached to the annual report is the committee's Terms of Reference, which was presented in draft format to the Audit Committee, 24 June 2011. No amendments were requested and consequently the Terms of Reference are presented for audit committee final approval.

3.3 Audit Committee membership has changed over the financial year 2010 – 2011 but it maintained its focus. The Audit Committee continues to perform an independent role in the review of performance, risk, control and governance issues.

4. CONCLUSIONS

The Annual Audit Committee Report and Terms of Reference are attached in Appendix 1 for final approval.

5. IMPLICATIONS

- | | | |
|-----|----------------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216).
22Augfinalreport24aug 24th August 2011

APPENDIX 1

ANNUAL REPORT BY AUDIT COMMITTEE

FINANCIAL YEAR 2010 - 2011

Background

The Audit Committee is striving to effectively discharge their function in accordance with the CIPFA guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note"

As part of their 2008/09 interim audit, Grant Thornton UK LLP, External Auditors, carried out a follow-up review on Governance Arrangements including the effective operation of the Audit Committee. A report was presented to the Audit Committee in June 2009.

An Audit Committee – Self Assessment 'Away Day' was held on 21 January 2011. The objectives of the day were to undertake a self evaluation of the role and responsibilities of the Committee by its members. This covered a review of the Committee Terms of Reference, the development of a training and work plan and evaluation of the annual performance indicators reported to the Committee by Internal Audit. In addition, the Committee was addressed by Grant Thornton on the future role of the Audit Committee.

Terms of Reference of the Audit Committee

Terms of Reference are reviewed annually by the Audit Committee and, as noted previously, this exercise was carried out at the Committee Away Day. Revised Terms of Reference were prepared, which include adjustments to both headings and content, and are included as Appendix 1 to this report. The revised terms were adopted by the Council at their meeting on 28 April 2011.

Self Assessment Exercise

It is recognised that the Audit Committee needs to identify, prioritise, assess, scope and plan out a programme to achieve their training needs. This will be informed by identifying key tasks that the Audit Committee has to annually undertake, developing an annual workplan with key events and meetings recorded.

Further to the Away Day, it was agreed that the self assessment exercise and effectiveness review of the Audit Committee was to remain a standalone activity, out with the cycle of Audit Committee meetings that would be undertaken annually.

In addition, the Audit Committee will annually determine the level of expertise required to fulfil their remit, and also determine a training programme for individual members in line with the expertise requirements of the overall committee remit. The findings of these annual reviews will be reported to the June Audit Committee.

Consideration will also be given to formalising an individual member training programme induction process, tailored to fit each individual's need.

The external auditors were supportive of the achievements made by the Audit Committee over the past few years and assisted with the clarification of the future role and responsibilities.

APPENDIX 1

Summary of the work of the Audit Committee during 2010/2011

The composition of the Audit Committee has changed from last year, on 29 June 2010 when Councillor Mary-Jean Devon resigned and was replaced on 19 August 2010 by Councillor Daniel Kelly. On 6 December 2010 Councillor Andrew Nisbet also resigned and was replaced by Councillor George Freeman. Ian Ross acted as Chair throughout the year with Martin Caldwell being appointed as Vice-Chair on 11 August 2010.

The Audit Committee meets quarterly i.e. March, June, September, and December; and are normally also attended by the Head of Governance and Law, the Head of Strategic Finance, the Internal Audit Manager and Grant Thornton, the Council's external auditors together with officers requested to attend by the Audit Committee.

The Audit Committee have agreed that a draft of their annual report will be considered by the Committee at their June meeting with the final report submitted to their September meeting for approval.

Grant Thornton UK LLP has been appointed by the Accounts Commission for Scotland as the external auditor for the five year period commencing 2006/2007. A Plan outlining how they will approach the audit of the Council in the final year of their appointment, reflecting their statutory duties and risk based approach was considered by the Audit Committee at their meeting on 4 March 2011.

During the year various reports are submitted to the Audit Committee. The reports are;

- The Internal Audit Annual Plan;
- Progress Report on Internal Audit Plan;
- Internal Audit Reports;
- External and Internal Audit Report Recommendations Follow up;
- Risk Management and Business Continuity Strategy;
- Annual Audit Plan for External Auditors;
- Annual Accounts – Financial Statements;
- External Audit reports;
- National Reports from Audit Scotland / Accounts Commission;
- The National Fraud Initiative Reports;
- Procurement; and
- Absenteeism, Stress, Recruitment & Retention.

The Audit Committee also reviewed reports on the Best Value Service Reviews of Regulatory Services & Licensing, Legal Services.

The Council's Assurance & Improvement Plan and an updated Anti Fraud Strategy within the Financial Security Regulations were also reviewed by the Audit Committee, and a review was carried out on Argyll Air Services.

It is noted that Internal Audit commenced an in depth review of Performance Management during 2010/11 and this will continue into 2011/12.

APPENDIX 1

The Audit Committee have, after reviewing the reports submitted to them, requested updates where they have concerns about issues arising from the reports. They have requested management to prepare reports and attend the Audit Committee in person to provide explanations. The Audit Committee robustly challenged and investigated failures to meet agreed actions in response to audit findings.

Audit Committee's views on the internal control framework, risk management and governance arrangements

At their meeting on 18 September 2009 the Audit Committee approved a report setting out the arrangements for the preparation of the Local Code of Governance and a draft Statement of Governance & Internal Control, in accordance with the CIPFA/SOLACE guidance note for Scottish Local Authorities, issued in May 2009.

The completed Local Code of Governance 2010/2011, together with an Improvement Plan was reviewed at the June 2010 meeting. The draft Statement of Governance & Internal Control were also reviewed and approved for inclusion in the Annual Accounts, subject to External Audit feedback.

Based on the reports reviewed during the year, it is the opinion of the Audit Committee that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2011.

At the away day, the External Auditors recommended that risk management arrangements should be considered in the Audit Committee's annual report. Risk management is reviewed on a quarterly basis by the Audit Committee and it is recognised that the Council has been making progress with further development and regular review of Risk and Business Continuity. It is felt that the detailed and structured approach being adopted will ensure that risk management becomes embedded within the Council.

Conclusion

The terms of reference which guide the activities of the Audit Committee are soundly based and are being reviewed and revised as necessary on an annual basis. The Committee has evolved and agreed a framework of reporting which now allows appropriate assessment of the Council's progress in addressing identified issues of governance, risk management and internal control. With a solid base established in this regard, the Committee is now moving to a more pro-active posture on the Council's operations.

Further to recommendations made by Grant Thornton UK LLP, the Away Day has enabled the Audit Committee to identify a framework for performance improvement which has allowed it to formally audit and carry out a self assessment of its own efficacy. Audit Committee performance has been aided through the expertise available from its members, which will be further enhanced through the development of individual training programmes.

The evolution of the wider performance environment of the Single Outcome Agreement, and the move to Best Value Phase 2 places an increasing emphasis on self assessment, and the increasing assessment role being performed by Policy and Performance Groups (PPGs), clearly identifies the importance of the Audit Committee as a resource for addressing new challenges.

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ARGYLL and BUTE COUNCIL

Audit Committee – Terms of Reference 2010/2011

The Committee's Terms of Reference are generally to promote good, internal control, financial and risk management, governance and performance management, in order to provide reasonable assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.

The specific terms of reference are as follows –

Audit Activity

- To agree the internal audit strategic plan, oversee and review action taken on internal audit recommendations;
- To consider the annual report, opinion, and summary of Internal Audit activity (actual and proposed) including the level of assurance it can give over the Council's corporate governance arrangements and other specific internal audit reports;
- To consider the External Auditor's Annual Letter, relevant reports, and the report to those charged with governance and other specific External Audit reports;
- To comment on the scope and depth of External Audit work and to ensure it gives value for money;
- To commission work from Internal and External Audit;
- To consider the performance of Internal and External Audit;
- To facilitate training to support the role of Audit Committee Members;
- To develop an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability;
- To promote good financial practice within the Council;
- To be consulted on the External Audit strategy and plan, review reports from the Council's External Advisors and review action on External Audit recommendations; and
- To review the Council's financial performance as contained in the Annual Report, and to report annually to the Council on the internal control environment.

Regulatory Framework

- To maintain an overview of the Council's Constitution in respect of contract procedure rules, and financial regulations;
- To monitor the effective development and operation of risk management and corporate governance in the Council;
- To monitor the Anti fraud and corruption strategy and the Council's arrangements for dealing with any allegations of fraud or similar improper behaviour; and
- To consider the Council's compliance with its own and other published standards and

APPENDIX 1

controls.

Financial Accounts and Governance

- To examine the activities and accounts of the Council and exercise a governance role over management efforts to ensure that;
 - (a) the expenditure approved by the Council has been incurred for the purposes intended;
 - (b) services are being provided efficiently and effectively;
 - (c) value for money is being obtained, all in accordance with Best Value requirements; and
 - (d) the Council/Executive has appropriate information and advice available to them to make decisions.
- To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council;
- To oversee the production of the Council's Governance and Internal Control Statement; and
- To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Delivery Achievement Monitoring

- To assess the effectiveness and development of the Council's Performance Management System;
- To regularly review outputs from the Council's performance management system;
- To consider performance and inspection reports from internal audit, external audit and other relevant scrutiny bodies;
- To commission specific reviews to be carried out where necessary;
- To review Best Value arrangements and outcomes, with consideration of both external and internal Best Value reports, strategy/plans and outcomes from Best Value reviews;
- To overview key performance indicator outcomes, including quarterly service performance reporting and Statutory Performance Indicator (SPI) outcomes; and
- To review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans in terms of audit work to be undertaken by both external and internal audit.

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PROGRESS REPORT ON INTERNAL AUDIT PLAN 2011 - 2012

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit as at 19 August 2011. The objective of the report is to advise members of the progress of the Annual Audit Plan. (See Appendix 1).

2. RECOMMENDATION

2.1 The Audit Committee is asked to approve the progress made with the Annual Audit Plan for 2011 - 2012.

3. BACKGROUND

- 3.1 The progress report contained in Appendix 1, lists the audit topics scheduled for the financial year 2011 –2012, and are ordered by section and level of completion.
- 3.2 For the purpose of the progress report, audits are deemed to be complete following fieldwork and issue of a Draft Report. Of the 40 audit topics set out in the 2011 – 2012 Annual Audit Plan as at 19 August 2011, 8 audits have been completed with final or draft reports issued.
- 3.3 As at 19 August 2011, of 15 core financial systems audits set out in the audit plan presented on 4 March 2011, 4 audits have been completed, 7 have been started and 4 remain to be commenced.
- 3.4 As at 19 August 2011, of 7 business systems audits set out in the annual plan, 2 have been completed with draft reports issued, one has been started and 4 remain to be commenced.
- 3.5 With regard to Corporate Performance Audits, 13 were outlined in the annual audit plan. Two audits have been completed, the Corporate Governance Statement presented to the June committee meeting and the review of the Council Statutory Performance Indicators (SPIs). The remaining 11 audits have all been started and are progressing well.
- 3.6 A total of 100 direct audit days were set aside in the annual audit plan for Special Investigations / Contingency work. As at 19 August 2011, no days have been expended. A total of 95 days were set aside in the audit plan for Other Areas, 46 days have been expended of which 25 were for National Fraud Initiative (NFI) work.

4. SUMMARY OF AUDIT ACTIVITIES FOR 2011 - 2012

4.1 It can be reported that Internal Audit is making progress with the Annual

Audit Plan. Appendix 1 shows that a total of 315 direct audit days have been expended on planned audits as at 19 August 2011.

- 4.2 Internal audit as part of a reciprocal agreement with Inverclyde Council have completed an audit of 12 Charity Accounts and have signed these off with notes to accounts for 2 regarding late notice of closure to the Office of the Scottish Charity Regulator (OSCR). Expended direct audit days are recorded as advisory work.
- 4.3 There has been improved focus for internal audit as a result of the new risk assessment audit planning process. As detailed above current progress with the Internal Audit plan is on schedule and in line with the approved annual plan detailed March and June to the Audit Committee.

5. CONCLUSION

Internal audit is progressing with the audits planned for 2011 – 2012. The Audit Committee will continue to receive quarterly progress reports.

6. IMPLICATIONS

- 6.1 Policy: Update on audit plan for 2011 – 2012.
- 6.2 Financial: The audit plan is based on budgeted provision.
- 6.3 Personnel: None
- 6.4 Legal: None
- 6.5 Equal Opportunities: None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

23augfinalreport23aug 23 August 2011

Assessment of audit days: 2011-2012 strategic plan

AUDIT WORK SCHEDULE AS AT 19 August 2011	Last audited	Risk ranking	Original Estimated Audit Days 2011-12	Revised Estimated Audit Days 2011-12	Actual Audit Days 2011-12	Balance
FINANCIAL CONTROL AUDITS						
Complete						
Cash Income and Banking	2010	1	20	20	19	1
Creditor Payments and Purchasing	2011	1	20	20	18	2
Stock Taking / Work in Progress	2010	2	20	20	16	4
Car Allowances and Subsistence	2011	2	20	20	16	4
Started						
Capital Accounting	2010	1	25	25	15	10
Government & European Grants	2010	1	25	25	12	13
Debtor Accounts - Direct Payments - Com.Ser Payroll	2011	1	20	20	11	9
Council Tax and Non-Domestic Rates	2010	1	25	25	5	20
Treasury Management	2010	1	25	25	1	24
Contract Operating Leases	2010	1	20	20	1	19
	2010	2	20	20	1	19
Not Started						
Budgetary Preparation and Control	2011	1	25	25	0	25
Capital Contracts	2010	1	25	25	0	25
General ledger operations	2011	1	20	20	0	20
Tendering Procedures	2010	1	20	20	0	20
Section Total			330	330	114	216
BUSINESS SYSTEMS AUDITS						
Complete						
Leisure Management System	2010	3	20	20	17	3
Pyramid Performance Management	2011	2	25	25	15	10
Started						
Fleet Management	2010	3	20	20	7	13
Not Started						
Resource Link	2010	3	20	20	0	20
Planning/Building Standards	2010	3	20	20	0	20
Care First	2010	3	20	20	0	20
E - Benefits	2011	4	10	10	0	10
Section Total			135	135	40	95

CORPORATE PERFORMANCE AUDITS						
Completed						
Statutory Performance Indicators (SPIs)	2010	1	20	20	19	1
Started						
PSIF	2010	1	20	20	17	3
Partnerships	2010	1	20	20	10	10
Governance and Accountability	2010	1	20	20	7	13
Financial Management and Efficiency	2010	1	20	20	6	14
Procurement	2010	1	20	20	6	14
People Management	2010	1	20	20	6	14
Risk Management	2010	1	20	20	6	14
Information Management	2010	2	10	10	6	4
Performance Management	2010	1	20	20	5	15
Community & Customer Engagement	2010	2	10	10	5	5
Asset Management	2010	1	20	20	4	16
Equality & Sustainability	2010	3	5	5	3	2
Section Total			225	225	100	125

CORPORATE/SERVICE PLANS						
Complete						
Customer Services - Gov.Statement	2010	1	25	25	15	10
Started						
Development & Infrastructure - Fishing Dues/ Ports and Harbours Income	2010	1	25	25	1	24
Not Started						
Chief Executive's Unit	2010	1	25	25	0	25
Corporate Plan	-	1	100	100	0	100
Community Services	2010	1	25	25	0	25
Section Total			200	200	16	184

Actual Direct Audit Time		890	890	269	621
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Special investigations contingency						
Council Wide			100	100	0	100
Chief Executive's Unit					0	
Community Services					0	
Customer Services					0	
Development & Infrastructure Services					0	
Section Total			100	100	0	100

Other Areas						
Follow-up External & Internal Audit Management Letter Points			52	52	22	31
NFI			25	25	13	12

APPENDIX 1

Risk Assessment, Strategic Plan, Annual Plans	18	18	11	7
Section Total	95	95	46	49
TOTAL	1085	1085	315	770

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
16 SEPTEMBER 2011**

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2011 - 2012

1. SUMMARY

In compliance with good practice in delivering internal audit services set out in the CIPFA Code of Practice for Internal Audit in Local Government (the Code); attached for the Audit Committee are final report summaries and action plans from recent internal audits. Appendix 1 lists the attached reports with draft issue, final management comment and final issue dates.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and are to be followed up by Internal Audit.

3. DETAILS

3.1 There are 40 audit topics set out in the audit plan for 2011 – 2012 and as at 19 August 2011, there are 8 complete. The Audit Committee in June was provided with the Governance Statement and Stock and Work in Progress report. A further 6 reports are provided for the Audit Committee and are listed in Appendix 1.

3.2 The attached reports contain both the Executive Summaries and Action Plans from finalised audit work. The Action Plans detail only those recommendations where Internal Audit in agreement with management has classified the findings either High or Medium. Therefore findings and recommendations classified as Low have been removed. The contents of this report will therefore complement the External & Internal Audit follow up report provided to the Audit Committee on a quarterly basis.

4. CONCLUSIONS

The Audit Committee is requested to note the contents of this report.

5. IMPLICATIONS

- | | | |
|-----|----------------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

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**Internal Audit Reports
Audit Committee – September 2011**

List of Internal Audit Reports for Audit Committee - 16 September 2011

Internal Audit Reports 2011 - 2012

No.	Report Title	Draft Issue	Final Management Response	Final Issue
1.	Cash Income and Banking	25 June 2011	29 July 2011	3 August 2011
2.	Creditors & Purchasing	20 July 2011	21 July 2011	3 August 2011
3.	Statutory Performance indicators (SPIs)	17 August 2011	19 August 2011	24 August 2011
4.	Performance Management Pyramid	22 August 2011	30 August 2011	30 August 2011
5.	Car Allowances	29 July 2011	5 September 2011	5 September 2011
6.	Leisure Management System	19 August 2011	5 September 2011	5 September 2011

It should be noted that the Draft Issue date recorded above is when the first draft was sent out for review/comment by management. This date is recorded as the date that audit work ended. Subsequent draft reports can be issued thereafter as discussions with management over the audit findings and recommendations commence. Only when agreement is reached is the Final Management Response date recorded. This is reflected in the Final Issue Report Date column where in most cases the dates of issue are the same as the final management response date.

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Internal Audit Report

FINAL

Community Services – Children & Families

Review of Cash, Income and Banking

May 2011

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	1
3	Risk Assessment	1
4	Corporate Governance	2
5	Main Findings	2
6	Recommendations	2
7	Audit Opinion	3
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Appendix 1	Detailed Findings	
Appendix 2	Action Plan	

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Cash, Income and Banking within the Community Services Department as part of the 2011/2012 Internal Audit programme. The specific focus on this Audit was on Children & Families and specifically the Children's Units and Area Teams.

As part of the Audit the following sites were visited: Dunclutha, Dunoon Area Team, Helensburgh Children's Unit, Helensburgh Area Team, Shellach View and Soroba Road Oban – Area Team. The contents of this report therefore draw on the findings obtained from these site visits.

2 AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was as follows;

- To ensure that there are appropriate written procedures in place for the collection, storage and distribution of cash within the Children & Families function in the Area Team Offices and Children's Homes and; are operated in accordance with Argyll & Bute Council's Financial & Security Regulations.
- That Argyll & Bute Council's insurance policy adequately covers the cash and banking functions, including the transportation and storage of cash.
- There are controls in place to ensure that the integrity of cash and that the collection/distribution of cash is effective and that there is adequate segregation of duties.
- Verify that there is effective security in place for the processing and distribution of cash.
- That the levels of petty cash imprest are appropriate and there is an adequate audit trail of any expenditure.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The areas identified were:

SR16 Failure to have a robust internal control process and system

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1 It was found that there were appropriate procedures in place for the collection, storage and distribution of cash within the Children & Families function in the Area Team Offices and Children's Homes.
- 5.2 Argyll & Bute Council's insurance policies cover the cash and banking functions, including the transportation and storage of cash.
- 5.3 Internal Audit found that in each location visited that there are controls in place for the collection, storage and distribution of cash.
- 5.4 Internal Audit found that in each location visited appropriate paper work and authorisation procedures were in place for the distribution of cash.
- 5.5 That in each location visited every effort was being made by staff ensure that receipts are being obtained for all purchases made.

6 RECOMMENDATIONS

Five recommendations were identified as a result of the audit, 2 high, 2 medium and one low of priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7 AUDIT OPINION

Based on the findings we can conclude that there are appropriate controls and procedures in place for collection, storage and distribution of cash within the Children & Families function in the Area Team Offices and Children's Homes.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to Children & Families staff in each of the locations visited for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	There are appropriate procedures in place for the collection, storage and distribution of cash within the Children & Families function in the Area Team Offices and Children's Homes. Written Imprest Procedures were distributed by Community Services, however not all units or offices had received a copy of these. Internal Audit was advised that no corporate imprest procedures were available for distribution.	Medium	The Community Services imprest procedures should be reviewed and updated at a corporate level and distributed to all imprest holders plus any staff responsible on a daily basis for imprest. Procedures and guidance on how to deal with cash differences should be included in these procedures.	Head of Customer and Support Services	31 August 2011
2	During the Audit the cash difference accounting code was reviewed and it was found that a number of cost centres had a number of cash differences recorded on a monthly basis.	High	A regular report of the accounting code – cash differences should be run to identify any significant recurring difficulties in balancing cash.	Revenues and Benefits Manager	30 September 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	On enquiry Internal Audit found that there was very little segregation of duties within the Area Team Offices visited. It was found that one person took sole responsibility for the imprest procedure including the distribution of cash and the imprest reclaim process.	High	Consideration should be given as to how there could be greater segregation of duties within the Area Teams for cash/imprest, alternatively consideration could be given to management/supervisors signing off that they have checked imprest and that it is balanced. This would allow for greater governance.	Head of Children & Families	31 October 2011
5	Consideration should be given to seeking alternatives to the use cash for purchases. This should include giving consideration to submitting applications for access to Argyll & Bute Council's purchasing card system; this could be used as an alternate to the use of cash where appropriate. Once introduced the	Medium	Consideration should be given to seeking alternatives to the distribution and use cash for purchases. This should include giving consideration to submitting applications for access to Argyll & Bute Council's purchasing card system; this could be used as an alternate to the use of cash where appropriate. Once introduced the imprest	Head of Children & Families	31 October 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	<p>imprest levels should be reviewed with a view to reducing the current cash value levels of imprest across Children & Families.</p>		<p>levels should be reviewed with a view to reducing the current cash levels level of imprest across Children & Families. This is currently being actioned.</p>		



Internal Audit Report

FINAL

Customer & Support Services

Review of Creditors

July 2011

SECTION		PAGE
1	Introduction	
2	Audit Scope and Objectives	
3	Risk Assessment	
4	Corporate Governance	
5	Main Findings	
6	Recommendations	
7	Audit Opinion	
8	Acknowledgements	
Appendix 1	Detailed Findings	
Appendix 2	Action Plan	

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Creditors as part of the 2011 - 12 Internal Audit programme.

The Creditors system links directly to the corporate ledger system, Oracle Financials. Internal audit used the browser tool, Discoverer to extract all transactions for the financial year 2010-11. It was established that approximately 150,000 invoices were paid through the creditors system between April 2010 and March 2011 with a total throughput value of just over £171 million.

IDEA data analysis software was then used to carry out testing on the data extracted.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure:

- Sufficient appropriate audit evidence is obtained to determine valuation and accuracy of accounts payable

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

There is no Operational Risk Register entry in Pyramid Performance Management System within Customer and Support Services Scorecard, therefore, no areas highlighted for this part of the review.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

Internal Audit found several items highlighted through use of IDEA data analysis software, however, following desktop investigation through the ledgers, it was found that all areas highlighted had already been picked up and addressed by the Creditors section, thus indicating that good controls are in place and operating well.

6 RECOMMENDATIONS

No recommendations were identified as a result of the audit.

7 AUDIT OPINION

Based on the findings we can conclude that sufficient appropriate audit evidence is obtained to determine valuation and accuracy of accounts payable.

8 ACKNOWLEDGEMENTS

Thanks are due to the IT Service Desk for their co-operation and assistance during the Audit.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

6 Recommendations

6.1 No recommendations were generated as a result of this Internal Audit review.



Internal Audit Report

DRAFT

Review of Statutory Performance Indicators (SPIs) 20010/11

August 2011

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1 INTRODUCTION

- 1.1 The Local Government Act 1992 (the Act) requires the Accounts Commission to give directions that require councils, fire & rescue and police authorities to publish information relating to the performance of their activities. This is intended to:
- a. facilitate the making of appropriate comparisons (by reference to the criteria of cost, economy, efficiency and effectiveness and of securing best value in accordance with section 1 of the Local Government in Scotland Act 2003) between:
 - (i) The standards of performance achieved by different relevant bodies in that financial year or other period; and
 - (ii) The standards of performance achieved by such bodies in different financial years or, as the case may be, other periods.
 - B. facilitate the drawing of conclusions about the discharge of those bodies' functions under Part 2 (community planning) of the Local Government in Scotland Act 2003.
- 1.2 The Accounts Commission issued its guidance for the financial year 20010/11, in December 2008. The guidance covers Section 1 (1) of the legislation and does not specifically include community planning functions.
- 1.3 In its guidance the Commission has exercised its powers under Section 1 of the Local Government Act 1992 to place responsibility for meeting their Best Value responsibilities more directly with councils while retaining a small number of specified indicators emphasizing the Commission's commitment to ensuring that councils publish performance information on:
- A range of corporate issues covering best value concerns such as equalities, resource and asset management affecting overall service delivery
 - Revenue and service cost management
 - Front line services and issues directly relating to service user experience.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The external auditor's statutory duty in relation to the performance information is set out in section 99 (d) of the Local Government (Scotland) Act 1973 (as inserted by section 3(2) of the Local Government Act 1992).
- 2.2 That duty is to be satisfied that the council has made such arrangements for collecting, recording and publishing performance data as are required to ensure that, so far as practicable, everything published is accurate and complete. Internal Audit checks the accuracy of the indicators on behalf of external audit.
- 2.3 The PI co-ordinators for the selected SPIs were contacted and meetings were arranged with the appropriate officer responsible for collecting and recording the information for each PI.
- 2.4 From the 25 SPIs submitted, a sample of 8 was taken for review. The sample covered those where difficulties had arisen during last year's audit plus some randomly selected indicators. The following aspects were analysed for each SPI selected:
- To ensure that systems and procedures are established enabling the required information to be gathered.
 - To ensure that arrangements are in place to keep all working papers and any other data sources which may be examined are available on request.
 - To ensure that gathered information is, as far as practicable, accurate and complete.
 - To ensure that the data required by the guidance is published in the required form by the Council.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

- SR16 Failure to have a robust internal control process and system

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1 Eight SPIs were reviewed by Internal Audit. Of the 8 checked 3 were correct and the remaining 5 had to be amended after discussion with the staff involved in providing the figures.
- 5.2 The 5 SPIs had either insufficient back up evidence available to Internal Audit to allow them to agree the submitted figures or the evidence provided did not agree with the figures. This resulted in additional time being spent by Internal Audit in order to verify the return.
- 5.3 Last year internal audit had problems with 3 SPIs; SPI 10 Sports Facilities Management, SPI 13 Planning Application and SPI 21 Trading Standards. Of This year all of these had significantly improved their data gathering processes. The services should be commended for their efforts in improving the quality of data submitted.

6 RECOMMENDATIONS

3 recommendations were identified as a result of the audit. All 3 were rated as medium priority. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7 AUDIT OPINION

Based on the findings we can conclude that for specific SPIs there are better processes in place for gathering the required information necessary for audit purposes.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to;

- The Performance Manager;
- Relevant SPI Co-ordinators; and
- Relevant Departmental Staff.

For their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The auditor found that payments to small businesses not large enough to fall within the scope of VAT had been included within the indicator data. This is incorrect. A sample was taken to ensure the SPI was not skewed by the invoices outside the scope of VAT. The results showed that including the invoices was not material in the context of the P.I.	<i>Medium</i>	The Head of Improvement and HR should require the Head of Customer and Support Services to remove payments to small businesses not large enough to fall within the scope of VAT from the SPI return 2011/12.	Head of Improvement and HR	30 September 2011
2	The Council is understating usage by not including visits to libraries via the internet. This element will increase in significance as the I-books programme becomes active.	<i>Medium</i>	The Head of Improvement and HR should require the Head of Community and Culture to liaise with Customer and Support Services to ensure all online library visits are counted and can be included in the P.I	Head of Improvement and HR	30 September 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	Yearly totals for library attendance are being arrived at by taking a sample from the quarters and multiplying this by 3.14. This has historically been the way of calculating the total for the P.I. submission but it is our opinion that this method gives an underestimation of the true attendance figures	<i>Medium</i>	The Head of Improvement and HR should require the Head of Community and Culture to review the process for collecting, recording and deriving SPI data with a view to enhancing the accuracy of the data.	Head of Improvement and HR	30 September 2011



Internal Audit Report

FINAL

Chief Executives Unit – Improvement & HR

Performance Management

August 2011

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Appendix 1	Results from review	

1 INTRODUCTION

As part of our Audit Plan for 2011 – 2012, Internal Audit undertook a review of the arrangements for recording performance information used to generate scorecards on Pyramid, the Council's Performance Management system. The system includes Council, department, service, thematic and area scorecards to provide the key management information required at all levels in the organisation and to measure achievement of the Corporate Plan and the Single Outcome Agreement.

The audit was principally a desktop exercise to review the Chief Executive and Department Scorecards and establish whether Council management has developed processes to collate, validate and input the outcomes data covering service performance to the system.

2 AUDIT SCOPE AND OBJECTIVES

The following areas were audited:

- Performance data is acquired from a reliable source
- Data is scrutinised prior to publication on Pyramid
- There are established procedures for getting the data into the Pyramid system, and for collating and reporting.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. There were none.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1 Performance outcomes data is being collated and recorded across all services.
- 5.2 Tests showed that data is obtained from appropriate sources.
- 5.3 Comparative performance is being regularly reported for significant activities.

- 5.4 A framework (PPMF) is in place setting out roles and responsibilities across the organisation. It covers performance measures, and the reporting, monitoring, and action cycle.

6 RECOMMENDATIONS

There are no recommendations at this time.

7 AUDIT OPINION

All departments and their services were asked to engage with a desktop review of scorecards and to provide evidence for the premise that the performance information input to Pyramid is subject to a recognised process to validate as correct. Each departmental service, in reference to its scorecard outcomes, was asked to supply evidence that their process was robust. The findings from that review are attached. Based on the findings we can conclude that council departmental services have processes in place and the information recorded on Pyramid is verified as accurate.

8 ACKNOWLEDGEMENTS

Thanks are due to departmental services staff in for their participation in this review.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.



Internal Audit Report

FINAL

Customer and Support Services

Review of Car Allowances

June 2011

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Car Allowances within the Customer and Support Services as part of the 2011/2012 Internal Audit programme. The specific focus on this Audit was on IT Services.

2 AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was as follows;

- Travel and Subsistence claims are being completed in accordance with Council policies and procedures and that they are in accordance with Argyll & Bute's Financial & Security Regulations.
- Travel and Subsistence claims are completed in full, signed by the employee and appropriately authorised in accordance with the Authorised Signatory list.
- Travel and Subsistence claims are being paid to the appropriate individuals at the appropriate rates.

3 RISK ASSESSMENT

- As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The areas identified were:
- SR16 Failure to have a robust internal control process and system

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1 It was found that Travelling and Subsistence guidance is covered in Argyll & Bute's Financial and Security Regulations.
- 5.2 Travel and Subsistence claims are being completed and signed by the employee. The quality of information completed on the claims varied with staff failing to complete the form in full at times.
- 5.3 Travel and Subsistence claims are being paid to the appropriate individuals at the appropriate rates.
- 5.4 It was found that pool cars were not being fully utilised and that staff were using their own vehicle when pool cars were available.

6 RECOMMENDATIONS

5 recommendations were identified as a result of the audit, 5 rated as medium priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7 AUDIT OPINION

Based on the findings we can conclude that there are appropriate procedures in place covering Travel & Subsistence Claims and that the Council is committed to reducing its carbon footprint whilst making best use of the budgets it has through providing staff with information on sustainable travel. Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to Creditors Staff in Campbeltown for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Internal Audit, on enquiry, was advised that no corporate car allowance/travelling and subsistence procedures were available for distribution. Internal Audit was provided with a draft procedure - 'Travel Claim Guidance for Managers'.	Medium	The draft 'Travel Claim Guidance for Managers' should be issued to all authorised signatories. Internal Audit can now confirm that this has been implemented and that the guidance is now available on The Hub.	Head of Customer and Support Services	July 2011 - Completed
2	Internal Audit found that Travel and Subsistence claims are being completed, however the quality of information completed on the claims varied with staff failing to complete full details of journeys undertaken or failing to complete the purpose of the journey.	Medium	The current travel and subsistence claim form should be amended to separate the details of journey column into two columns, one for purpose of journey and the other for details of journey.	Head of Customer and Support Services	31 st December 2011
3	Internal Audit found that Travel and Subsistence		The Authorised Signatory		

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	Claims were being signed and authorised by staff that are not recognised on the Authorised Signatory list.	Medium	list should be updated on a regular basis.	Head of Customer and Support Services	31 st December 2011
4	On three separate occasions two members of staff, who work in the same location travelled independently, at a cost of £284.31 to the Council, to the same meeting in Helensburgh when the pool car was available.	Medium	Staff should be reminded of the need to check the availability of pool cars and should be reminded of the importance of car sharing when attending the same locations.	Head of Customer and Support Services	30 th September 2011
5	Internal Audit reviewed a number of other Councils with regard to sustainable travel and their travel policies. Internal Audit found that Highland Council made available to staff a live webcast facility on their PC. Highland Council ran live training sessions using this facility	Medium	Consideration should be given to providing webcams for staff who are regularly involved in travelling to meetings to allow them to video conference from their desktop. This will enhance the Councils commitment to reducing its carbon footprint whilst making best use of the budgets it has through	Head of Customer and Support Services	31 st October 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	<p>(in one particular case a recorded training course on Green Travel) reducing the requirement for staff to travel around a rural area to attend courses. This assists to reduce their carbon footprint, reduce expenditure on travel & subsistence claims and assists to reduce the amount of time staff spend travelling.</p>		<p>providing staff with the facilities which will enable them to conduct meetings without the requirement to travel.</p>		

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Internal Audit Report

FINAL

Community Services – Community & Culture

Review of Leisure Management System - Torex

July 2011

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Leisure Management System - Torex (TLMS) within the Community & Culture Department as part of the 2011/2012 Internal Audit programme.

As part of the Audit the following sites were visited: Helensburgh Swimming Pool and Rothesay Swimming Pool. Information was also provided from Aqualibrium. The contents of this report therefore draw on the findings obtained from these sites.

2 AUDIT SCOPE AND OBJECTIVES

The main objective of the audit will be to assess whether accounting records maintained agree with information held in the Council's General Ledger. In a previous internal audit report, corrective recommendations were made in respect of stock control problems attributed to Torex, this will be reviewed. The Torex system holds membership details, how this data is used will be reviewed as will the level of security and access.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The areas identified were:

SR16 Failure to have a robust internal control process and system

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1 Internal Audit found TLMS to be an effective system which controls key data that allows the service to monitor its performance in terms of service delivery, customer demands and revenue.
- 5.2 Access to Torex Leisure Management System is controlled and accessed by means of a password.

- 5.3 TLMS can be accessed remotely to resolve any issues that may arise in the facilities with regards to Torex. Support to the Leisure Facility sites is carried out remotely where possible reducing the requirement for travel.
- 5.4 Argyll & Bute Council have a 'licence support' contract for TLMS which funds annual user/system backup and support (in the form of a helpdesk).
- 5.5 There is a business continuity plan that can be activated in the event of a system failure.
- 5.6 No formal training programme for TLMS is in existence, although ongoing support is provided by the Facility Managers, Duty Officers and the System Administrator.
- 5.7 Internal Audit found that some of the information held on Torex Leisure Management System does not agree with information held on the general ledger.

6 RECOMMENDATIONS

6 recommendations were identified as a result of the audit, 6 are medium priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future.

The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7 AUDIT OPINION

Based on the findings we can conclude that the controls and procedures in place to ensure the accuracy of information being input into Torex require to be reviewed.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the System Administrator and the Community & Culture Staff in each of the locations visited for their co-operation and assistance during the Audit and the preparation of the report and action plan. Thanks are also due to Cash Receipting staff for their co-operation and assistance.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Internal Audit found that some of the information held on Torex Leisure Management System (TLMS) does not agree with information held on the general ledger. Internal Audit was provided with Cash Statement Reports from the TLMS System and provided with copies of Civica E>Returns completed on a daily basis by the various sites visited. Internal Audit found that information from the TLMS Cash Statement Reports was often changed when completing the Civica E>Returns and as a result the information held on the general ledger differed from that held on TLMS.	Medium	Management should investigate the reasons why information from TLMS cash statement reports are being changed and take remedial action in order that the information on TLMS agrees with the information being submitted on the e>Returns and consequently the general ledger.	Head of Community & Culture	31 st December 2011
2	Internal Audit on enquiry was advised that TLMS does not interface with cash receipting.		Consideration should be given to exploring the possibility of interfacing		

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	As a result of this Cash Statement Reports require to be run from TLMS and the information manually transferred and keyed into the on-line e-return system.	Medium	TLMS with cash receipting/e-return system. This will be of benefit to leisure services in terms of streamlining processes, eliminating duplication of work and will avoid any time delays in information hitting the ledger, thus will assist with budget monitoring and planning.	Head of Customer and Support Services	31st December 2011 (Dependent on software upgrade)
3	Internal Audit found that on a number of occasions in one facility the e-returns were not being completed or submitted in a timely manner. On one occasion the information from the Cash Statement Report dated 24 th November 2010 was not submitted on the E-Return until the 14 th of December.	Medium	E>Returns must be submitted on the next working day, this will ensure that up to date information is recorded on the General Ledger in a timely manner to assist accurate budget monitoring.	Head of Community & Culture	31st December 2011
4	Internal Audit found that on a number of occasions the cash difference account code '62710' was being used to record cash differences in the facilities. In one facility, during	Medium	Management should undertake a review of the facilities to identify the reasons for cash differences with remedial action being taken to avoid errors and	Head of Community & Culture	31st March 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	the month of May there were 12 recorded cash difference on the ledger. Most of these cash differences were of small value (under £5); however three higher value cash differences were recorded: £88.60, £12 and £10.05.		improve performance in the future.		
5	Internal Audit found that income from the Victoria Halls Campbeltown was being recorded on the E>Returns for Aqualibrium	Medium	Income from the Victoria Halls – Campbeltown should be recognised on a separate e-return.	Head of Community & Culture	31 st March 2012
6	Internal Audit originally randomly selected samples of completed e-returns from the financial year 2010/2011. Cash Receipting staff were unable to produce copies of electronic e-returns prior to April 2011. Civica advised that the system only holds information for 1 year.	Medium	A suitable alternate archive facility should be investigated for the cash receipting e-return system that allows a full audit trail.	Head of Customer and Support Services	31 st December 2011

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
16 September 2011**

AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2011 - 2012

1. SUMMARY

The Code of Practice for Internal Audit in Local Government (the Code) issued by CIPFA sets out good practice in delivering internal audit services. In compliance Audit Scotland reports are provided to the Audit Committee on a quarterly basis. This report and in accompanying Appendices covers national reports pertaining to Local Government released from June 2011.

2. RECOMMENDATIONS

- 2.1 The contents of this report are noted and will be followed up by Internal Audit.
- 2.2 The Audit Committee require departmental management to provide feedback on action taken in respect of recommendations contained in national reports that affect the Council.

3. DETAILS

- 3.1 On 2 June 2011, Audit Scotland issued a report entitled, "Community Health Partnerships". This report provides a view of Community Health Partnerships (CHPs) across Scotland. It looks at their impact in improving people's health and quality of life by joining up health and social care services and moving more services from hospitals into the community.
- 3.2 There are 36 CHPs managing £3.2 billion in annual health and social work spending, but they have faced a number of barriers to achieving their aims. The report highlights examples of good practice where CHPs are providing enhanced community-based services. But these local initiatives are small scale and there is limited evidence so far of wide-spread sustained improvements. The attached report provides the key messages from the national report.
- 3.3 On 16 June 2011, Audit Scotland issued a report entitled, "How councils work: an improvement series for councilor's and officers - Arm's-length external organisations (ALEOs): are you getting it right? The national report highlights that most councils use ALEOs, because they provide financial and operational advantages, such as business rates relief for charities and greater flexibility in service delivery. ALEOs are separate bodies, but councils are still responsible for the funds used and ensuring value for money. Arrangements can be complex and good governance arrangements are crucial.
- 3.4 Good governance and accountability arrangements are increasingly important. The report urges Councils to ensure they are clear about their expectations of ALEOs and that they have good systems in place to

monitor performance and flag up significant financial and service risks on a continuing basis. The report includes a checklist and key points for action, intended for use by councillors and officers and the council is currently looking at its arrangements with ALEOs.

- 3.5 On 4 August 2011, Audit Scotland issued a report entitled, "Transport for health and social care". The report says that poor information about transport services and uncoordinated transport arrangements mean there is a risk people are not getting to the services they need.
- 3.6 The report found information on costs, quality and people's needs is inadequate. Audit Scotland found that at least £93 million is spent annually on transport for health and social care, but this is likely to be a significant underestimate because it is difficult to identify what is spent on transport for health and social care. The key messages from the report are attached.
- 3.7 The full reports can either be viewed at http://www.audit-scotland.gov.uk/work/local_national.php 2011/12 or viewed in the Members Room where a copy is available.

4. CONCLUSIONS

This report is submitted to the Audit Committee for consideration.

5. IMPLICATIONS

- | | | |
|-----|----------------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216).

22augfinalreport 22 Aug 2011

Key messages

Review of Community Health Partnerships



Prepared for the Auditor General for Scotland and the Accounts Commission
June 2011

Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for helping to ensure propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Government or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Government and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Enterprise.

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requests local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue services).

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Key messages

Background

1. The NHS Reform (Scotland) Act 2004 required NHS boards to establish one or more Community Health Partnerships (CHPs) in their local area to bridge the gap between primary and secondary healthcare, and also between health and social care. CHPs are statutory committees or subcommittees of NHS boards and were in place from 2006/07.

2. CHPs were expected to coordinate the planning and provision of a wide range of primary and community health services in their area. This includes GP services, community health services and community-based integrated teams, such as rapid response services to provide support to older people at home. NHS boards were also given flexibility to devolve any other function or service to the CHP.¹

3. There are 36 CHPs in Scotland although this picture is continually changing.² There is at least one CHP in each NHS board area and one or more CHPs share the same geographical boundary with councils. The population covered by individual CHPs varies, from 19,960 people in Orkney to 477,660 people in Edinburgh City.

4. The number of older people in Scotland is projected to rise by 12 per cent between 2010 and 2015, with an 18 per cent increase in the number of people aged 85 and over.³ This will increase demand for health and social care services at a time when public sector budgets will reduce in real terms.⁴

5. The Scottish Government has reported that the amount spent on health and social care services would need to increase by £3.5 billion by 2031 if the systems remain as they are now.⁵ CHPs have been given an important role in facilitating better joined-up working to meet these challenges.

Our work

6. Our audit examined whether CHPs are achieving what they were set up to deliver, including their contribution to moving care from hospital settings to the community, and improving the health and quality of life of local people. We also assessed CHPs' governance and accountability arrangements and whether CHPs are using resources efficiently.

7. In the audit we:

- analysed published data on health and social care spending and health indicators
- reviewed relevant policy and other key documents, including governance, financial and performance information in NHS boards, councils and CHPs
- collected data from all CHPs on their governance arrangements, use of resources and performance management
- reviewed different aspects of joint working between health and social care in six CHPs.

Key messages

1 Since devolution, there has been an increased focus on partnership working between health and social care and across the public sector as a whole. Approaches to partnership working have been incremental, leading to cluttered partnership arrangements. CHPs were introduced with a challenging agenda. There are two types of CHP – a health-only structure and an integrated health and social care structure. Irrespective of structure, partnership working depends on good local relationships, a shared commitment and clarity of purpose.

8. In 1999, GP-led Local Health Care Cooperatives (LHCCs) were established across Scotland to bring health and social care practitioners together to deliver services.⁶ LHCCs were still in place when the Scottish Executive introduced the Joint Future Agenda in 2000 which encouraged a more formal approach to joint planning and resourcing between health and social care.

9. In 2003, the Scottish Executive used the Local Government in Scotland Act 2003 to establish community planning on a statutory basis.⁷ The role of community planning is to bring together public sector and other organisations to develop a coordinated approach to identifying and solving local problems, improving services and sharing resources.⁸ Community Planning Partnerships (CPPs) were established as the key over-arching partnership and were expected to help coordinate

1 The Community Health Partnerships (Scotland) Regulations and Statutory Guidance, Scottish Executive, 2004.

2 This includes seven integrated CHPs and 29 health-only CHPs.

3 2008-based National Population Projections, Office of National Statistics, 2009.

4 Departmental Expenditure Limit comprehensive spending review 2010 settlement, Scottish Government, 2011.

5 Ibid.

6 In April 1999, 79 LHCCs were introduced across Scotland under the auspices of the former Primary Care Trusts (PCTs) to deliver a wide range of primary and community health services and promote joint working with councils and the voluntary sector. The average LHCC included 12 general practices and covered a population of around 60,000.

7 Report of the Community Planning Working Group, Convention of Scottish Local Authorities (COSLA) and the Scottish Office, 1998.

8 Organisations participating in community planning include NHS boards, enterprise networks, police, fire and rescue services, and the private and voluntary sectors.

other initiatives and partnerships and, where necessary, rationalise these.⁹ CPPs are not statutory bodies.

10. Councils have a statutory duty to coordinate community planning and report on overall progress in improving services and outcomes for local people. NHS boards and a number of other public sector bodies have a statutory duty to participate and provide information to the council on their contribution to enable the council to prepare its annual Single Outcome Agreement (SOA) report.

11. Around the same time that community planning was introduced on a statutory basis, major changes in the NHS were also being planned separately under the NHS Reform (Scotland) Act 2004. The Act abolished separate acute and primary care trusts, and NHS boards were required to manage both primary and acute health services under a single system.

12. The 2004 Act also established CHPs which were expected to have devolved responsibility for providing certain community-based health services and a strategic role in influencing decisions on how health and social care resources are used in their areas. The Scottish Executive expected CHPs to build on the earlier progress of LHCCs and the Joint Future Agenda, working closely with CPPs.^{10, 11} There have been a number of policies relevant to the development of CHPs (see paragraphs 15 to 22 of the main report).

13. NHS boards and partners have established different CHP arrangements across Scotland, which means there are significant differences in the size, role, function and governance arrangements of CHPs. In many instances, NHS boards link with CPPs centrally and CHPs are

not directly involved with the CPPs (see paragraph 23).

14. Broadly two different types of CHP have evolved in Scotland – a health-only structure and an integrated health and social care structure.¹² All CHPs, irrespective of type, are statutory committees or subcommittees of NHS boards and are therefore accountable to their NHS board. Integrated health and social care structures are partnership bodies and therefore have dual accountability to both the NHS board and relevant council.

15. There is no evidence of one structural approach being better than the other in moving services from hospital to the community or joining up frontline health and social care services. Partnership working depends on good local relationships, commitment and clarity of purpose, irrespective of structural arrangements. Even though CHPs are formal committees of NHS boards, councils also have a key role in working with their health partners to improve health and social care services (see paragraph 27 of the main report).

2 Partnership working is challenging and requires strong, shared leadership by both NHS boards and councils. There are several key principles for successful partnership working that all partners should apply. CHPs' governance and accountability arrangements are complex and not always clear, particularly for integrated CHPs. There is scope to achieve efficiencies by reducing the number of partnership working arrangements for health and social care. Information on costs and staffing, financial management and performance reporting all need to be improved.

16. Partnership working across organisational boundaries is challenging due to differences in organisational cultures, priorities, planning and performance management, decision-making, accountability and financial frameworks. Successful partnership working can be achieved where strong, shared leadership between NHS boards and councils is in place. Partners should adopt key principles which we have developed from various sources, including guidance, toolkits and published studies on partnership working, as well as our own work in this area (Exhibit 1).

17. The role, responsibilities and accountability arrangements for CHPs are not always clear. For example, important documents, such as standing orders and schemes of delegation are out of date or inconsistent with the original schemes of establishment for CHPs.¹³ In many areas, NHS boards' local delivery plans, CHPs' development plans and councils' social care service plans do not explicitly set out a joint vision, priorities, outcomes or resources for health and social care. Performance monitoring is not clearly linked to local strategies.

18. Performance reporting arrangements for CHPs can be challenging as they need to take account of the various national and local performance monitoring systems and targets for the NHS and councils which are not necessarily aligned.¹⁴ At a local level, CHPs have different performance reporting arrangements and the content and frequency of performance reports to CHP committees, NHS boards and councils are also varied. Councils do not always receive performance reports from CHPs. This needs to be addressed, particularly where they have integrated

⁹ <http://www.scotland.gov.uk/Topics/Government/PublicServiceReform/community-planning>

¹⁰ CHPs replaced the former LHCCs.

¹¹ The Community Health Partnerships (Scotland) Regulations and Statutory Guidance, Scottish Executive, 2004.

¹² We use the term CHPs in this document to cover both types of CHP, unless we specifically mean integrated structures, which we will then refer to as integrated CHPs.

¹³ The statutory guidance for CHPs required NHS boards to produce a Scheme of Establishment for CHPs in their area, setting out details of their role, governance and operational arrangements.

¹⁴ This includes HEAT targets, Single Outcome Agreements (SOAs), Community Care Outcomes Framework, Scotland Performs and Shifting the Balance of Care impact measures.

Exhibit 1**Good governance principles for partnership working**

There are several key principles for successful partnership working.

Key principles	Features of partnerships when things are going well	Features of partnerships when things are not going well
Behaviours		
<p>Personal commitment from the partnership leaders and staff for the joint strategy</p> <p>Understand and respect differences in organisations' culture and practice</p>	<ul style="list-style-type: none"> • Leaders agree, own, promote and communicate the shared vision • Leaders are clearly visible and take a constructive part in resolving difficulties • Be willing to change what they do and how they do it • Behave openly and deal with conflict promptly and constructively • Adhere to agreed decision-making processes • Have meetings if required but focus of meetings is on getting things done 	<ul style="list-style-type: none"> • Lack of leader visibility in promoting partnership activities (both non-executive and executives) • Be inflexible and unwilling to change what they do and how they do it • Adopt a culture of blame, mistrust and criticism • Complain of barriers to joint working and do not focus on solutions • Take decisions without consulting with partners • Have numerous meetings where discussion is about process rather than getting things done
Processes		
<p>Need or drivers for the partnership are clear</p> <p>Clear vision and strategy</p> <p>Roles and responsibilities are clear</p> <p>Right people with right skills</p> <p>Risks associated with partnership working are identified and managed</p> <p>Clear decision-making and accountability structures and processes</p>	<ul style="list-style-type: none"> • Roles and responsibilities of each partner are agreed and understood • Strategies focus on outcomes for service users, based on analysis of need • Have clear decision-making and accountability processes • Acknowledge and have a system for identifying and managing risks associated with partnership working • Agree a policy for dealing with differences in employment terms and conditions for staff and apply this consistently to ensure fairness • Review partnership processes to assess whether they are efficient and effective 	<ul style="list-style-type: none"> • Roles and responsibilities of each partner are unclear • Unable to agree joint priorities and strategy • Lack of clarity on decision-making processes • Partnership decision-making and accountability processes are not fully applied or reviewed regularly • Risks are not well understood or managed through an agreed process • Deal with differences in employment terms and conditions for staff on an ad hoc basis

Continued overleaf

Key principles	Features of partnerships when things are going well	Features of partnerships when things are not going well
Performance measurement and management		
<p>Clearly defined outcomes for partnership activity</p> <p>Partners agree what success looks like and indicators for measuring progress</p> <p>Partners implement a system for managing and reporting on their performance</p>	<ul style="list-style-type: none"> • Understand the needs of their local communities and prioritise these • Have a clear picture of what success looks like and can articulate this • Have clearly defined outcomes, objectives, targets and milestones that they own collectively • Have a system in place to monitor, report to stakeholders and improve their performance • Demonstrate that the actions they carry out produce the intended outcomes and objectives 	<ul style="list-style-type: none"> • Prioritise their own objectives over those of the partnership • Unable to identify what success looks like • Fail to deliver on their partnership commitments • Do not have agreed indicators for measuring each partner's contribution and overall performance or do not use monitoring information to improve performance • Unable to demonstrate what difference they are making
Use of resources		
<p>Identify budgets and monitor the costs of partnership working</p> <p>Achieve efficiencies through sharing resources, including money, staff, premises and equipment</p> <p>Access specific initiative funding made available for joint working between health and social care</p>	<ul style="list-style-type: none"> • Integrate service, financial and workforce planning • Have clear delegated budgetary authority for partnership working • Identify, allocate and monitor resources used to administer the partnership • Understand their service costs and activity levels • Plan and allocate their combined resources to deliver more effective and efficient services • Assess the costs and benefits of a range of options for service delivery, including external procurement • Have stronger negotiating power on costs • Achieve better outcomes made possible only through working together 	<ul style="list-style-type: none"> • Do not integrate service, financial and workforce planning • Unable to identify the costs of administering the partnership • Deliver services in the same way or change how services are delivered without examining the costs and benefits of other options • Have duplicate services or have gaps in provision for some people • Plan, allocate and manage their resources separately • Fail to achieve efficiencies or other financial benefits • Unable to demonstrate what difference the partnership has made

Note: To download an A3 poster version of this table, visit: http://www.audit-scotland.gov.uk/work/health_national.php
Source: Audit Scotland, 2011

services in place or where they have delegated services and budgets to CHPs (see paragraphs 33 to 35 of the main report).

19. Few CHP committees have a financial scrutiny role and the frequency and content of financial reporting to NHS boards, CHPs and council committees varies. Not all reports provide sufficient explanation of reasons for budget underspends, overspends or emerging cost pressures. There is also a lack of evidence of discussion or challenge at many CHP committee meetings on finance and performance reports.

20. Guidance on good governance for joint services recommends that formal partnership agreements are in place which detail joint financial and other resource arrangements.¹⁵ However, NHS boards and councils do not always have agreements in place covering services which the council has delegated to the CHP.¹⁶ Where agreements are in place, these do not always cover all financial and other joint resourcing arrangements between partners. This is a potential risk to NHS boards and councils in case of dispute at a later date or in the event of relationships deteriorating.

21. Governance arrangements for integrated CHPs are generally more complex because they need to take account of different lines of accountability and the existing corporate governance arrangements of both partners. There are increased risks that there is a lack of transparency in how decisions are taken, people make decisions outwith their levels of delegated authority and that decision-making is slow (see paragraphs 36 to 39 of the main report).

22. Joint workforce planning and arrangements for managing joint health and social care staff is generally underdeveloped.¹⁷ Around a fifth of the 25 CHPs which have joint appointments still do not have protocols or processes to deal with all aspects of performance management, grievance and disciplinary matters and differing employment terms and conditions (see paragraphs 40 to 45 of the main report).¹⁸

23. CHPs replaced the former LHCCs. However, at a local level, many CHPs were set up in addition to existing partnership arrangements and NHS boards and councils have not taken the opportunity to rationalise them. For example, in 15 council areas CPPs have established health and well-being thematic partnership groups in addition to the CHP committee.

24. The cluttered partnership arrangements have led to a lack of clarity or duplication in roles and functions between the CHP and other partnerships. There is a lack of information on the time and overall cost to each organisation of their partnership activity but there is scope to achieve efficiencies by streamlining and reducing the number of partnership arrangements (see paragraphs 46 to 50 of the main report).

3 A more systematic, joined-up approach to planning and resourcing is needed to ensure that health and social care resources are used efficiently. This should be underpinned by a comprehensive understanding of the shared resources available. National work is under way to improve this. To date, few CHPs have been able to influence how resources are used

across the whole system. At a CHP level, information on resources, including on staff, is not well developed. GPs indirectly commit significant NHS resources but are not fully involved in decisions about how resources are used.

25. NHS boards and councils do not have sufficient understanding of their service costs and how this is influenced by activity levels to make informed decisions about how they allocate their combined available resources. The Scottish Government is leading a national Integrated Resource Framework (IRF) which aims to address this.

26. The first phase of the IRF involves NHS boards and councils mapping cost and activity information for health and adult social care to provide a picture of how resources are being used for their local population. All NHS boards, except NHS Shetland, completed initial mapping of their cost and activity information by March 2011. However, progress by councils is variable and needs to improve.

27. The second phase of the IRF involves NHS and council partners in four test sites developing protocols for shifting resources both within the NHS and between the NHS and council.¹⁹ Work is at early stages in the test sites, although Highland Council and NHS Highland have approved ambitious plans to pilot a new lead agency approach for both adult community care services and for children's services.²⁰ Detailed planning is under way with a view to potentially implementing these new arrangements in April 2012.²¹ This lead agency pilot is at an early stage of development and there are significant risks in relation to the scale, complexity and timescale of planned

¹⁵ *Governance for Joint Services: Principles and Advice*, Audit Scotland, COSLA and the Scottish Government, 2007.

¹⁶ The formal agreement may be between the NHS and council but it should always stipulate the role and responsibilities of the CHP.

¹⁷ East Renfrewshire integrated CHP is the only CHP with a joint workforce plan for health and social care staff. Nine CHPs reported that they are carrying out joint workforce planning with councils for certain services and a further four CHPs are currently working with council partners to develop a joint approach to workforce planning.

¹⁸ This includes Aberdeenshire, Inverclyde, Orkney and Western Isles.

¹⁹ The test sites are Ayrshire, Highland, Lothian and Tayside.

²⁰ The lead agency approach means one partner will delegate responsibility to the other for certain services. The delegating partner will also transfer agreed resources such as budgets, staff and assets to the lead agency which it will pool with its own resources to manage the integrated service.

²¹ *Joint Report by Chief Executive, The Highland Council and Chief Executive, HC/NHS/1/10*, NHS Highland, 16 December 2010.

changes and these need to be carefully managed. Audit Scotland will continue to monitor the lead agency approach through our local audit work (see paragraphs 55 to 57, and 67 to 68 of the main report).

28. There is significant variation in the extent to which NHS boards have devolved services and budgets to CHPs although most are responsible for a number of core primary and community health services. This ranges from the three CHPs in Ayrshire which do not directly manage services but influence how health and social care services are planned and resources used in their area – through to Argyll and Bute CHP which is the only CHP to manage all community and acute health services (see paragraph 78 of the main report).²²

29. GPs and clinical professionals are not yet fully involved in service planning and resource allocation. The lack of influence CHPs have over overall resources is a barrier to better engagement with GPs. This needs to be addressed because GPs influence a large proportion of the NHS budget as a result of their clinical decisions – an estimated £3 billion of NHS spending in 2009/10. There is significant variation in GP referral and prescribing patterns, and 15 CHPs overspending against their GP prescribing budget in 2009/10 (see paragraphs 75 to 77 and paragraph 82 of the main report).

30. NHS boards, councils, GPs and other health and social care providers need to work together to move some services out of hospital into the community and nearer to the service user's home. CHPs have a key role to play. However, while some CHPs have a strategic role, others are wholly operational, responsible for delivering specific services and have

little influence in setting overall health and social care priorities and deciding on how resources are used across the whole system.

31. Overall there has been a slight increase in the percentage of total NHS resources being spent in the community between 2004/05 and 2009/10. But there has been no change in the percentage of NHS resources transferred to councils for social care services during this same period. It is not possible to carry out a more detailed review of activity because of poor information on community health services and data systems have not kept pace with changes to how services are being delivered.

32. Resource transfer has been a source of tension between the NHS and councils for several years due to a lack of transparency or agreement in how the resource transfer amount is calculated. The Scottish Government and COSLA issued revised guidance on resource transfer to NHS boards and councils in January 2011. It is too early to say whether this has resolved the tension.

33. Given the difficulties around resource transfer, it is unlikely that NHS boards and councils will move quickly towards more integrated funding arrangements. Pooling budgets, for example, requires significant trust between organisations and a jointly agreed vision for services.²³ Pooled budgets can allow more flexibility and a faster response to individual user needs, but setting them up can be more complicated and resource intensive than aligning budgets in the short term.²⁴ We found only one genuine example of a pooled budget in Scotland.

34. In 2011/12, a £70 million Change Fund has been made available to NHS boards and councils to implement local plans to make better use of their combined resources for older people's services. The fund is expected to provide short-term funding to facilitate shifts in the balance of care and influence decisions on overall health and social care spend on older people. NHS boards and councils have provided details of their overall combined resources for older people's services in order to access the funding. Plans were submitted to the Scottish Government in March 2011.

35. At a CHP level, information on resources is not well developed. There are significant gaps in workforce information which means that CHPs are generally unable to demonstrate whether they are planning and managing their workforce efficiently. Many CHPs were unable to provide details of vacancies, turnover and sickness absence rates for key staff groups (see paragraphs 40 to 42 of the main report).

4 Enhancing preventative services and moving resources across the whole system require effective joint working between NHS boards and councils. CHPs have a key role to play. While there is variation among CHPs against a range of indicators, limited progress has been made at a Scotland-wide level. For example, delayed discharges are starting to rise again after a period of steady reduction, and multiple emergency admissions for older people are increasing.

²² NHS Ayrshire and Arran has appointed a healthcare director for integrated care and partnership services, responsible for directly managing a range of NHS board-wide services and budgets. Service budgets are set and managed on an NHS board-wide basis, although some services are delivered through locality teams aligned with CHP and council boundaries. There are Locality Officer Groups for children's and adults' services within each CHP structure which are made up of senior NHS board and council officers who are responsible for all health and social care services. These groups provide a forum for joint planning across the whole system.

²³ A pooled budget is a mechanism by which two or more partners contribute money to a pool which can be used to deliver agreed outcomes. Once the money is in the pool, one partner is responsible for accounting for the pooled budget and it is not possible to identify each partner's expenditure separately.

²⁴ *Pooled budgets: A Practical Guide for Local Authorities and the National Health Service*, Chartered Institute of Public Finance (CIPFA), 2009.

36. There are some significant, long-standing and complex health and social care issues in Scotland which no partner can tackle on its own and which need action across the whole system. CHPs are not always able to demonstrate their specific contribution to improving the health of local people or shifting services from hospitals to community settings.

37. However, we looked at a range of performance indicators where we would expect CHPs to contribute to improvements. For example, all CHPs have worked with NHS boards, councils and other providers to set up local initiatives focused on supporting older people and those with long-term conditions such as chronic obstructive pulmonary disease (COPD), asthma, diabetes and angina.

38. A number of CHPs are able to show slight reductions in the number of emergency hospital admissions for particular client groups in their area since initiatives were set up. However, many initiatives were set up using short-term funding rather than from savings released from acute hospitals and there is often a lack of analysis of the overall effect on costs as a result of service changes (see paragraphs 90 to 92 of the main report).

39. The Scottish Executive launched a national plan to tackle delayed discharges in March 2002. Local partnerships between NHS boards and councils were given a ring-fenced allocation to achieve individually agreed targets in 2002/03. National targets were introduced from 2003/04 and local partnerships received a

further allocation to support this work each year.^{25, 26} From 2007/08 onwards, the target has been to reduce to zero the number of people with a delayed discharge and sustain this performance.

40. Before the national plan was launched in March 2002, the total number of delayed discharges was 3,116. This reduced to 434 by April 2008. Over the same period, the number of people being delayed by over six weeks reduced from 2,075 to zero. Although there has been significant progress, there have been seasonal fluctuations in all years for both total delayed discharges and delays of over six weeks.²⁷

41. There are signs that the position is beginning to get worse. For example, between April 2008 and January 2011, total delayed discharges increased from 434 to 790. Seasonal fluctuations do not fully account for this as total delayed discharges were 30 per cent higher in January 2011 than in January 2010.²⁸ There is a similar picture for delayed discharges of over six weeks.

42. Despite initiatives aimed at supporting older people to stay at home longer, emergency admissions for older people increased in three-quarters of CHP areas between 2004/05 and 2009/10. Over the same period, there was also an increase in the number of older people admitted to hospital as an emergency on more than one occasion in-year in Scotland (see paragraphs 93 to 99 of the main report).

43. Between 2004/05 and 2008/09, the number of emergency admissions for people with ambulatory care sensitive conditions grew in Scotland, although this varies for individual conditions across CHPs.^{29, 30} For example, rates of emergency stays for people with angina decreased in approximately two-thirds of CHPs; rates increased in around half of CHPs for people with asthma and people with diabetes complications; while rates increased in most CHPs for people with COPD. There is no single CHP which is performing well on all indicators that we looked at as part of the audit (see paragraphs 100 to 102 of the main report).

44. Health inequalities are complex. Socio-economic factors such as low income, gender, social position, ethnic origin, age and disability increase the risks of poor health. Behavioural factors such as smoking, alcohol, drugs, poor diet, poor sexual health and low physical activity also increase the risk of health-related problems.

45. CHPs have a key role in developing preventative health services. Since they were established the percentage of mothers smoking during pregnancy decreased in all but four CHP areas.³¹ Over the same period, the percentage of babies being exclusively breastfed at eight weeks increased in three CHP areas and decreased in 26 CHP areas.³² Between 2004-06 and 2007-09, hospital admission rates for alcohol-related problems increased in three-quarters of CHP areas, and drug-related hospital admissions increased in all but eight CHP areas (see paragraphs 103 to 108 of the main report).³³

25 Between 2003/04 and 2006/07, the target for NHS boards, CHPs and councils was to achieve a 20 per cent reduction in delayed discharges. In 2006/07, the target was to reduce all delays over six weeks by 50 per cent and free up 50 per cent of beds occupied by patients in short-stay beds.

26 From 2008/09, additional funding for delayed discharges has been included in the local government financial settlement but is no longer ring-fenced.

27 Delayed discharges have typically been lowest at the census date in April each year and highest at the census date in October each year. The target of zero delayed discharges of over six weeks has been achieved in April each year between 2008 and 2010.

28 The total number of delayed discharges at the census date in January 2010 was 606, increasing to 790 in January 2011.

29 Ambulatory care sensitive conditions, including long-term conditions such as asthma and diabetes, are conditions for which admission to hospital is potentially avoidable through good quality primary and preventative care.

30 Between 2004/05 and 2008/09, the largest percentage increase in rates of emergency stays for people with ambulatory care sensitive conditions was in East Glasgow (30 per cent increase) and the largest percentage decrease was in East Lothian (two per cent decrease).

31 *2010 CHP Profiles*, ScotPHO, 2010. We have used the three-year rolling average 2004-06 and 2006-08.

32 Due to phased implementation of CHPs, breast feeding data was not available for all CHPs over this period.

33 *2010 CHP Profiles*, ScotPHO, 2010.

Key recommendations

The Scottish Government should:

- work with NHS boards and councils to undertake a fundamental review of the various partnership arrangements for health and social care in Scotland to ensure that they are efficient and effective and add value
- work with NHS boards and councils to help them measure CHP performance, including the effectiveness of joint working. This should include streamlining and improving performance information for SOA, HEAT and other performance targets to support benchmarking
- update and consolidate guidance on joint planning and resourcing for health and social care. This should cover the use of funding, staff and assets, to support NHS boards and councils develop local strategies for joining up resources across the whole system
- progress the eCare agenda to help address local barriers to sharing information for planning and service delivery purposes.

NHS boards and councils should:

- work with the Scottish Government to streamline existing partnership arrangements to secure efficiency and effectiveness and ensure they add value
- put in place transparent governance and accountability arrangements for CHPs and update schemes of establishment and other governance documents to ensure these are accurate

- have a clear joint strategy for delivering health and social care services which sets out roles and responsibilities, processes for decision-making and how risks will be addressed
- clearly define objectives for measuring CHP performance which reflect the priorities in the national guidance; agree what success looks like; and implement a system to report performance to stakeholders
- collect, monitor and report data on costs, staff and activity levels to help inform decisions on how resources can be used effectively and support a more joined-up approach to workforce planning. This should include information on current and future staffing numbers, and sickness and vacancy rates
- improve CHP financial management and reporting information and ensure that financial reports are regularly considered by the CHP, NHS board and appropriate council committees. This should include any information on overspends
- involve GPs in planning services for the local population and in decisions about how resources are used and work with them to address variation in GP prescribing and referral rates
- use the Audit Scotland checklist (which can be found at http://www.audit-scotland.gov.uk/work/health_national.php) to help improve planning, delivery and impact of services through a joined-up approach.

Review of Community Health Partnerships

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How councils work:
an improvement series for councillors and officers

Arm's-length external organisations (ALEOs): are you getting it right?



Prepared for the Accounts Commission
June 2011



The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requires local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue services).

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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About our 'how councils work' series

The Accounts Commission seeks to support improvement in best value and resource management, recognising these as two key components vital to the successful delivery of council services.

The purpose of the 'how councils work' series of reports is to stimulate change and improve performance. We select topics based on the recurring themes and issues from our Best Value audit work, the work of local auditors and our annual overview report. We draw mainly on our existing audit work but supplement it with new audit work and other information.

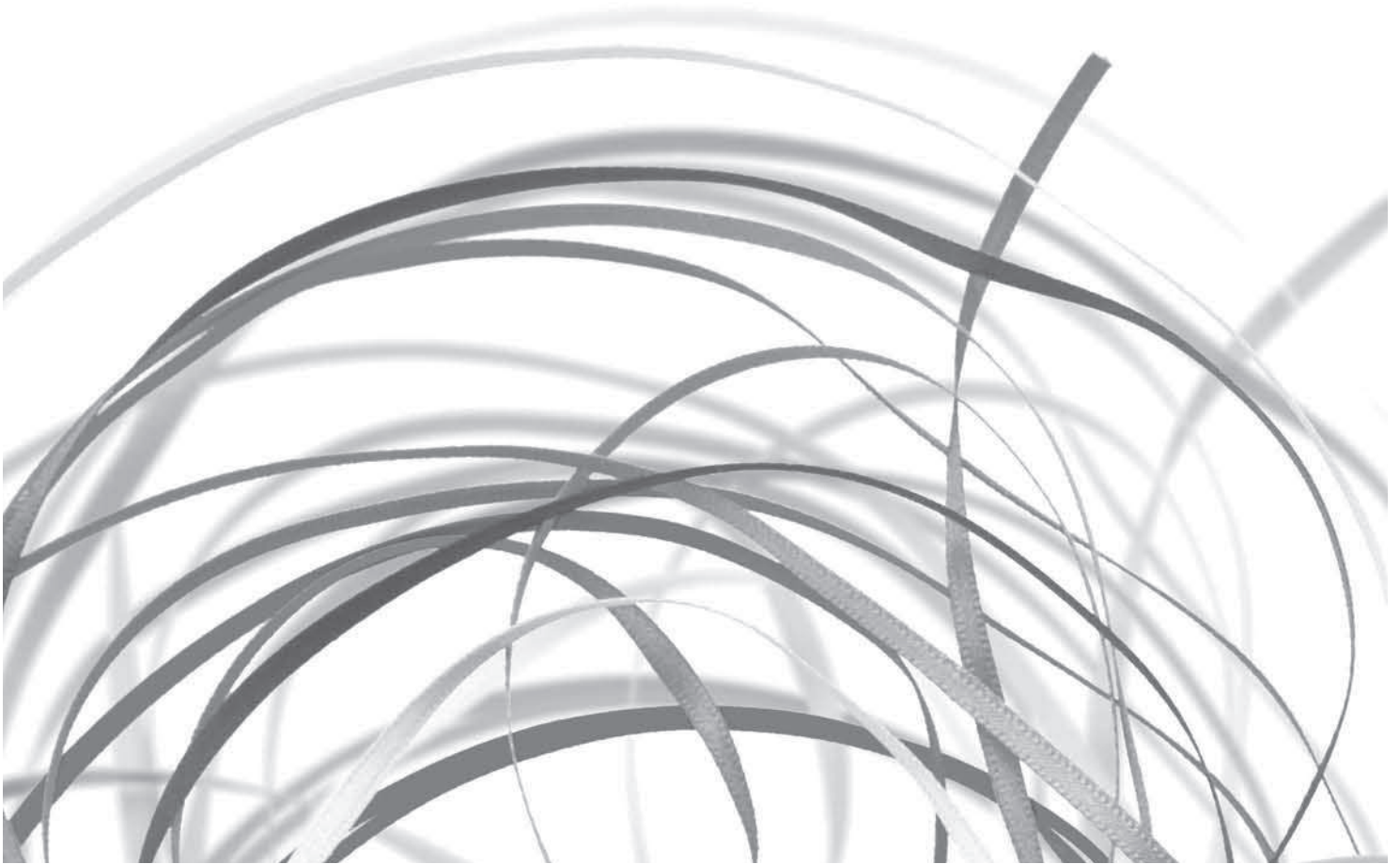
This is the second report in the series. The first report examined roles, responsibilities and working relationships of elected members and council officers in achieving best value.



What have auditors found?

These boxes appear throughout this report and represent case studies from individual councils. They have been drawn from Audit Scotland audit reports. They are not key findings for all councils.

Introduction



ALEOs are arm's-length external organisations that can be used by councils to deliver services.



1. Increasing budget pressures and service demands present risks and challenges to councils and the services they provide. This requires councils and councillors to review their services and consider options that may better meet the needs of service users and citizens, and offer improved value for money.

2. One option may be to set up and fund an arm's-length external organisation (ALEO). Currently, councils use ALEOs to deliver a wide range of activities such as leisure services, economic development and property maintenance.

3. ALEOs may offer an alternative to more traditional 'in-house' or contract-based service delivery and usually take the form of companies or trusts. They are 'arm's-length' because the council retains a degree of control or influence, usually through a funding agreement, and 'external' because they have a separate identity to the council.

4. ALEOs by their nature are one step removed from council control and, as a result, governance and financial arrangements can be complex. There is a risk service users and citizens have less input and influence over how services are provided. There is also the potential for conflicts between the interests of the council and the ALEO.

5. ALEOs are now an established part of local government in Scotland and play an increasing role in service delivery. In the past decade, for example, the number of ALEOs set up to deliver leisure services has almost doubled.

6. The main drivers for using ALEOs are to reduce costs or to improve services. ALEOs may qualify for business rates relief, attract grants or may be able to trade to generate income. However, it is not just about money. ALEOs may offer

different and better ways of providing services and can make services more accessible. It is important that councils and councillors are clear about the anticipated benefits from using an ALEO to deliver services.

7. While the ALEO takes on responsibility for service delivery, the council remains responsible for ensuring that the ALEO uses the public funds the council provides to the ALEO properly and can demonstrate best value. In other words, the council remains accountable for the funds used to deliver public services, regardless of the means by which the service is delivered. Consequently, it is important for the council to be able to 'follow the public pound' to the point where it is spent. This requires well-thought-through governance arrangements from the outset and action to ensure those arrangements are applied effectively in practice.

8. Strong governance requires clear roles and responsibilities, both for those at the council responsible for monitoring the ALEO and for those asked to be a representative on the board of the ALEO. Representation in particular requires careful consideration. Councillors and officers serving on ALEO boards face challenges in finding an appropriate balance between their responsibilities to the council and to the ALEO.

9. Pressures on budgets mean that councils are looking at alternative ways of delivering services. This may lead to further and more innovative use of ALEOs and, for that matter, decisions to withdraw funding from existing ALEOs and to bring services back into council control. At the same time, ALEOs themselves face a challenging financial and operating environment. Councils need good information so they have early warning of difficulties and are ready to deal with any financial and service risks that may arise.

10. To date, our audit work has not highlighted widespread problems. But it has highlighted concerns over the management of ALEOs in specific cases, including situations where poor governance has resulted in risks to public money, service performance and the reputation of councils. There is also increasing public interest in ALEOs, particularly the impact on services and council finances where ALEOs fail to deliver. There has also been interest in staff recruitment practices in ALEOs and in payments to councillors who have taken up roles on the boards of ALEOs. These factors, along with the quickly changing local government context, confirm that the time is right for this report.

About our report

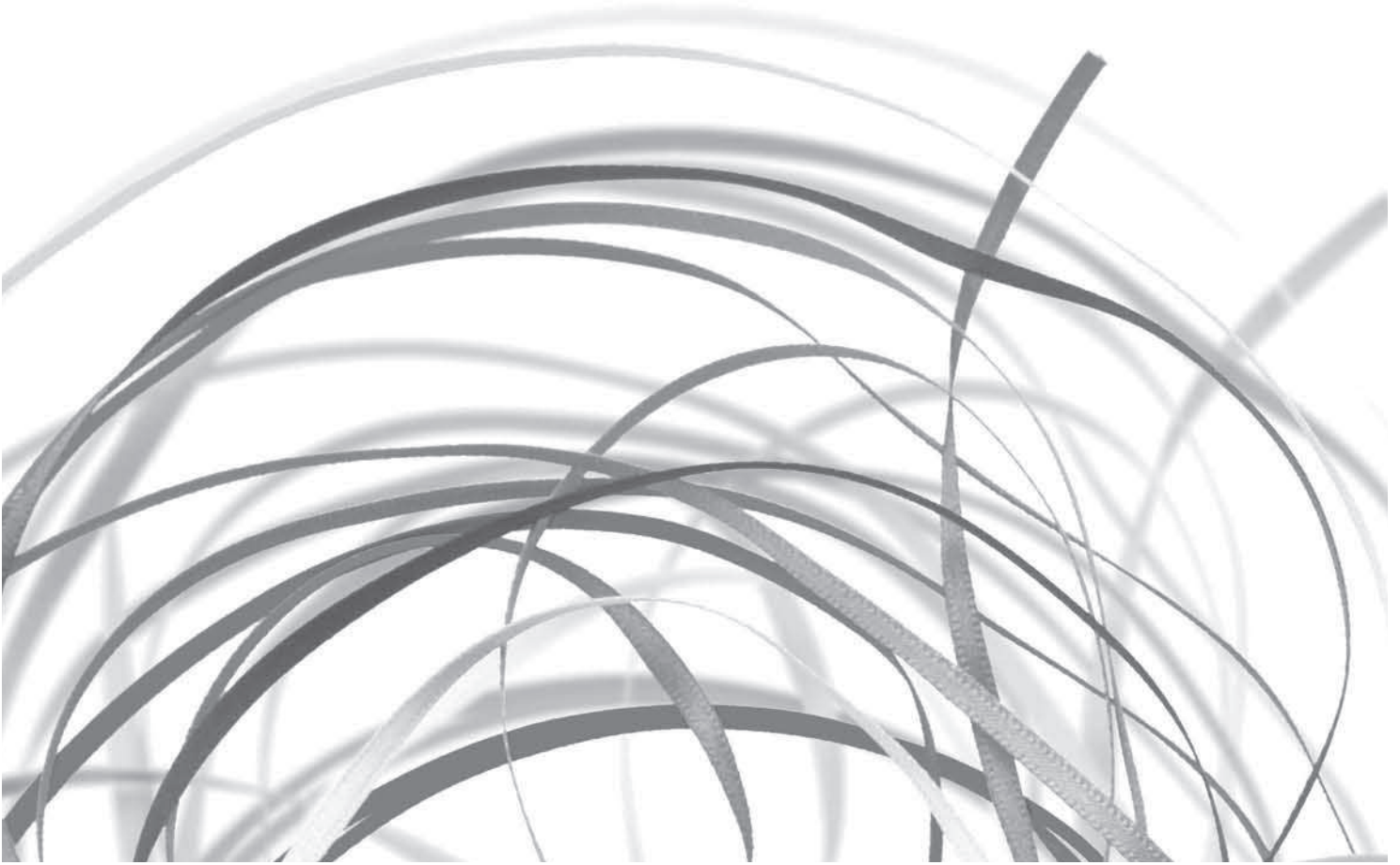
11. This is the second report in our 'how councils work' series. It is aimed at councils that are considering setting up ALEOs to deliver services, as well as those with existing ALEOs. It is designed to promote and encourage good practice in the way ALEOs are set up and operated. Our report will be of particular interest to officers and councillors who are responsible for monitoring ALEO performance or who serve on ALEO boards.

12. Our report sets out good practice in the way councils deliver services through ALEOs. It focuses on how councils establish ALEOs and maintain governance and accountability for both finance and performance. It highlights areas that work well and where improvement may be required.

13. Our report draws on our audit work across all 32 councils, including our Best Value audit work and reports that have highlighted particular concerns or issues arising from the use of ALEOs. We have reviewed council documentation and have drawn on survey work conducted in councils as part of recent performance audits.

14. We hope this report will stimulate discussion among councillors and officers that will lead to change and improvement. The report aims to support all councils by signposting readers to sources of information and guidance, and by providing examples from our audit work. We have also included checklists and other self-assessment tools that councillors and officers may find helpful.

Part 1. Setting the scene



ALEOs are an established part of local government. The principles of openness, integrity and accountability apply equally to ALEOs as to council-run services.



Key messages

- Councils are increasingly using ALEOs as an alternative way of delivering services at a time of significant budget reductions.
- Where appropriate, ALEOs can offer the potential for reduced costs, new sources of income and greater flexibility. However, there may also be increased risks.
- The 'following the public pound' principles continue to provide the basis for sound governance of ALEOs.

ALEOs are now an established part of local government

15. Councils decide the best way to deliver services to meet the needs of the communities they serve. Most commonly, councils provide services 'in-house' through their own departments and employees or through contracts with other public, private and third sector or voluntary suppliers. Councils can also create separate organisations to deliver services. The term, arm's-length external organisations, or ALEOs, is often used to describe such organisations.

16. ALEOs deliver council services, but do not operate within traditional council structures. They are 'external' because they have a separate identity to the council, and are 'arm's-length' because the council retains some control or influence, usually through a funding agreement (Exhibit 1).

17. Under an arm's-length arrangement, the delivery of a service or activity becomes the responsibility of a separate organisation. As such, the council loses direct control over the day-to-day management of the service. However, it remains

accountable for how public money is spent and the quality of services delivered. This association also means that there are ongoing financial and reputational risks for the council if things go wrong.

18. Public funds and assets may also move from the direct control of the council to the control of the ALEO. This can range from relatively small sums or, where an ALEO manages an entire service, large-scale payments and asset transfers. Council support for ALEOs ranges from grants to third sector organisations to payments to trusts set up by councils to manage all of their leisure and cultural facilities, for example. The ALEO may be a one-off to deliver a particular project or may be part of a large group involving holding companies and complex structures.

19. We have not sought to quantify the current number of ALEOs and what they spend because of the time and cost to councils and to us. However, a brief review of councils' accounts shows that the majority of the 32 Scottish councils operate ALEOs and that there are currently

around 130 major ALEOs in total. Councils typically operate between one and four ALEOs, although three councils operate 14 or more ALEOs. These figures do not include the many smaller organisations that receive some level of council funding which are otherwise independent of the council.

20. Councils consider alternative ways of providing services and ALEOs continue to feature strongly in the range of options considered. Our audit work indicates that the numbers and variety of ALEO arrangements has continued to grow. For example, our 2010 performance audit report, *Physical recreation services in local government*,¹ found that the number of ALEOs set up to provide leisure services has almost doubled in the last decade (Exhibit 2).

ALEOs can offer financial and other benefits

21. ALEOs can offer financial and operational advantages. Under current arrangements, charities, for example, can qualify for business rates relief. ALEOs can also have greater freedoms to trade, for example, by offering

Exhibit 1

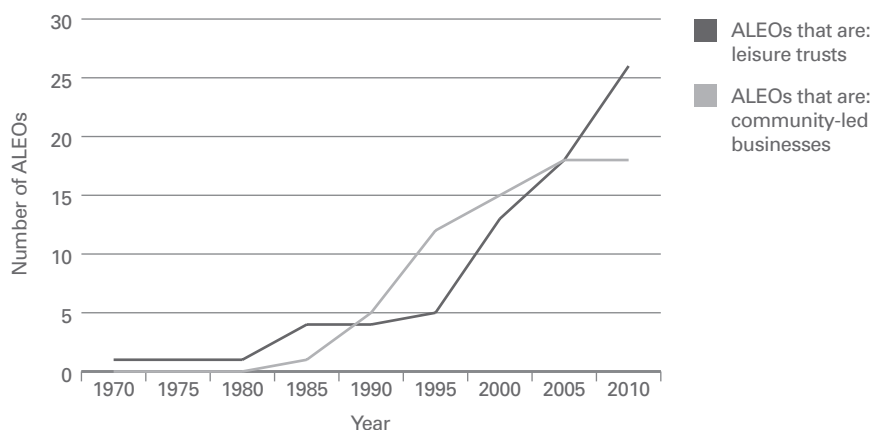
What are ALEOs and what do they do?

We define arm's-length external organisations as companies, trusts and other bodies that are separate from the local authority but are subject to local authority control or influence. Control or influence can be through the council having representation on the board of the organisation, and/or through the council being a main funder or shareholder of the organisation.

ALEOs can take many forms including companies limited by guarantee or shares, community enterprises, such as industrial and provident societies, trusts and Scottish Charitable Incorporated Organisations. Examples of the services they deliver include leisure, transportation, property development, and more recently, care services. ALEOs are often set up as non-profit making organisations such as charities to promote public benefit in areas such as health, education, recreation and equal opportunities.

Source: Audit Scotland

¹ *Physical recreation services in local government*, Audit Scotland, October 2010.

Exhibit 2**Growth in the use of leisure ALEOs**

Source: Audit Scotland

services to other public and private sector organisations and this can help them to attract grants and private sector investment. ALEOs can have more flexibility in deciding employee terms and conditions to meet their business needs. The financial and tax implications of ALEOs are complex and specialist advice is essential. Councils also have to be aware that the tax position may change if central government policy changes.

22. Councils have used ALEOs to deliver more routine activities, as well as more innovative projects. Examples include transport services, energy schemes, and property development companies. These can offer new sources of income but there can be related risks. There have been cases where councils have had to provide unplanned financial support to ALEOs and, in more extreme cases, have had to wind-up ALEOs and take responsibility for their services and financial commitments.

23. Councils should be clear about their aims before choosing the most suitable option for delivery. All delivery models have advantages and

disadvantages and councils should choose the optimum arrangement to meet their needs. Councils should be risk aware, but not risk averse; this requires them to be clear about the risks involved and to have a coherent strategy for managing them.

24. Exhibit 3 (overleaf) provides examples of different delivery approaches including the potential advantages and disadvantages commonly associated with them. In practice, combinations of these options are often used. For example, ALEOs can have trading companies as subsidiaries, or can contract areas of activity to private sector providers. Partnership working can also be a feature of all these delivery approaches.

25. In summary, ALEOs can bring financial and operational advantages. However, it is not always clear whether these are realised in practice or if they are sustainable over time. Councils need to review whether their ALEOs have achieved their intended benefits such as cash savings or improved customer satisfaction and, overall, assess whether they can

demonstrate value from the money and other resources provided to the ALEO.

The 'following the public pound' principles provide the basis for sound governance

26. ALEOs are not new and are an established part of local government. In 1996, the Accounts Commission and the Convention of Scottish Local Authorities (COSLA) published a Code of Guidance² in response to growing concerns about the implications for control and accountability arising from the use of ALEOs. The focus was on self-regulation and based on the premise that, to ensure public money is used properly, it must be possible to 'follow the public pound' across organisational boundaries.

27. The Code was published some time ago and since then there have been important developments in governance and professional practice – we refer to this elsewhere in this report. There have also been significant changes in local government legislation, including councils' responsibilities for Best Value and Community Planning.³ However, the six principles in the Code are as relevant today as they were when the Code was first published (Exhibit 4, overleaf).

28. The Following the Public Pound Code aims to ensure that the principles of openness, integrity and accountability apply equally to funds or other resources that are transferred to ALEOs. The Code received statutory backing in 2005⁴ and, as a result, councils are required to comply with the Code when they establish and deal with ALEOs.

29. The Code continues to provide the foundation for how councils should manage their relationships with ALEOs. Our *Following the Public*

² Code of Guidance on Funding External Bodies and Following the Public Pound, Accounts Commission/Convention of Scottish Local Authorities, 1996.

³ The Local Government in Scotland Act 2003.

⁴ Direction by Scottish ministers under section 51 of the Local Government in Scotland Act 2003, June 2005.

Exhibit 3

Overview of delivery options and their potential advantages/disadvantages

		Service delivery options		
		Directly managed	Council influenced	Contracted
		Councils	ALEOs	Independent suppliers
Potential advantages		<ul style="list-style-type: none"> • Flexible to service changes • Opportunities for joint working across departments • Use of prudential borrowing • Strong elected member support and influence 	<ul style="list-style-type: none"> • Clear identity and service focus/more independent of council decisions • Scope for more responsive decision-making • Opportunities to attract external investment • Potential cost and business rates/tax advantages 	<ul style="list-style-type: none"> • Demonstrate best value through competitive bidding process • Use existing commercial expertise/economies of scale • Long-term contracts can allow stable funding • No direct management responsibility/some risks transferred
Potential disadvantages		<ul style="list-style-type: none"> • Risk of competing political or budget priorities • Potential restrictive council terms and central costs • May lack a clear test to demonstrate best value 	<ul style="list-style-type: none"> • May lose links with other council services • Set-up costs may be high • May lack a clear test to demonstrate best value • Potential risk (eg, governance and trading) remain with the council • Tax advantages may be withdrawn 	<ul style="list-style-type: none"> • Procurement costs may be high • Risk of focus on generating profit at the expense of service • Contracts may lack flexibility • Loss of potential tax savings

Source: Audit Scotland

Pound report of 2005⁵ found that no council fully complied with the Code. The report recommendations included councils putting in place better monitoring of their ALEOs that is proportionate to the risks involved.

30. Our report explores what councils need to do to get this right from the start. We then go on to consider the steps councils need to take on an ongoing basis to keep things right, ie to ensure that ALEOs remain the best option and that governance remains fit for purpose. Keeping it right applies to new ALEOs and those where councils have an ongoing involvement.

Exhibit 4

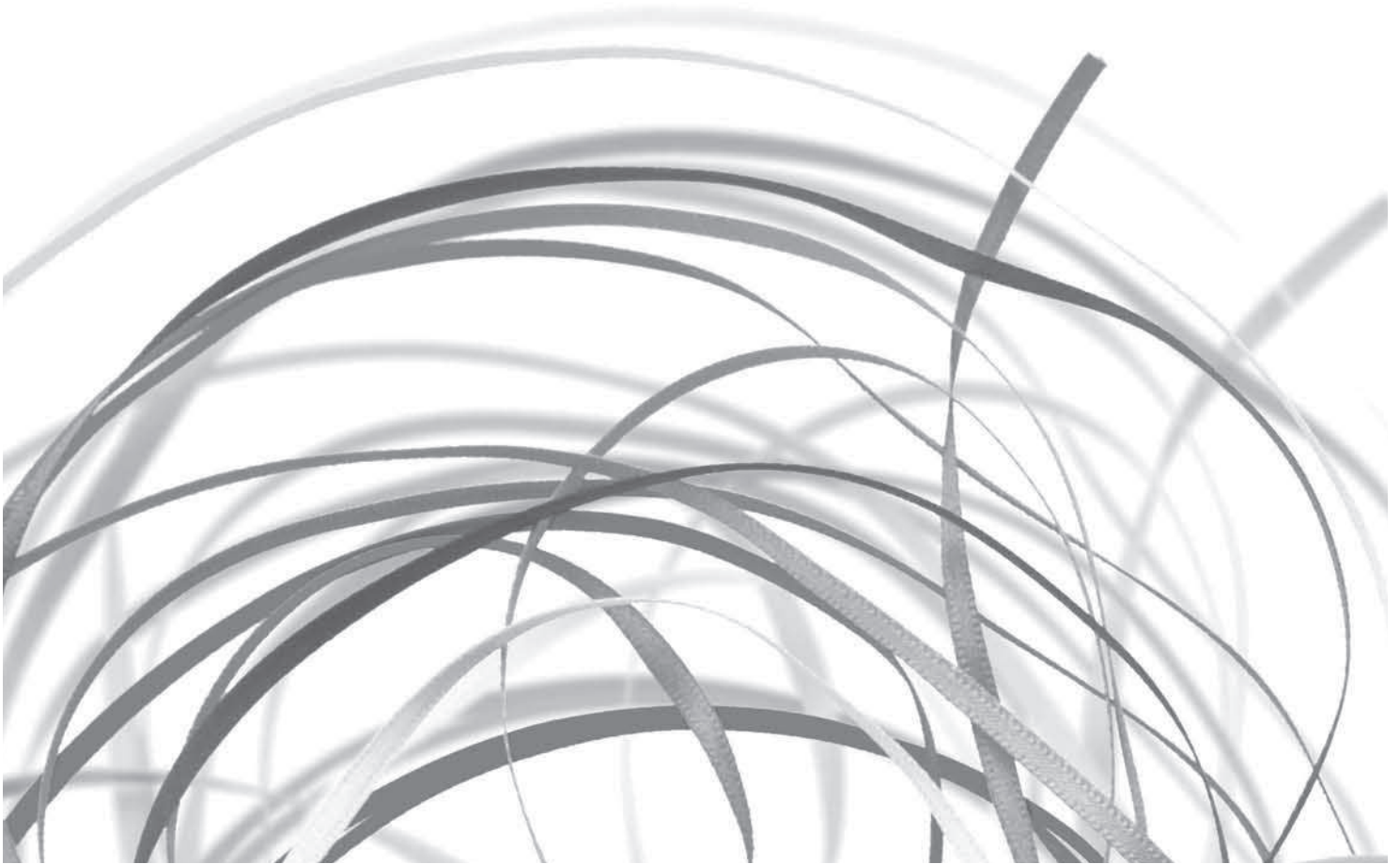
Following the public pound principles

The principles of openness, integrity and accountability apply to councils in their decisions on spending public money. These apply equally to funds or other resources which are transferred to ALEOs. The Code sets out six principles that require councils to:

1. have a clear **purpose** in funding an ALEO
2. set out a suitable **financial regime**
3. **monitor** the ALEO's financial and service performance
4. carefully consider **representation** on the ALEO board
5. establish **limits** to involvement in the ALEO
6. maintain audit access to support **accountability**.

Source: Audit Scotland

Part 2. Getting it right from the start



Councils must have clear reasons for using ALEOs. They must understand the impact on people who use services. Clear roles and responsibilities and effective monitoring are essential.



Key messages

- Any decisions to use an ALEO to deliver services should involve an appraisal of the options available and a sound business case, using expert advice when necessary.
- Governance for ALEOs can be complex; strong and effective governance is required from the outset.
- Councils should specify the business practices and standards they expect the ALEO to observe.
- Clarity about roles and responsibilities is vital.
- Monitoring of ALEOs should be risk-based and proportionate.

Decisions to use ALEOs should be based on an options appraisal and sound business case

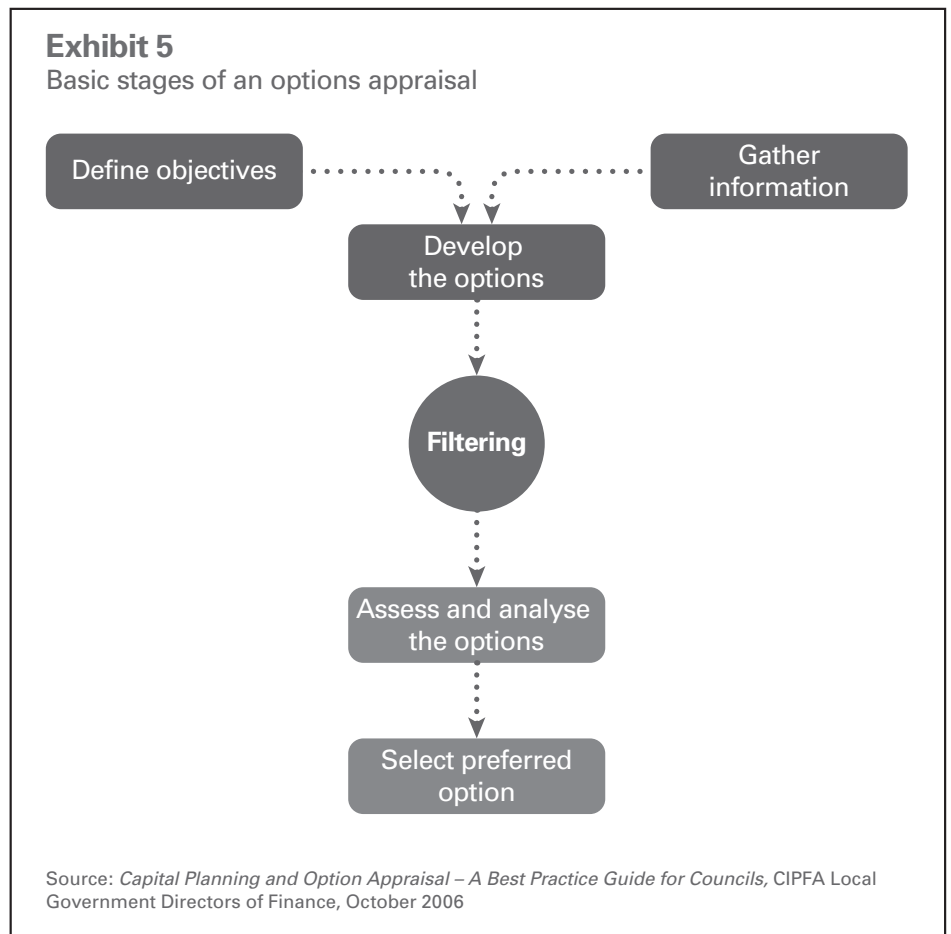
31. Best Value requires councils to make the best use of the resources available to them. This includes identifying the best way of delivering services. It follows that councils should be able to demonstrate the benefits of any decision to create an ALEO, or to continue service provision through an existing ALEO.

32. Councils need to assess the options that best meet their objectives. This requires an understanding of the options available including in-house provision, partnership and contracting options, as well as the option to use an ALEO if appropriate. It also requires rigorous analysis and understanding of the pros and cons of each option.

33. Any decision to set up an ALEO should flow from an options appraisal. However, our Best Value audit work has shown that many councils do not have a well-developed approach to options appraisal.

34. There is a considerable amount of guidance available on options appraisal and this report does not attempt to cover the process in detail. Exhibit 5 sets out the basic stages of a typical options appraisal; these principles apply equally when considering new ways of service delivery that may include delivery through an ALEO.

35. Options appraisal should consider the risks involved, the financial implications and governance arrangements. Having good-quality information on costs that allows valid comparisons between the options is essential.



What does it look like in practice?

- Being clear what your aims and objectives are.
- Knowing the market and identifying all the options.
- Involving stakeholders such as service users and the local community.
- Being clear about the risks associated with each option, both long and short term.
- Being objective and impartial when assessing the options.

36. Options appraisal also requires good information about what service users and communities need and the potential impact on them if there is a change in how services are delivered. The ability of citizens and service users to influence the way councils provide services flows from good community engagement and is a fundamental principle of Best Value. This is particularly important in the case of core services such as social care on which vulnerable people are dependent.

37. Councils considering the use of ALEOs should assess the impact of ALEOs on service users and citizens in general. This includes how community views are represented, including the role of councillors.

38. Councillors need to oversee options appraisals that involve potential major shifts in how services are provided. They have a key role, for example, in agreeing the broad objectives of the options appraisal, in the appraisal process itself or in scrutinising the process and emerging proposals.

39. Rigorous options appraisal requires expertise in legal, business and operational matters and the process can be expensive and time-consuming. Councils need to consider whether they have sufficient expertise in-house and may need specialist consultancy support, eg in relation to charity law and tax-related matters, such as VAT. Councils should also learn from their own and other councils' experience of using ALEOs and factor that in to the options appraisal.

40. Exhibit 6 provides examples of the governance and operational questions that councils need to ask when considering service delivery options and preparing a detailed business case for their preferred option.

Exhibit 6

Examples of governance and operational issues to consider in options appraisal

Legal and governance	Business and operational
Is there a clear statutory basis for undertaking the activity?	Does the activity fit in with the council's objectives?
How will governance work – including the means of council control and representation?	What are the service implications, eg quality, access, marketability, pricing?
How will the ALEO be accountable to the community and the service user?	How will services users be involved and customer satisfaction measured?
How will the council demonstrate that the ALEO offers best value and assure that it accounts for all public money provided to the ALEO?	What are the financial implications, eg taxation, treatment of profits, ability to attract investment and residual liabilities for the council?
What are the implications of EU and other procurement law, for example on the award of the contract or service delivery agreement?	What is the payback time, allowing for initial set-up costs?
How will obligations including equal opportunities, best value and sustainable development, data protection and freedom of information be observed?	Are there benefits in sharing services with other councils or partners?
How will the delivery method be reviewed, and what is the basis for withholding funds or terminating the arrangement?	What will be the impact on demand, including the council's ability to subsidise any increase?
How will council employees and assets be treated including transfer arrangements and pensions?	How will flexibility or changes to delivery be allowed for?
What are the statutory financial reporting and auditing requirements?	What are the operational risks, including future changes in legislation or the marketplace?
	What management information will be shared by the ALEO to demonstrate financial control and best value?

Source: Audit Scotland



Want to know more?

- *Healthy Competition – How councils can use competition and contestability to improve services* (Audit Commission)
<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/healthycompetition.aspx>
- *The Green Book Appraisal and Evaluation in Central Government* (HM Treasury)
http://www.hm-treasury.gov.uk/d/green_book_complete.pdf
- *Improving strategic commissioning in the culture and sport sector: Guidance paper 2 Options appraisal, the business case and procurement* (Local Government Improvement and Development – formerly IDeA)
<http://www.idea.gov.uk/idk/aio/19049726>
- *Making Choices: Volume 2: A Practice Guide to Best Value, Procurement and Competitiveness* (Scottish Government)
<http://www.scotland.gov.uk/Resource/Doc/158566/0042999.pdf>

- How will we safeguard our interests such as assets and other resources made available to the ALEO?
- How will we know how well the ALEO is doing, through our scrutiny of both service and financial performance?

43. While the use of arm's-length arrangements can offer innovative ways of delivering services, strong governance arrangements need to be in place to ensure that ALEOs contribute effectively to the delivery of the council's corporate objectives and priorities. It is vital to establish sound governance from the outset. We have seen councils struggle to exert good and effective governance well after the ALEO was set up and, as a result, services and public funds were exposed to risk. This is particularly important where ALEOs are set up to deliver fast-moving, innovative projects.

44. The fact that an ALEO may be a separate organisation from the council is unlikely to be at the forefront of service users' and taxpayers' minds. One consequence of using more complex delivery structures involving ALEOs is that the public may be less clear about who is responsible for services and, for example, who they should complain to if they are unhappy with the services they receive. Maintaining transparency is a key objective in good governance.

Conditions attached to the use of public funds should be clear

45. The funding relationship between councils and ALEOs is typically set out in a service or management agreement. These should set out what is expected from the arrangement, specifying the money and other resources the council will provide and what it expects from the ALEO in return. The agreement should include criteria for the council withholding its funding, or for terminating its relationship with the ALEO.

Exhibit 7

What do we mean by governance?

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

Source: *Delivering Good Governance in Local Government*, SOLACE/CIPFA, 2007

Sound governance is needed from the outset

41. Governance is about clear direction and control and is central to the success of all organisations. It is important that councils meet good governance standards, for example, by demonstrating strong leadership, effective community engagement and robust scrutiny (Exhibit 7).

42. Delivering projects or services through ALEOs is likely to make governance more complex. However, the same principles of good governance apply and councils will be best placed to safeguard their interests where they ask fundamental

questions and act on them at the outset. Key questions which councils and councillors need to ask themselves include:

- Are we clear about our overall expectations of the ALEO?
- How well do we understand the financial commitment and risks flowing from the decision to set up and support the ALEO?
- How do we ensure that governance arrangements in the council and the ALEO are sound and that those with an active role receive adequate training and advice?

46. The written agreement should also cover the accounting and audit requirements. Accounting must follow the legal requirements for company or charity financial reporting, and the agreement should state the arrangements for audit access to records held by the ALEO. Many ALEOs include an audit committee as part of their internal governance structure. These should be chaired by a non-executive member and ensure that the board is aware of, and acts on, risks, and other financial and performance information.

47. As part of the annual audit, external auditors appointed by the Accounts Commission review compliance with accounting standards and the Commission/COSLA Code. The Commission cannot appoint auditors to ALEOs but the auditors the Commission appoints to councils have the right of access to information for the purpose of their audit.

48. Beyond finance, there is also scope for the agreement to cover other aspects, to ensure that business practices and standards councils expect in the direct delivery of services are observed by ALEOs in spending public money (Exhibit 8).

49. ALEOs are seen as an extension of the council and there are potential reputational risks to the council from its association with the ALEO. Consequently, where business practices in the ALEO fall below the standards expected from the council itself, or where there are significant governance failings, this has the potential to affect stakeholders' views about the council as a whole.

Councils should set a clear policy for any payments to board members

50. We consider the question of representation on boards in the following section. However, in attaching conditions to funding at the outset, councils should also set a clear policy and rationale for any payments to board members. The payment of councillors as board members can be a contentious issue, and there have



What have auditors found?

Two examples of what the auditors found in individual councils:

- The council did not establish any clear limits for its involvement in the project and did not appear to have developed any contingency plans to be used in the event of a significant change in circumstances.
- Corporately, the council did not establish effective governance. As a result, it was not well placed to deal with key issues when they emerged and was not aware of the significance of the company's decision to pursue a high-risk service-delivery option.



What does it look like in practice?

Auditors have noted good practice where a council put restrictions on the payment of council officers or elected members who are non-executive directors of arm's-length companies or trusts. Its policy states that such duties should generally be regarded as part of their role of office and will not entitle the post holder to additional payment other than appropriate expenses incurred in the course of board business.

Exhibit 8

Attaching conditions to the funding arrangements

In agreeing funding arrangements, councils should consider conditions for the ALEO that align with their own legal requirements and policies. As a minimum, they should address:

- equalities
- sustainability
- recruitment and employment practices
- data protection and handling
- freedom of information principles
- standards and behaviour
- arrangements for engaging with citizens and service users.

Source: Audit Scotland

been examples where ALEOs have faced criticism for amounts paid to councillors to attend board meetings.

51. There is potential conflict of interest, or the appearance of a potential conflict, if councillors receive payments directly from ALEOs. In

such circumstances it can be difficult to demonstrate the principles of good governance.

52. Whether councillors receive payments from the council as a result of their role on ALEO boards is a policy matter for councils to



What have auditors found?

An example of what the auditors found in a council:

- There are no criteria set for the selection of individuals to sit on company boards. It is not clear how the council, on an ongoing basis, decides whether this representation fulfils the council's objectives.

decide. However, in terms of good governance, the determining factors should be the substance of the councillors' role rather than the fact that the position happens to be on an ALEO board as opposed to, for example, a council committee.

53. We note that a similar point was made by the Scottish Local Authorities Remuneration Committee (SLARC), an independent advisory body responsible for making recommendations to Scottish Ministers on the salary and allowances paid to councillors. As part of its 2010 review⁶ SLARC considered the appointment of elected members to the boards of companies or to organisations established, owned or funded by local authorities. SLARC noted that additional payments from arm's-length organisations to councillors for sitting on a board undermines the principles of the existing remuneration scheme for councillors. It has set out a number of recommendations including that no additional remuneration other than that provided in the current remuneration scheme should be paid to councillors for serving on such bodies.

Clarity on roles and responsibilities is vital

Representing the council's interests

54. It is common practice for councils to nominate councillors or officers for positions on the boards or governing bodies of ALEOs. Councillors or officers as board members can have

an important role in the governance of the ALEO, for example, in overseeing how the ALEO is managed. Where this works well, it can provide important links between the council and the ALEO and can help ensure that the board acts in the interest of the council as major shareholder, for example. It also recognises the importance of the council's community leadership role and provides an opportunity for council representatives to ensure the ALEO is being properly run and that council funds are being used effectively.

55. Councils should set clear criteria for the skills and experience required of board members. They should also have a clear and transparent selection process to make appointments to boards.

56. Councils need to consider very carefully the question of representation. Having established that they want representation, councils need to assess the advantages and possible risks. They then need to consider the skills, expertise and qualifications required to carry out the representation role effectively. Depending on the services that the ALEO will provide, it may be appropriate for the ALEO board to reflect specific interests. For example, councillors with a background in sport or leisure may be well placed to represent their council on the board of a leisure trust. Specifying criteria will help ensure that the appointment process is transparent and will help support clarity about roles and responsibilities.

57. Taking on a direct role in the ALEO brings with it new responsibilities, including legal duties. For example, councillors and officers serving as directors of an ALEO that is constituted as a company assume personal responsibilities under the Companies Acts. They owe a duty to shareholders and creditors of the company and may be personally liable if the company engages in wrongful trading or if any other offence arises in the company. As we say in our report on physical recreation services,⁷ the companies' legislation was not framed specifically to the circumstances of ALEOs and councillors, but it still applies.

58. Similarly, councillors and officers serving as trustees on charities must observe the legal provisions which apply to charities and trusts. Crucially, officers and councillors need to be aware of the risks and where to get advice if they need it. The Office of the Scottish Charity Regulator (OSCR) *Who's in Charge* guidance⁸ sets out the duties of charity trustees including the need for clear responsibilities and behaviours to ensure the charity has the required degree of independence and provides public benefit through its activities.

59. Councils must consider representation and take steps before the ALEO is established. Key issues are:

- to ensure the appropriate composition of the board to bring the mix of skills and experience required to govern the organisation
- to set out why the council will be represented on the ALEO board and what is expected of individuals from the council who are asked to sit on the ALEO board
- to make clear how those individuals will be supported in the role.

⁶ 2010 Review of Remuneration for Local Authority Councillors, SLARC, March 2011.

⁷ Physical recreation services in local government, Audit Scotland, October 2010.

⁸ Who's in Charge, The Office of the Scottish Charity Regulator, March 2011.

- to consider how service users and communities will be represented, including the role of councillors

Managing potential conflicts of interest

60. Representation on the boards of ALEOs by its nature introduces the potential for conflict of interest for individuals who have roles in both

the ALEO and the council. Members and officers who act as directors of companies have difficult obligations to balance. For example, councillors have a duty under the Code of Conduct to act in the interests of the council. However, at the same time, as company directors they are required to act in the interests of the company. It is important that potential conflicts

are thought through at the outset, in particular to avoid any situation where conflicts become irreconcilable (Exhibit 9).

61. Some roles may be incompatible or can pose real risk to governance and accountability. For example, a councillor or officer who scrutinises an ALEO on behalf of the council, or makes funding decisions affecting an ALEO, should not be a board member of the ALEO. More generally, the dual roles may mean that individuals have access to council information that may not be appropriate to disclose at ALEO board meetings – and vice versa, in respect of commercially sensitive information that is available as a board member of an ALEO. Councils may avoid this situation by specifying the information they require, as part of the funding agreement established at the start.

62. In practice, this heightens the need for councillors to be aware of the potential for conflicts of interest. Where councillors also serve as members of the ALEO they should be clear that they continue to have a responsibility to the council. This goes beyond simply declaring an interest and withdrawing from council discussions about the ALEO; they need to anticipate the nature of the agenda item and likely deliberations and decide what action they should take, seeking advice from officers where appropriate.

The councillor role

63. Councils often nominate councillors to contribute to the work of ALEOs. This can involve councillors taking a position on the board of the ALEO, so it is important that he or she is clear from the start what this different dimension means.

64. The first report in our 'how councils work' series⁹ explored roles and responsibilities in councils in the widest sense, but also reflected on

Exhibit 9

Competing responsibilities

The Councillors' Code

Duty – You have a duty to act in the interests of the council as a whole and all the communities serviced by it.

Appointments to partner organisations – If you become a director of a company as a nominee of the council you will assume personal responsibilities under the Companies Acts. It is possible that a conflict of interest may arise for you as between the company and the council. In such cases it is your responsibility to take advice on your responsibilities to the council and to the company. This will include questions on declarations of interest.

Source: *The Councillors' Code of Conduct*, Scottish Government, December 2010

Guidance for Charity Trustees (OSCR)

Where a charity trustee is faced with a conflict of interest between the interests of the charity and those of a person or organisation responsible for their appointment as a charity trustee, the interests of the charity must come first. The charity trustee must act in the interests of the charity to which they have been appointed, not in the interest of the person or organisation which appointed them, for example a local authority or another charity.

If in relation to a particular issue the conflict of interest is irreconcilable, then the charity trustee in question must make this known to the other charity trustees, and not take part in any discussion or decision-making on the issue.

Source: *Guidance for Charity Trustees*, OSCR, June 2009

The Companies Act

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

A director of a company must avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. This applies in particular to the exploitation of any property, information or opportunity.

Source: *The Companies Act 2006*



What do councillors say?

Councillors serving on the boards of ALEOs gave different views about the role involved, pointing to the need for more clarity:

“My role is to see where the council money is going, what it’s used for, and to ensure that policies are followed.”

“I’m there to represent the council – to take the line of the council – I’m not there in my own right.”

“I am representing the council to make sure that things are done in accordance with council policy and to make sure that the money is spent as it should.”

Source: *Roles and working relationships: are you getting it right?*, Audit Scotland, August 2010



What have auditors found?

Three examples of what the auditors found in individual councils:

- The main concern arising relates to the actions taken by council staff following the resignation of the management committee. While this may have been in good faith and in the interests of maintaining the service which the ALEO was set up to deliver, they effectively assumed management responsibility for the ALEO. This was a wholly inappropriate role for council officers to adopt. It is important that councils and their officers are clear about their respective roles and responsibilities in dealing with any ALEO.
- Officers were not clearly aware of their responsibilities and relevant monitoring procedures. Where specific responsibilities were assigned, including maintaining a watching brief to represent the council’s interest, there is little evidence to suggest that these roles were delivered effectively.
- There was a potential for conflict of interest arising from a lack of appropriate separation between the responsibilities of council officers and the advisers to the company. For example, an officer became involved in the financial affairs of the company and was appointed company treasurer, resulting in conflict of interest and blurring the boundaries between the council’s finances and those of the company.

the specific circumstances which apply when councillors and officers are required to become board members of ALEOs.

65. As part of that work, we spoke to a sample of councillors from across six councils. Most of those we spoke to who are appointed to an external body said they felt confident in their role, through experience or by drawing on support from council officers and other board members.

66. Despite this confidence, councillors said they were on the board to represent the council and its best interests, which suggests they may not be clear about what the role fully involves, such as the new and additional responsibilities attached to being a trustee or a member of a company board.

67. Those who did not feel confident in the role said they were unsure about what is expected of them when they were first appointed. Part 3 of

our report considers the need for ongoing advice and training for council representatives working with ALEOs.

68. Elected members have a unique perspective and can draw on their deep understanding of the needs of the communities they serve in their work with ALEOs. This can help ensure that services provided by the ALEO are consistent with the council’s overall aims, and align with local need. However, it may be possible to bring these advantages into the ALEO without the legal responsibilities attached to being a director, trustee or member of a board. Councillors could, for example, serve on a subcommittee of the ALEO, in an advisory capacity, or take on the role as an observer or adviser that would not require formal membership of the ALEO. Where councils pursue this option they should ensure that responsibilities are clear and seek advice about any wider implications arising from such a role.

The officer role

69. Statutory officers in councils have specific duties as set out in legislation and discharge their role as part of wider responsibilities in their councils. They have an important, independent role in promoting and enforcing good governance and for making sure that councils comply with legislation. In summary:

- The Head of Paid Service (the chief executive) is responsible for all aspects of the management of the council. Together with councillors, he or she is responsible for promoting good governance.
- The Chief Financial Officer (the director of finance or equivalent) is responsible for the financial affairs of the council.
- The Monitoring Officer (the head of legal services or equivalent) is responsible for advising the

council about the legal position of proposed actions.

70. Each of the statutory officers' responsibilities extends to cover their council's governance arrangements for its interests in an ALEO, in setting up the ALEO and monitoring its performance. Guidance on the Chief Financial Officer's role, for example, sets out what is expected of him or her in relation to ALEOs (Exhibit 10).

71. Lines of accountability can become less clear where an officer is involved with an ALEO. Where council officers take an executive, or operational role in an ALEO such conflicts can be avoided by using secondments. The officer will then be an employee of the ALEO and responsible solely to the ALEO board. In the specific case where a senior officer is appointed to the board of an ALEO he or she will assume new responsibilities that change the nature of his or her ongoing working relationship with the council's chief executive.

72. Council officers are often required as part of their duties in the council to oversee the council's interests in the ALEO or to provide support in other ways. This can help to safeguard the council's interests and to share expertise. However, officers need to be clear about the role and its limitations. In particular, they must avoid becoming too close to the ALEO or finding themselves in a position where their responsibilities to the council are compromised. For example, an officer who oversees the ALEO's finances on the council's behalf should not take on a formal financial management function in an ALEO.

73. Liaison involving officers may provide the opportunity for oversight without the need for direct representation on the ALEO's board. Some councils use designated officers to manage and maintain their relationship with ALEOs. As these officers are not board members they can protect the council's interests

Exhibit 10

The role of the chief financial officer in relation to ALEOs

"Consistency of standards and transparency in financial activities are essential. In this context, CIPFA's view is that the statutory role of the chief financial officer does not stop at the boundaries of the local authority but extends into its partnerships, devolved arrangements, joint ventures and companies in which the authority has an interest."

Source: *The role of the chief financial officer in local government*, CIPFA, 2010



What does it look like in practice?

An example of good practice from an individual council:

- The council has decided that no officer should hold a trustee or directorship position with any of the ALEOs the council engages with. This was based on the potential for conflicts of interest to arise between an officer's responsibilities to the council as an employer and that officer's responsibilities and personal liability when appointed to an outside body. The council saw a continued role for councillors on the boards of ALEOs, but recognised that councillors must be very clear in their responsibilities.



Want to know more?

- *Code of Guidance on Funding External Bodies and Following the Public Pound* (Audit Scotland)
http://www.audit-scotland.gov.uk/docs/local/2003/nr_040311_following_public_pound.pdf
- *Code of Conduct for Councillors* (Audit Scotland)
<http://www.scotland.gov.uk/Publications/2010/12/10145144/12>
- *Delivering Good Governance in Local Government* (SOLACE/CIPFA)
http://www.cipfa.org.uk/panels/corporate_governance/good_gov_briefing.cfm
- *Guidance for Charity Trustees* (Office of the Scottish Charity Regulator)
<http://www.oscr.org.uk/CharityTrusteeDuties.stm>

without any potential conflict of interest. The officers have a monitoring role and attend company or board meetings as observers, keeping up to date on company operations and performance. These link officers should be sufficiently

senior to highlight significant risks and issues to the council and to ensure that appropriate action is taken. However, arrangements such as these do not replace the need for effective performance reporting to the council.

Performance monitoring should be clear from the start, risk-based and proportionate

74. Performance management is the process of managing and improving activities using good management information in areas such as customer satisfaction, risks, and costs. Councils should consider the arrangements for performance monitoring before the ALEO is operational. Our audit work has found scope for improvement in performance management in councils generally. This includes the way councils monitor services delivered through ALEOs.

75. Councils should set clear objectives for services delivered through ALEOs and put appropriate monitoring systems in place, including tailored performance indicators. The council should have an overview of how well ALEOs are meeting their objectives, while the ALEOs themselves should also monitor more detailed day-to-day operational issues. Mechanisms should be in place to identify and act on under-performance including trigger points to review the delivery agreement.

76. Performance monitoring should be proportionate to the scale of the activity and the risks involved. Our audit work found that councils tended to focus on the financial position of ALEOs, often relying on annual audited accounts. However, these are often available long after a matter of interest to the council has emerged. We have recommended that councils do more to monitor performance, including regular financial reporting, and service outcomes.

77. Councils are required under the Accounting Code to produce group accounts, which draw together the council's financial interests in organisations in which it has interests and control. The Code sets out the circumstances when the degree of influence or control requires organisations to be included in the



What does it look like in practice?

As an example of good practice, one council requires its ALEOs to:

- provide the council with appropriate information and assistance to monitor service performance including risks
- provide quarterly reports on financial and operational performance to council-nominated officers
- provide a twice-yearly performance report to council dealing with Key Performance Indicators (KPIs)
- submit annual performance report to council on financial and operational performance, service satisfaction and board member training
- annually review and agree KPIs and performance measurement framework.



What have auditors found?

An example of good scrutiny practice in one council:

- The council has an external governance and scrutiny committee that is responsible for scrutinising the performance of the council's ALEOs.
- The committee's scrutiny activity includes performance, risks, financial management, partnership working, contractual compliance and compliance with equalities obligations.
- It also receives reports on themes common across the ALEOs including service interdependencies, complaints handling and customer care, audit reporting, and absence management.
- The committee's ongoing work programme will examine the 'value added' from ALEOs and will review proposals for maintaining service performance and quality in the current financial conditions.

group; these organisations will often include ALEOs. The group accounting process aims to ensure that councils provide a true and fair picture of the extent of their activities. It also provides an opportunity to look across the group at the overall asset and liability position and at how ALEOs feature in the group.

Risk management

78. Service delivery through ALEOs can involve greater risks. This can be due to more complex governance structures, the financial environment in which they operate, or because of the type of service they deliver. It is important that councils are risk aware and have systems in place to monitor and manage risks. This

includes financial, technical, business, and legal risks. Councils must also be aware that where ALEOs run into financial difficulties they may be liable for any losses incurred either as guarantors, or as a result of some other obligation.

79. Our work, including Best Value audits, has shown that risk management is generally not well developed in councils. We have recommended that councils regularly review their risk exposure across arm's-length organisations. Councils should be aware of the potential risk to their strategic priorities posed by each individual ALEO.

80. Councils' risk registers should cover all activities delivered by ALEOs. Each ALEO will have its own particular risks. These will depend on the type and size of the organisation, the level of funding, the type of service provided, and its client group. Lower levels of expenditure can be relatively high risk due to the nature of the services they provide. Conversely, higher expenditure areas may not have such high operational risks, but councils should regularly monitor them as the impact of failure on council finances and service users would be substantial.



What have auditors found?

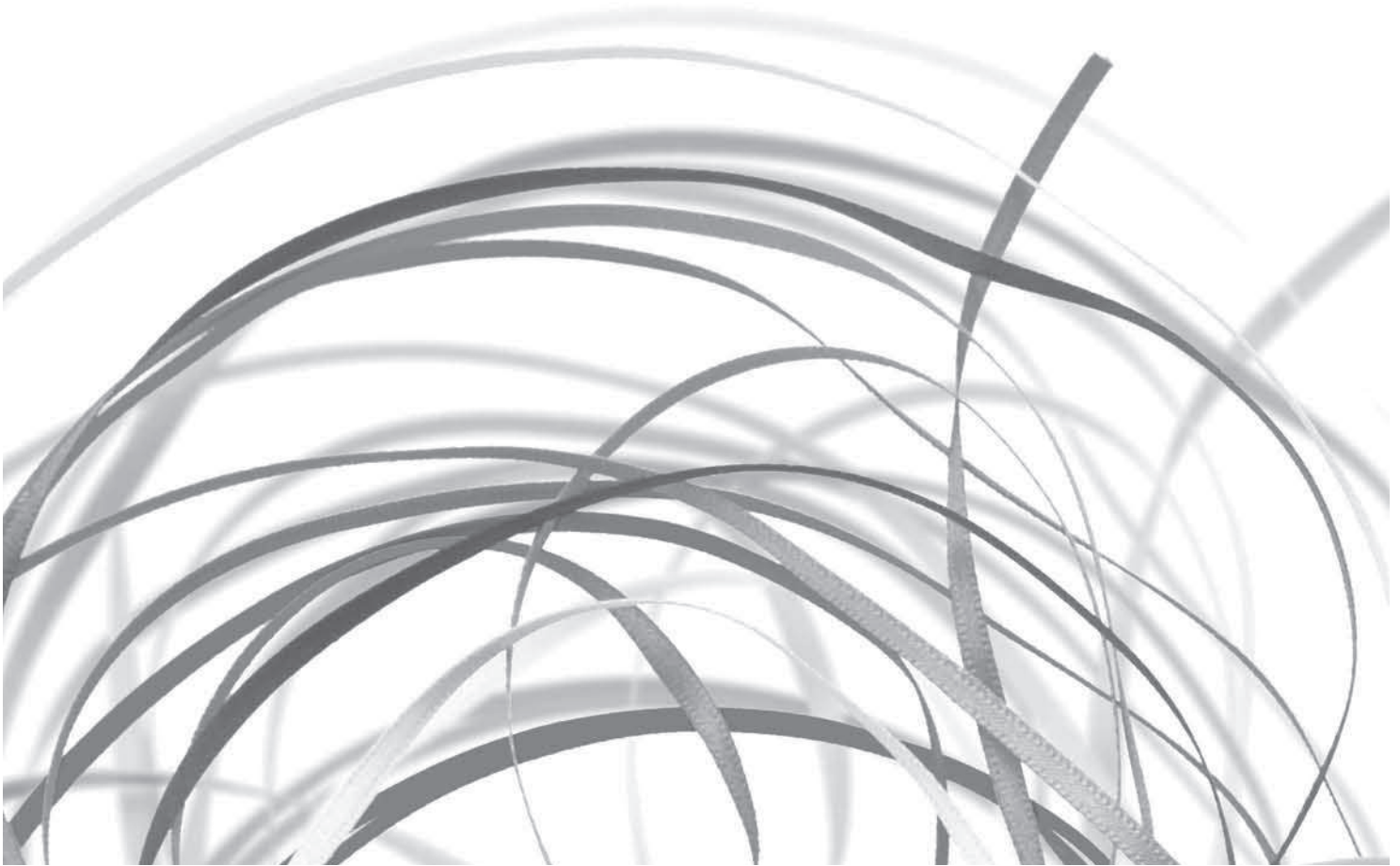
Good practice in one council involved putting in place increased scrutiny of a trust that was under-performing. The committee overseeing the trust was provided with additional performance information that assured it that improvements were being made. This highlights the need for councils to have a strong risk awareness and to be informed of how well ALEOs are performing on an ongoing basis.



Want to know more?

- Audit Scotland's risk management Best Value toolkit
<http://www.audit-scotland.gov.uk/work/toolkits/>
- A range of tools and guidance materials are available on the CIPFA website:
<http://www.cipfa.org.uk/>
- The HM Treasury's guide to risk management principles
http://www.hm-treasury.gov.uk/d/orange_book.pdf

Part 3. Keeping it right



Councillors and officers must be aware of how ALEOs perform and take prompt action when required. They must ensure they have the skills and knowledge to carry out their role.



Key messages

- Councils need good-quality monitoring information of ALEOs so they are aware of their finances, risks and performance. Information should be current to allow prompt action to be taken.
- Councils should periodically review their ALEOs to ensure they remain the best option for service delivery, and to ensure effective governance is in place.
- Councils should decide the trigger points for reviewing or terminating the delivery agreement, and take prompt action where required.
- Ongoing training and guidance should be provided so that councillors and officers involved in any capacity with ALEOs have the skills they need to undertake their duties.

The principles of Best Value apply equally to ALEOs, and need to be maintained

81. Getting the set-up and related arrangements for ALEOs right from the start is vital. It is equally important to make sure that the arrangements remain fit for purpose and remain effective in changing circumstances. This part of our report is also relevant where councils already use ALEOs to deliver services.

82. As with council-run services, ALEOs should be able to demonstrate Best Value, and effective systems for performance management and review are an important part of this. The toolkit in Appendix 2 brings together good management practice that applies in managing ALEOs and key steps necessary to move from basic to more advanced practices.

83. Councils need to be vigilant and aware of risks affecting the ALEOs that they fund. This applies equally

to members of ALEO boards and to councillors with a role in the council committees that oversee ALEOs. Councillors and officers should actively challenge how well ALEOs provide value for money and offer improved services for users. This requires them to have sufficient information on the ALEO's financial position, performance and risks.

84. Council representatives should also be aware of ongoing governance risks such as the potential for conflicts of interest. Conflicts are less likely where the objectives of the ALEO and the council are consistent and clearly defined. The situation can arise where these interests diverge and the actions of one organisation can be at odds with the other. For example, if an ALEO has discretion to alter the nature of the services it provides or its pricing policy, this may affect the uptake of services. Council and ALEO representatives must remain vigilant to ensure that the organisations continue to operate in line with their intended objectives.

85. Effective monitoring is especially important in the current financial environment where quick action may be required to protect services and the council's interests and reputation. Performance information should be current and meaningful to allow the

council providing the funding to take prompt action when issues arise. Reporting limited to annual financial statements or a narrow set of measures is not sufficient. Councillors should draw attention to any gaps in the information they receive to ensure that they can undertake their scrutiny role effectively.

86. Our physical recreation study found instances where councils only reported the performance of sports and physical recreation ALEOs to committee intermittently or not at all. In some cases, council officers received performance reports, but did not report performance or significant issues to committees. The study found that a significant proportion of councils monitored performance through very narrow statutory performance indicators. This is despite significant funding and the scale of the leisure activities involved.

87. Council nominees on boards have indicated to us that they can generally balance their roles with the council and an ALEO. However, in practice it is not always straightforward and conflicts of interest can arise that can make it difficult for councils to govern their ALEOs effectively.



What have auditors found?

In one council the situation arose where:

- The council and its partners created an arm's-length company to manage a small group of historic properties to support tourism in the area.
- The company ran into financial difficulties and the board, which included councillors, took the decision to close down some of these tourist attractions. This decision was not reported to the council despite it being the main funder of the organisation.
- The councillors, acting as company directors, made the decision in the financial interests of the company. However, tourism is a priority area for the council, and this decision conflicted with the council and its partners' objectives to provide important tourism facilities.



What have auditors found?

Three examples of what the auditors found in individual councils:

- The elected member on the ALEO board could have done more at key stages to ensure the council was aware of developing problems in the ALEO. At key stages he should have reassessed the balance between his responsibilities to the company and his corporate responsibilities to the council as a whole.
- To date, the council has been reliant on board members to raise any issues with arm's-length companies. We have noted instances where relevant information has not been presented to the council on a timely basis. Having a member or officer on the board is not a sufficient monitoring mechanism in itself.
- We found that one council continued to fund an ALEO while being unaware that it was in serious financial difficulty. At the same time, another funding partner was aware of the risks faced by the ALEO and had already suspended its funding.

over the medium term where they are unclear of what level of funding they will receive. The situation can also arise where a council chooses to reduce funding in response to surpluses generated by ALEOs. However, this can be a disincentive to ALEOs achieving their objectives, such as increasing service uptake.

93. As with services delivered directly by a council, it is equally important that ALEOs have their own mechanisms in place to review and continually improve their services. Councillors and officers should satisfy themselves that these are effective in practice and review and update their service agreements with the ALEO accordingly. Reviews of the effectiveness of ALEOs should take into account stakeholder and service-user feedback and examine areas such as governance, financial and resource management, performance, and the capacity for future improvement.

94. Termination agreements should be in place for all ALEOs, setting out the circumstances that may give rise to a review and, ultimately, situations where the council may move to end the agreement with the ALEO. The trigger points to review or terminate agreements with ALEOs should be clearly understood by all parties. This should cover explicitly the arrangements for the return of any council-owned assets and the steps needed to ensure that service users' interests are protected. The implications for the workforce will be a major issue, including, for example, liabilities for pensions.

95. We have found that the termination process can be complex in practice. Difficulties can arise where agreements are not in place, or where councils have not made their reasons for discontinuing services through ALEOs clear. This can result in difficult negotiations and potential legal action.

88. Councils that have an overview of their ALEOs are better placed to demonstrate Best Value in the way they use their resources. They should also understand how ALEOs contribute to the council's overall aims, and the risks and levels of funding committed to them. Councils are better placed to do this where they disclose ALEO activities in their group accounts to give a clear picture of their activities and liabilities, including ALEOs. They should also ensure that their strategic and service plans incorporate ALEO activity. Councils should be able to identify and review or wind-up ALEOs that are dormant or ineffective. Maintaining a register of ALEOs can help councils to achieve this.

89. Councils should regularly review their ALEOs to ensure they continue to meet their objectives and remain the most appropriate option for service delivery. Scrutiny procedures should be in place to identify and act on under-performance including trigger points to withhold funding or to review the activity.

90. Councillors and officers should be alert to issues affecting service users. They should review customer satisfaction information and check that ALEOs are effectively undertaking any requirement to engage with service users and citizens. They should also be aware of how any changes to their policy on pricing and concessions impact on target client groups.

91. Councillors should be aware of how their spending decisions affect both council-run services and services delivered through ALEOs. ALEOs are vulnerable to reduced funding from councils and other partners. Situations can arise where ALEOs need to make difficult budget decisions such as reducing service levels or increasing prices.

92. Council officers and councillors need to consider the impact of their funding on the ability of ALEOs to plan their business. ALEOs that are more dependent on council funding will find it more difficult to manage budget reductions. ALEO boards find it difficult to plan their activities

Councillors and officers require ongoing advice and training

96. Council representatives should not underestimate the commitments involved and responsibilities associated with a board position. Previous audit work¹⁰ noted that on average boards required 30 per cent more time of members than expected. Councillors and officers working in connection with ALEOs need to ensure they are competent to undertake the role.

97. Officers and councillors should be supported with guidance and training. Our audit work suggests that one in four councillors had not received training and support and did not feel clear of their role on external bodies. There are many issues that need to be understood including effective governance and the legislation covering companies, charities, and employment law, for example. We

would expect basic training to be compulsory for any councillor or officer who is taking up a role in an ALEO, with an annual review or update to ensure that key matters remain at the forefront of those involved in ALEOs.

98. We found that councillors are keen to receive training and many would have welcomed training or at least information about the organisations they were representing.

99. We have noted that while councils offer training in these areas, its actual uptake can be limited. Councils should monitor the effectiveness of training and its uptake. We found good practice where councillors are required to undertake a minimum period of training per year, for example as part of their continuous professional development. This may include training on the Code of Conduct for councillors, and more specific training on ALEOs (Exhibit 11).



What do councillors say?

“At first I had no idea what was expected of me.”

“I’ve attended three meetings of the Trust and am still finding my feet.”

“There’s no support – you just get on with it.”

“There was no training provided but this would be a way to overcome the lack of clarity I felt about the role during the first few meetings.”

Source: Survey conducted as part of *Roles and working relationships: are you getting it right?*, Audit Scotland, August 2010.

Exhibit 11

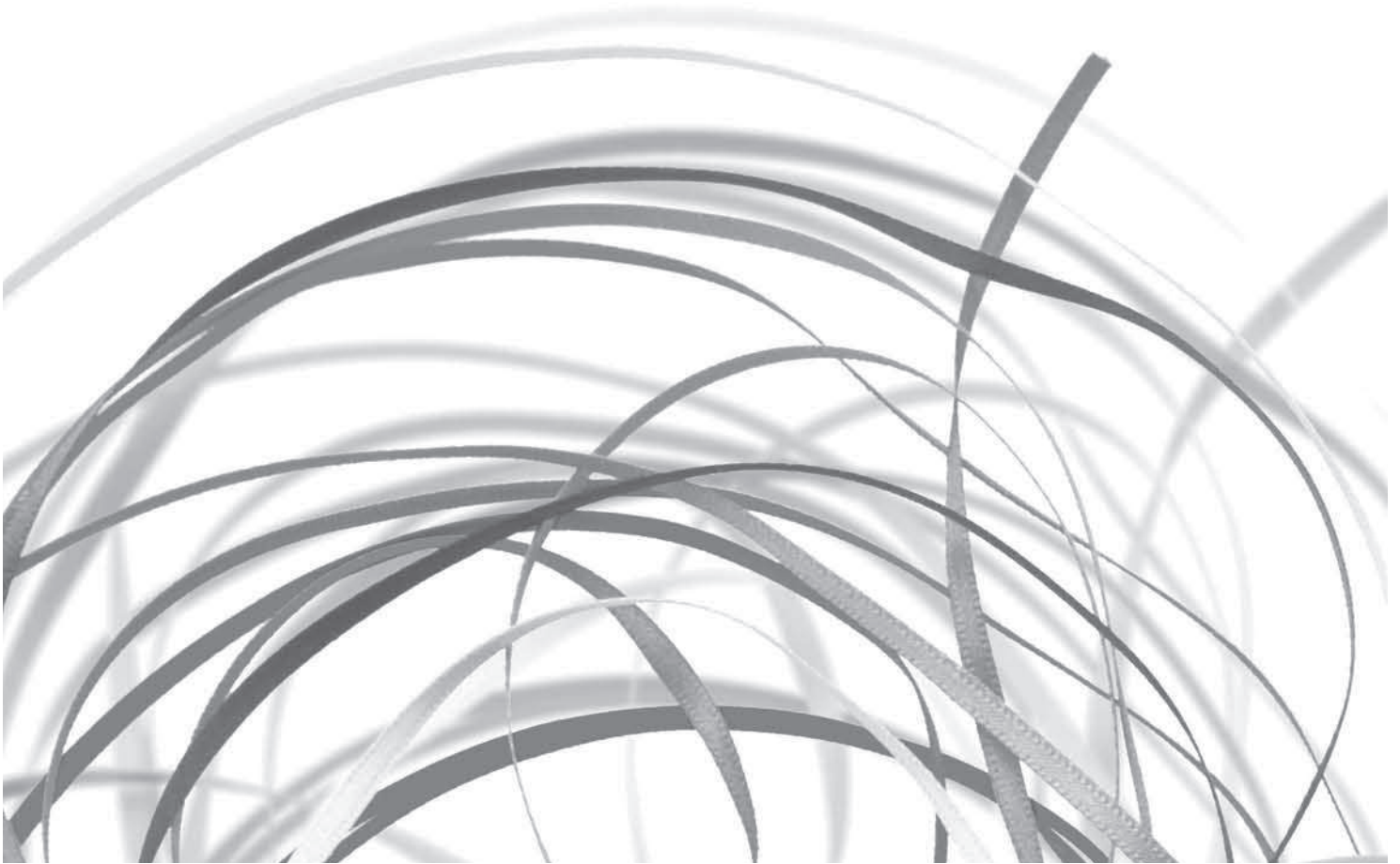
Training – getting it right

Areas to consider include:

- directors’ and charity trustees’ duties under companies and charities legislation
- directors’ liabilities to third parties
- shareholders’ rights
- codes of conduct, registration of interest, duties of confidentiality
- health and safety
- procurement, employment and environmental law
- wrongful trading, enforcement, disqualification and sanctions
- insurance.

Source: Audit Scotland

Part 4. Key points for action



There are a number of actions councillors and officers must take to strengthen their working practices and relationships with ALEOs.



The tables below outline key points for action for councillors and officers involved with ALEOs

Getting it right from the start

Councils must:

- observe the Accounts Commission/COSLA Code, and other guidance to understand their responsibilities and good practice when involved with ALEOs
- base any decision to set up an ALEO on sound options appraisal and feasibility assessments including risks
- ensure that where they use an ALEO it fits their priorities or policy objectives
- consider governance at the outset to ensure the council and the ALEO can effectively:
 - scrutinise performance and be held accountable
 - monitor costs, performance, and risk
 - engage service users and citizens
- clearly understand and set out the roles of boards, committees and the council in the articles of association or other constitutional documents
- set clear criteria for appointing representatives to the boards of arm's-length organisations, their required skills and experience, and any payments to board members
- agree clauses to terminate or review the delivery arrangement at the outset, taking into account the impact on services and their users, employees, and assets.

Keeping it right

Councils must ensure that council representatives involved in ALEOs:

- are aware of how well council objectives are being met by the ALEO
- carry out their scrutiny or management roles effectively, and take action on any shortcomings or under-performance
- are risk aware and satisfied that risks to the council and the ALEO are identified and acted upon
- act quickly on potential conflicts of interest, including declaring interests and seeking advice
- take action to withhold funding or to review or terminate the agreement, particularly where services or public money are at risk
- take action where the intended objectives of the ALEO are not being met, or diverge from council priorities
- periodically review their delivery arrangements to ensure that the best use is made of resources and that clear governance is in place
- review or wind-up ALEOs that are no longer active or effective, or contribute to the council's aims
- ensure that they have the skills and training to undertake their role.

Appendix 1.

A tool for checking progress

Checklist to support good management of ALEOs	Assessment	Required actions/timescale
Rationale for an ALEO		
<ul style="list-style-type: none"> • How clear are we on the objectives we are trying to achieve? • Are we satisfied that these fit in with the council's priorities? • Are we aware of the risks of the ALEO option on services and communities, the employees and the council? • How well do we understand any advantages of the ALEO delivery option compared to other options? • How will we know whether these advantages have been achieved in practice? 		
Governance of ALEOs		
<ul style="list-style-type: none"> • Are we clear how the services delivered through ALEOs are accountable to service users and citizens in general? • Do we understand how the money paid to the ALEO is accounted for? • Are we satisfied that we understand our roles on boards and committees, and know when to act on any potential conflicts of interest? • Are we aware of any conflicts in roles between council and ALEO representatives, for example in: <ul style="list-style-type: none"> – scrutiny – award of funds – strategic or operational decisions? 		

Checklist to support good management of ALEOs	Assessment	Required actions/timescale
Are we aware of how well ALEOs are performing, including:		
<ul style="list-style-type: none"> • How well the ALEO is meeting its objectives? • What areas perform well, and what needs improvement? • How satisfied are service users? • Is the ALEO providing value for money? • Do service levels need to be changed – and what flexibility is there to do this? 		
Are we aware of the risks faced by the council and the ALEO, including:		
<ul style="list-style-type: none"> • Is it financially sound, eg with appropriate levels of reserves? • Its ability to generate income or finance its borrowings? • What are the risks to services and the people that use them? • What are the risks to the council, eg liabilities for borrowings? • Is there a need to withhold funding or to review or wind-up the ALEO? • What are the implications for services, employees and assets if this is the case? 		

Appendix 2.

Toolkit for improving the governance of ALEOs

How well does the council ensure that effective governance and accountability is maintained when the council delivers services through ALEOs, including companies and trusts?			
	Basic practice	Basic and better practice	Advanced practice
<p>1. How clear is the council about its reasons for delivering services through ALEOs?</p>	<p>The decision to set up or engage with ALEOs is within the council's powers, follows an appraisal of options for service delivery and is linked to its strategic aims/policy.</p> <p>The council establishes from the start clear limits to its involvement, a timetable for achieving objectives and the circumstances in which the agreement will be terminated.</p>	<p>An overall statement of purpose is expressed in key documents.</p> <p>A regular review is carried out to ensure that the services provided by the ALEO remain aligned with the council's current objectives.</p> <p>The council identifies specific circumstances that will trigger a review of its involvement, eg changes in key personnel in the ALEO.</p>	<p>Where services are delivered through ALEOs, the council has a well-developed and soundly based strategy for the delivery of services in this manner which is clearly linked to the council's wider strategic objectives and priorities.</p>
<p>2. How well does the council understand the financial commitment and risk to which it is exposed through ALEOs?</p>	<p>The council defines the nature of the financial relationship, its commitment to the ALEO (shareholding, grant, loan, guarantee, etc) and contributions are not open-ended in duration or amount.</p> <p>There is a written agreement about the transfer of public assets which safeguard their title and use.</p> <p>Minimum accounting and auditing arrangements are stated in the agreement.</p>	<p>Before entering into an agreement with an ALEO, the council assesses risks and documents the results.</p> <p>Service Level Agreements or equivalent are in place which specify the financial arrangement.</p> <p>A corporate register of all financial commitments to ALEOs allows the council to assess its overall commitment to its ALEOs.</p>	<p>Risk assessment extends beyond financial risks to other areas, eg reputational risk.</p> <p>The council identifies specific governance, finance and performance indicators that give early warning of potential problems and acts when required.</p> <p>Contingency plans are in place to ensure that service delivery is maintained if the agreement ends.</p>

How well does the council ensure that effective governance and accountability is maintained when the council delivers services through ALEOs, including companies and trusts?			
	Basic practice	Basic and better practice	Advanced practice
<p>3. How effective are the council's arrangements for monitoring the financial and service performance of ALEOs, maintaining accountability and for ensuring audit access?</p>	<p>The council stipulates how and at what intervals it intends to monitor financial and service performance.</p> <p>The council has identified members of staff who will monitor the ALEO's performance.</p> <p>The council ensures its external auditors have right of access to key records of the ALEO and to any explanations they consider necessary from representatives of the ALEO.</p> <p>There are no significant performance or financial concerns about the ALEO that are not being actively managed.</p>	<p>Targets (SMART) and methods of measurement are agreed and documented at the start.</p> <p>Monitoring reports provide timely and good-quality information about the ALEO's performance in delivering services and impact.</p> <p>The council scrutinises monitoring reports and follows up where performance does not meet agreed standards.</p> <p>Staff of the council responsible for monitoring the ALEO are clear about their role and are supported in it; those involved in monitoring financial performance are suitably qualified.</p> <p>Access rights for internal and external audit are covered in the agreement.</p>	<p>Monitoring extends beyond financial and service performance to employment practices, equality requirements, purchasing policies and sustainability.</p> <p>The council receives and scrutinises forward plans. The council takes a risk-based approach to monitoring and targets resources accordingly.</p> <p>Where the council is one of a number of public organisations involved in the ALEO, it ensures that liaison and monitoring of the ALEO is coordinated.</p> <p>The reasons for providing services through an ALEO and the impact are clear in reports to stakeholders, including the public.</p>
<p>4. Where members or senior officers are appointed to the board or equivalent of ALEOs, how clear are they about their role?</p>	<p>The council has considered the question of representation and is clear about why it wants representation and is transparent in its decision about which members or senior officers will be involved and why. The council has a clear policy for any payments to board members.</p> <p>Members and senior officials are properly advised of their responsibilities to the council and the ALEO, including questions of declaration of interests. They exhibit this understanding through their behaviour and performance.</p>	<p>Training and support is provided to council representatives so they are clear about their responsibilities to the council and the ALEO.</p> <p>The council has a register of interests which records potential conflicts of interest that may arise from member or senior officer involvement in the ALEO.</p> <p>Members and senior officials are effective in performing their role as board members.</p>	<p>The council safeguards itself from risks incurred by members/senior officers in their dealings with the ALEO, eg liability insurance.</p> <p>Specialist training is provided to members/senior officers, eg on company or trust law. Training continues over the period of the member/senior manager involvement and impact of training is measured.</p> <p>The council reviews representation in ALEOs, makes changes in light of experience and considers rotating representation.</p>

Arm's-length external organisations (ALEOs): are you getting it right?

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Key messages

Transport for health and social care



Prepared for the Auditor General for Scotland and the Accounts Commission
August 2011

Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for helping to ensure propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Government or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Government and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Enterprise.

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requests local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue services).

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Key messages

Background

1. The availability of transport is an essential part of making health and social care services work efficiently. Older people, those with long-term health or social care needs and people who live in remote and rural areas may need support to get to a hospital appointment or to access services such as their local day centre. This includes help with paying for transport or getting to their appointment in transport provided by the ambulance service, councils, NHS boards or the voluntary sector.¹

2. Transport is often the first part of a person's contact with health and social care services and if this is poor, difficult or stressful, their experience can be undermined. If transport is not well planned it can result in unnecessary journeys, missed or late appointments, people staying in hospital longer than they need to and reliance on unplanned options such as taxis.

3. Transport for health and social care generally covers three main groups of people:

- People with a medical need who are eligible to access the Patient Transport Service (PTS) provided by the Scottish Ambulance Service.
- People who are not eligible for PTS but need help with transport including people who are on low

incomes, those who live in remote and rural areas and those who have ongoing health or social care needs. This group is the main focus of our audit.

- People who have their own means of accessing services, for example, those who have their own or family transport or can easily access public transport.

Our work

4. Our audit assessed the efficiency and effectiveness of transport for health and social care in Scotland. We assessed how well agencies work together to plan and deliver transport for health and social care to meet local needs. Where possible, we identified potential savings and good practice examples.

5. In the audit, we:

- reviewed key documents including relevant policies, financial and performance information about the ambulance service, and regional transport strategies
- carried out a data survey of all councils and NHS boards, collecting information on activity, costs and joint working
- interviewed staff who plan and deliver transport for health and social care

- conducted focus groups with voluntary sector providers of transport for health and social care.

6. We have published a supplementary report on the views of community transport providers in the voluntary sector. This is available on our website: www.audit-scotland.gov.uk

Key messages

1 Transport services for health and social care are fragmented and there is a lack of leadership, ownership and monitoring of the services provided. The Scottish Government, Regional Transport Partnerships, councils, NHS boards and the ambulance service are not working together effectively to deliver transport for health and social care or making best use of available resources.

7. Well-organised transport can have a big impact on people's lives. As well as helping people get to the services they need, transport can also enhance people's independence.

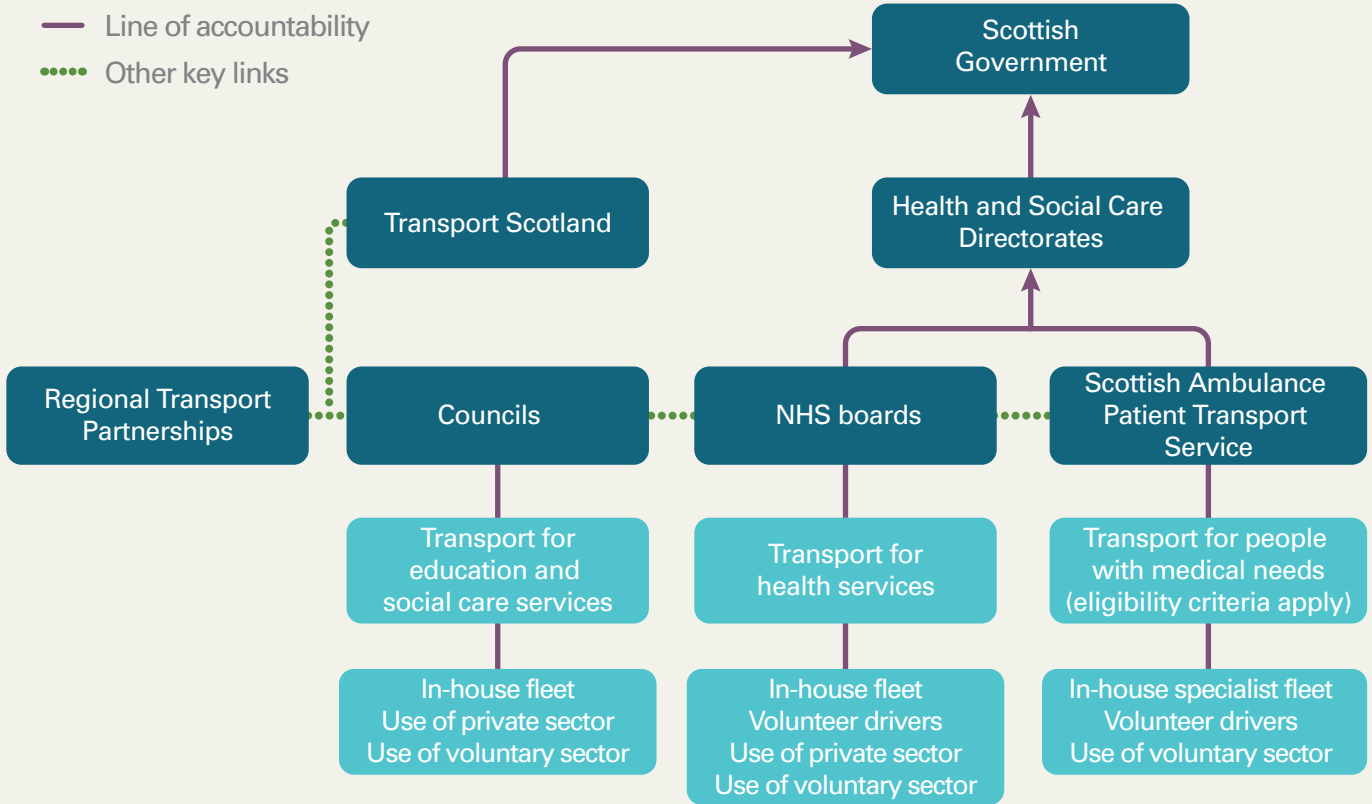
8. Transport for health and social care is provided by a number of public, voluntary and private sector bodies ([Exhibit 1, overleaf](#)). Services are either provided directly by the ambulance service, councils and NHS boards or commissioned from private and voluntary sector providers ([Exhibit 2, page 3](#)). The transport available ranges from specialised transport for people with a medical need to community buses and private taxis.

¹ Throughout this report where we say NHS boards, we mean the 14 territorial NHS boards. When we mean the Scottish Ambulance Service, we refer to it directly.

Exhibit 1

Public sector bodies involved in transport for health and social care in Scotland

Several organisations are involved in planning and delivering transport for health and social care.



Source: Audit Scotland, 2011

9. Regional Transport Partnerships (RTPs) were introduced to help coordinate transport at a regional level. Transport for health and social care is a small part of their overall remit although it is an important part of what they do. All RTPs have established working groups on transport for health and social care issues with their partners although for some this is a recent focus.

10. There is a lack of strategic oversight of transport for health and social care in Scotland and overall responsibility is fragmented. Given

the number of organisations involved, stronger leadership and decision-making is essential if transport for health and social care is to be developed to fully meet people’s needs. (See paragraphs 51 and 52 of the main report.)

11. Considering transport needs when planning and delivering services can help make services more efficient by getting people to the right place at the right time. This can contribute to fewer cancelled appointments, less disruption to services as people arrive on time for their appointment, shorter

journeys and people getting the most out of the care and support being provided for them. Organisations that arrange or provide transport to and from health and social care services need to work together to make best use of available resources.

12. There are significant gaps in how transport for health and social care is planned, for example people’s transport needs are not routinely considered as part of planning clinic times. It is not clear who is responsible for getting patients to and from health appointments if they do

Exhibit 2

Summary of the public sector role in delivering transport for health and social care services

Public sector bodies provide a range of transport for health and social care.

	Background	Delivery
Regional Transport Partnerships (RTPs)	The Transport (Scotland) Act 2005 established seven Regional Transport Partnerships (RTPs). ¹ RTPs are independent bodies which work like joint partnership boards, bringing councils and other stakeholders together to take a strategic approach to all transport in each region of Scotland. ² Transport Scotland, the national transport agency for Scotland, is responsible for liaising with RTPs, including monitoring of funding.	There are two types of RTPs in operation – most only have a strategic remit, but three RTPs also deliver services. ^{3,4} Each RTP has a statutory duty to prepare a regional transport strategy to address the transport needs of people in the area, including health and social care transport needs. RTPs have a broad remit and transport for health and social care is only a part of this. Strathclyde Partnership for Transport (SPT) has developed differently to other RTPs. SPT received a capital grant of £25 million from the Scottish Government in 2009/10 and covers more councils than other RTPs. ⁵
Councils	Councils provide transport to take people to social care services, such as day centres, and transport to schools, for example for pupils with special educational needs. They may also provide transport such as dial-a-ride services for people who cannot access regular public transport. ⁶	All 32 councils operate their own fleet, 28 commission services from the private sector and 19 have contracts or service level agreements with the voluntary sector for health and social care transport.
Scottish Ambulance Service	The ambulance service has a statutory duty to provide transport for people with a medical need to get to and from hospital. This service is known as the Patient Transport Service (PTS). Only patients with a medical need are eligible to access the PTS, for example if their condition needs to be monitored or they are not mobile enough to travel any other way.	The PTS undertakes 1.5 million journeys to and from NHS appointments each year. There are 601 patient transport vehicles, including ambulances, specialist vehicles and cars based throughout Scotland. Specially trained ambulance care assistants and volunteer drivers deliver the service.
NHS boards	NHS boards provide transport for healthcare, for example for people who are not eligible for the PTS or when a patient is not able to get to their appointment or to get home from hospital.	Four NHS boards use owned or leased vehicles, 14 commission services from the private sector such as taxi companies, seven contract with the voluntary sector and seven have volunteer drivers.

Notes:

1. The seven RTPs are Highlands and Islands Transport Partnership (HITRANS), North-East of Scotland Transport Partnership (Nestrans), Shetland Transport Partnership (ZetTrans), South-East of Scotland Transport Partnership (SESTRANS), South-West of Scotland Transport Partnership (SWESTRANS), Strathclyde Partnership for Transport (SPT) and Tayside and Central Scotland Transport Partnership (TACTRAN).
2. RTPs provide copies of their business plans and annual report to Scottish ministers, though there is no formal approval requirement.
3. The Transport (Scotland) Act 2005 made provision for three different models of RTPs but only two are in use (types one and three). Type one is a strategic model and type three is a strategic and service delivery model. The type two model would give a Regional Transport Partnership limited authority to deliver transport services for specific reasons identified in its regional transport strategy, but this model has never been used.
4. Strathclyde Partnership for Transport (SPT), Shetland Transport Partnership (ZetTrans), and South-West of Scotland Transport Partnership (SWESTRANS) deliver services.
5. The councils in the SPT area are Argyll and Bute, East Ayrshire, East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire, South Ayrshire, South Lanarkshire and West Dunbartonshire.
6. Destinations and journey purposes on these services vary according to the user's needs, but may include trips to health and social care services.

Source: Audit Scotland, 2011

not have a medical need for transport. NHS boards do not see transport as their main area of responsibility and councils do not have a statutory duty to provide transport other than for education. This means that there is a risk that people are left without the support they require to get to the services they need. (See paragraphs 59 to 65 of the main report.)

13. Decisions taken in one organisation can have far-reaching consequences for the services provided by another. Therefore, joint working across sectors is crucial for the successful, sustainable development of transport for health and social care. There needs to be a clearer system for organising transport resources in Scotland, alongside clarity about the roles of services and partners and how they link together so that everyone who needs transport for health and social care is able to get it. Organisations should come together to jointly plan services, share resources and evaluate whether they are meeting local needs.

2 From the limited information available we have identified that over £93 million was spent in 2009/10 on providing transport to health and social care services. This is a considerable underestimate as data on costs, activity and quality is poor. The public sector will find it difficult to make efficient and effective use of available resources without this basic information.

14. A number of organisations spend money on providing transport for health and social care. Funding for these services can come from a range of sources including councils and NHS boards, and specific funding from central government schemes.

15. Not all councils and NHS boards were able to supply us with basic financial information, for example how much they spend on staff, vehicles and maintenance. Therefore it is not possible to compare the cost-effectiveness of different services. Understanding activity and costs is essential to making informed decisions about how resources are allocated, to identify efficiency savings and deliver better services for users. However, transport costs are often part of service budgets such as education and social work and not separately identified.

16. The amount of money spent on transport for health and social care varies across Scotland. Poor quality data, along with differences in how services are organised, makes it difficult to determine the reasons for such variation in costs.

17. Councils, NHS boards and the ambulance service spent over £93 million in 2009/10 on providing transport to health and social care services. Regional Transport Partnerships spent £85 million in 2009/10 but it is not possible to identify how much of this money was directed at transport for health and social care. (See Exhibit 4 and paragraph 24 of the main report.)

18. The ambulance service spent £201 million in 2009/10.² This money is not allocated as separate funding for emergency transport and the PTS, and the ambulance service decides how much to allocate to each service. In 2009/10, the total cost of delivering the PTS was just over £34 million.³ (See paragraph 25 of the main report.)

19. In 2009/10, NHS boards spent over £4.5 million on transport for patients. This includes reimbursement of £2.5 million for the Healthcare Travel Costs Scheme, which is a means-tested reimbursement scheme.⁴ NHS boards receive money for this scheme as part of their overall budget allocation.

20. In addition, NHS boards claimed £9.2 million from the Highlands and Islands Patient Travel Reimbursement Scheme (HITS) over the same period.⁵ This money could potentially be used more efficiently by public sector bodies to meet the challenging transport needs of people living in remote areas rather than as an individual reimbursement fund. (See paragraph 30 of the main report.)

21. We have identified that councils spent around £45.2 million on transport for health and social care in 2009/10, but this is likely to be a significant underestimate. It is difficult to determine actual spend on these services as they are often not centrally coordinated and funding is not ring-fenced and these costs are not necessarily separately identified in larger service budgets.

² Net resource outturn, Scottish Ambulance Service Annual Accounts (2009-10).

³ This includes just under £23 million for staffing, just over £2 million for fleet and fuel costs, and just over £9 million in other costs, including equipment, administration and management costs.

⁴ *Are you entitled to help with health costs?* HSC1, NHS Scotland, 2007.

⁵ The Highlands and Islands Travel Scheme (HITS) provides non-means-tested reimbursement to NHS boards for journeys to healthcare for people living in the Highlands and Islands. *Patients' Travelling Expenses MEL 1996 (70)*, The Scottish Office and Department of Health, 1996.

3 Joint working across the public sector and with voluntary and private providers is crucial for the successful and sustainable development of transport for health and social care. Improved joint planning could lead to more efficient services. There is scope to save money by better planning and management of transport for health and social care without affecting quality. Pilot projects show scope for efficiencies but these lessons have not been applied across Scotland.

22. Although transport for health and social care represents a small percentage of overall public sector funding, there is scope for efficiency savings.

23. In January 2011, the Scottish Government established a short-life working group to lead a review of the delivery of effective patient transport to healthcare services. It is considering a range of issues including delivering greater integration of service provision, improving the national planning framework, addressing inequity in the provision of transport to hospitals and reviewing the Healthcare Transport Framework (See Exhibit 7 in the main report.). The group is due to report in September 2011 and will consider our audit findings as part of its work.

24. Greater coordination of transport would make things easier both for service users and providers and may also make services more cost-effective. Only two NHS boards organise transport through a central department and 18 councils have developed integrated transport units or are in the process of doing so. An integrated transport unit brings

together all transport planning, procurement and monitoring and management functions across a range of service areas. This may be within an organisation or across a number of different agencies. (See Exhibits 5 and 6 in the main report.)

25. Without a central team several different services can be involved in planning transport. For example, within councils, vehicles may be commissioned for general use (including education and social care); the education service may arrange special education needs transport; and the social work service may also commission taxis or use council fleet or drivers. Staff are not always aware of the various transport options available and may not fully understand the service user's needs or how best to access the most appropriate transport for them. (See paragraphs 35 to 37 of the main report.)

26. To date, there has been limited work considering the scope for sharing services including fleet, staff, procurement, and booking systems but there are some examples of good joint working at a local level. For example, the Clyde Valley councils in partnership with Strathclyde Partnership for Transport (SPT) have started to investigate the potential for shared transport for social care and fleet management. Some councils and NHS boards told us that they are planning more joint working in future. (See paragraphs 68 to 74 of the main report.)

27. The way transport for health and social care is scheduled needs to improve. Current arrangements are fragmented. In some cases partners

have tried to create an integrated system in their local area, but in some areas it has been difficult to get all partners to engage and commit to improved joint scheduling.

28. There is no standard IT scheduling package used across Scotland or even within sectors. Systems for scheduling transport for health and social care are a mixture of electronic and paper-based systems and there are several scheduling software packages available. Eleven councils and one NHS board use specialist electronic scheduling software. The ambulance service uses the system CLERIC and SPT uses Trapeze PASS, which enables real-time scheduling of services.

29. Work carried out in Clyde Valley identifies a potential for £800,000 – £1.1 million of savings if a shared scheduling system was used among the eight councils in the area to arrange social care transport, with the potential to expand this to include NHS boards for further savings. (See paragraph 41 of the main report.)

30. The voluntary sector plays an important role in providing transport for health and social care in many areas of Scotland. Recent flexibilities in the legislation around community transport services mean that there is more scope for the voluntary sector to provide its services to support public sector providers in this area.⁶ Councils and NHS boards should consider the voluntary sector as part of their overall strategy for commissioning transport services for health and social care. (See paragraphs 75 to 79 of the main report.)

6 Community transport means any kind of transport provided by the voluntary sector but not necessarily using volunteers, for example, local dial-a-bus schemes or car schemes.

4 Reducing or removing funding from transport services can have a significant impact on people on low incomes, older people and people with ongoing health and social care needs. But the potential effect of changes to services is not often assessed or monitored and alternative provision is not always put in place. The public sector needs better information on individual needs and on the quality of the transport services they provide.

31. Thirteen per cent of older people living in rural areas report poor access to a range of basic services, including GPs, dentists and hospitals. Those on low income and those aged over 80 are significantly more likely to report poor access.⁷

32. Using public transport is not an option for some people. This may be because it is too expensive, it is only available at times which do not suit their needs or they may not be able to access it because of a physical or mental health problem and need door-to-door transport. In areas where buses are infrequent or not available, there are rarely any alternative transport options for people who are not mobile or do not have access to a car. This affects people in urban as well as remote and rural areas. (See paragraphs 11 to 13 of the main report.)

33. Under the current arrangements, people do not have enough information to access the transport services they need. People should be given good, timely information about the travel options available to

them when they arrange a hospital appointment or attend a social care service. Staff also need good information so that they can make appropriate arrangements for service users. There is a need for awareness raising amongst practitioners such as GPs and clinical and social care staff at all levels. (See paragraphs 80 to 82 of the main report.)

34. There are a range of eligibility criteria in place including those within the ambulance service PTS, councils, NHS boards and voluntary and private sector providers. This variation and a lack of transparency can make it difficult for both staff and users to know what services are available and if and how they will be funded. There is also the risk that responsibility for trips is shifted between agencies, causing further confusion to those using the service. It is essential that eligibility criteria are clearly defined and understood by everyone using transport services and by the staff who refer them.

35. The ambulance service is currently reviewing how the PTS eligibility criteria are being applied. Pilot work is under way to review the effect of applying the criteria more consistently. The ambulance service, NHS boards and councils need to work together to properly evaluate the impact of any changes to the PTS. This includes an assessment of the impact on cost, activity and workforce across all organisations and the potential impact on service users. (See paragraphs 63 and 64 of the main report.)

36. Service changes have an impact on people's transport needs, for example changes to the location of clinics or day centres. Public sector organisations must involve users to ensure that the transport services they are providing meet their needs. The extent to which public bodies do this varies. Twenty-one councils and ten NHS boards provided evidence of engaging with service users about transport for health and social care.

37. There are weaknesses in planning for reducing funding to services. Councils, NHS boards and the ambulance service have a duty to conduct equality impact assessments where this is judged to be relevant and proportionate. Equality impact assessments can help staff make better and more transparent decisions. However, only six councils and five NHS boards told us that they have carried out equality impact assessments on service change which affects transport needs.

38. National performance monitoring is limited to PTS activity. There were two national health standards for the PTS for 2009/10. The ambulance service achieved the first standard that 70 per cent of Priority 1 patients should arrive at hospital at least 30 minutes before their appointment, with a rate of 71.8 per cent in 2009/10.⁸ The ambulance service just missed the second standard that 87 per cent of Priority 1 patients should be picked up no longer than 30 minutes after their appointment. (See paragraphs 54 and 55 of the main report.)

⁷ *Building a society for all ages*, HM Government, July 2009.

⁸ Priority 1 patients are those who have cancer, coronary heart disease, renal disorders, or mental illness.

39. There are no national targets for transport for health and social care services for other agencies, and 11 Single Outcome Agreements make no reference to these services.⁹ During our fieldwork, only Golden Jubilee National Hospital reported that it had assessed the impact that transport has on people not attending appointments, and no NHS board had assessed the impact on waiting times or on the number of people waiting to be discharged from hospital.

Key recommendations

The short-life working group on healthcare transport led by the Scottish Government should:

- take account of the findings and recommendations of this report in its work.

The Scottish Government and partners should:

- work together to clarify responsibilities for planning and delivering transport for health and social care and how these link together.

Partners (councils, NHS boards, Regional Transport Partnerships and the ambulance service) should:

- collect routine and accurate data on the activity, cost (including unit costs) and quality of services they provide and routinely benchmark performance and costs to ensure resources are used efficiently

- assess the impact of proposed service changes on users and other providers of transport
- ensure that staff have up-to-date information about all transport options in their area and provide better information to the public about available transport options, eligibility criteria and charges
- integrate or share services where this represents more efficient use of resources and better services for users, including considering an integrated scheduling system
- ensure that transport for health and social care services is based on an assessment of need and that it is regularly monitored and evaluated to ensure value for money
- use the Audit Scotland checklist detailed in [Appendix 3](#) of the full report to help improve planning, delivery and impact of transport for health and social care through a joined-up, consistent approach.

⁹ In April 2008, following agreement of a concordat between the Scottish Government and the Convention of Scottish Local Authorities (COSLA), Single Outcome Agreements (SOAs) were introduced across Scotland. SOAs set out how each council and its partners, including the local NHS board, will address their priorities and improve services for the local population. They are intended to encourage councils and their partners to focus on outcomes rather than on measuring process. However, detailed management information on services, quality and cost is still needed to underpin work on outcomes to assess how well needs are being met.

Transport for health and social care

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