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Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

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14 June 2013

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 21 JUNE 2013** 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 15 March 2013 (Pages 1 - 6)

4. **PERFORMANCE MANAGEMENT REPORTING**
   Report by Head of Improvement and Strategic HR (Pages 7 - 8)

5. **ASSURANCE AND IMPROVEMENT PLAN 2013 - 2016**
   Report by Chief Executive (Pages 9 - 14)

6. **REVIEW OF CODE OF CORPORATE GOVERNANCE**
   Joint Report by Executive Director – Customer Services and Head of Strategic Finance (to follow)

7. **AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2012 - 2013**
   Report by Chief Internal Auditor (Pages 15 - 170)

8. **INTERNAL AUDIT ANNUAL REPORT 2012 - 2013**
   Report by Chief Internal Auditor (Pages 171 - 186)

9. **ANNUAL REPORT BY AUDIT COMMITTEE 2012 - 2013**
   Report by Chief Internal Auditor (Pages 187 - 194)

10. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2013 - 2014**
Report by Chief Internal Auditor (Pages 195 - 198)

11. **EXTERNAL AND INTERNAL REPORT FOLLOW UP 2012 - 2013**
Report by Chief Internal Auditor (Pages 199 - 206)

12. **INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013 & 2013 - 2014**
Report by Chief Internal Auditor (Pages 207 - 256)

13. **NATIONAL FRAUD INITIATIVE (NFI) - NATIONAL EXERCISE 2012/13**
Report by Chief Internal Auditor (Pages 257 - 260)

14. **STRATEGIC RISK MANAGEMENT UPDATE**
Report by Head of Strategic Finance (to follow)

15. **UNAUDITED ACCOUNTS 2012 - 2013**
Report by Head of Strategic Finance (to follow)

16. **REVIEW OF ADEQUACY OF THE INTERNAL AUDIT SERVICE 2012/2013**
Letter from Audit Scotland, External Auditors (Pages 261 - 262)

AUDIT COMMITTEE

Martin Caldwell (Chair)	Councillor Gordon Blair
Councillor Maurice Corry	Sheila Hill
Councillor Iain MacDonald	Councillor Duncan MacIntyre
Councillor Aileen Morton	

Contact: Fiona McCallum Tel. No. 01546 604392

Agenda Item 3

MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on FRIDAY, 15 MARCH 2013

Present: Martin Caldwell (Chair)

Councillor Gordon Blair
Sheila Hill
Councillor Maurice Corry
Councillor Duncan MacIntyre

Attending: Bruce West, Head of Strategic Finance
Patricia O'Neill, Central Governance Manager
Ian Nisbet, Chief Internal Auditor
David Clements, Improvement and Organisational Development Programme Manager
David Jamieson, Senior Audit Manager, Audit Scotland

1. APOLOGIES FOR ABSENCE

An apology for absence was intimated from Councillor Morton as the change to the start time of the meeting meant she was unable to attend.

An apology for absence was also intimated from Councillor Iain MacDonald.

2. DECLARATIONS OF INTEREST

None declared.

3. MINUTES

The Minutes of the Audit Committee of 7 December 2012 were approved as a correct record.

4. PERFORMANCE MANAGEMENT QUARTERLY REPORT

A report updating the Committee on the progress being made across the Council relating to the key elements of the Planning and Performance Management Framework (PPMF) was considered.

Decision

1. Noted the progress made in relation to performance management and improvement across the Council in respect of the following:-

   - National Benchmarking project
   - Developing Single Outcome Agreement 2013-17
   - Additional Themed Scorecards

2. Requested that a report be brought to the Audit Committee in December 2013 on how risk is being measured, reported and reviewed across Argyll and Bute Community Planning Partnership.

(Reference: Report by Head of Improvement and Strategic HR, submitted)

5. REVIEW OF PLANNING AND PERFORMANCE MANAGEMENT FRAMEWORK

At its meeting in December 2012 the Audit Committee considered a report on the national review carried out by Audit Scotland on “Managing Performance – Are You Getting It Right?” The Council’s position in this is that the areas for improvement were being taken forward through the project on Productivity and Service Improvement as part of the Corporate Improvement Programme. A key element of this project is the review of the Council’s Planning and Performance Management Framework. The Audit Committee requested that an update on this review be reported to the Committee in March and this update was now before the Committee for consideration.

Decision

Noted the contents of the report.

(Reference: Report by Executive Director – Development and Infrastructure Services dated 8 March 2013, submitted)

6. AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2012 - 2013

A report advising of two recently published reports by Audit Scotland entitled “Health Inequalities in Scotland” and “Protecting Consumers” was considered.

Decision

1. Noted the contents of the report which will be followed up by Internal Audit;

2. Noted the Management response to the recommendations contained within the “Protecting Consumers” report;

3. Noted the potential for an increase in workload for the Citizens Advice Bureau arising from Welfare Reform; and

4. Noted that individual partners of the CPP have prepared an initial response to the “Health Inequalities in Scotland” report and that these are being brought together to create a unified response to the report recommendations which will be reported to the Audit Committee in June 2013.

(Reference: Report by Chief Internal Auditor dated 5 March 2013, submitted)

7. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2012 - 2013

An interim progress report covering the audit work performed by Internal Audit as at 8 February 2013 was considered.

Decision

Approved the progress made with the Annual Audit Plan for 2012 – 2013.

(Reference: Report by Chief Internal Auditor dated 20 February 2013, submitted)

8. ANNUAL INTERNAL AUDIT PLAN 2013- 2014 - DRAFT

A report introducing the draft Annual Audit Plan for 2013/14 was considered.

Decision

Approved the draft Annual Audit Plan for 2013/14 and particularly noted the attention that had been paid in the analysis leading to this Plan in regard to Materiality, Risk, Control Effectiveness and Performance Management.

(Reference: Report by Chief Internal Auditor dated 4 March 2013, submitted)

9. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013

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) Treasury Management – Strategic Finance
(b) General Ledger – Strategic Finance
(c) Finance and Operating Leases – Strategic Finance
(d) Capital Accounting – Strategic Finance
(e) Review of Roads Costing System – Chief Executive’s Unit
(f) Review of Tendering – Customer Services
(g) Creditors Review – Customer Services
(h) Purchase Card Review – Customer Services
(i) Business Continuity – Chief Executive’s Unit

(Reference: Report by Chief Internal Auditor dated 5 March 2013, submitted)

10. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2012 - 2013

A report detailing the results from a review performed by Internal Audit for recommendations due to be implemented by 31 January 2013 was considered.

Decision

Noted and approved the contents of the report.

(Reference: Report by Chief Internal Auditor dated 5 March 2013, submitted)

11. CORPORATE PERFORMANCE AUDITS 2012 - 2013

Audit Scotland published Best Value Toolkit guidance for Councils to enable them to assess their performance against defined criteria. An audit report was presented to the Committee in June 2012 on this basis and a report advising of progress regarding implementation of audit report recommendations was now before the Committee for consideration.

Decision

Noted the contents of the report which will be followed up by Internal Audit.

(Reference: Report by Chief Internal Auditor dated 7 March 2013, submitted)

12. RISK MANAGEMENT UPDATE

A report providing information on future development of the strategic risk register (SRR) and use of the SRR as a tool to support the work of the Audit Committee and also updating the Committee on ongoing developments in relation to risk management over the last few months was considered.

Decision

Noted the contents of the report and agreed to use on an ongoing basis the accompanying schedule of risk themes to provide an overview of progress in the continued development of an effective system of risk management.

(Reference: Report by Head of Strategic Finance dated 8 March 2013, submitted)

13. AUDIT COMMITTEE - AWAY DAY

The Audit Committee undertook a self assessment day on 22 February 2013. The day was used to establish how to further develop the Audit Committee purpose, role and remit. In addition the Audit Committee discussed their Development Programme and Terms of Reference. The Committee was addressed by Grant Thornton and the Chartered Institute of Public Finance & Accountancy (CIPFA) on key activities for an Audit Committee. A report covering the day's activities was before the Committee for consideration.

Decision

1. Noted the contents of the report which will be followed up by Internal Audit; and

2. Noted that the draft Terms of Reference for the Audit Committee will be brought to the June Committee for consideration.

(Reference: Report by Chief Internal Auditor dated 26 February 2013, submitted)

14. FINANCIAL STATEMENTS 2012 - 2013

A report advising the Committee on the plans in place for financial year end 31 March 2013 and the preparation of the Council's Financial Statements for 2012-13 was considered.

Decision

Noted that plans are in place to prepare the Council's financial statements, consistent with the Accounting Code of Practice, and submit them to Council prior to 30 June 2013 in line with the Scottish Government's requirements.

(Reference: Report by Head of Strategic Finance dated 8 March 2013, submitted)

15. EXTERNAL AUDIT PLAN 2012 - 2013

A report summarising specific governance and other risks that may affect the financial statements of the Council, and setting out the audit work that Audit Scotland planned to undertake in respect of 2012/13 was considered.

Decision

1. Noted the contents of the report; and

2. Noted that letters received from Audit Scotland following the completion of External Audits will be circulated to the Audit Committee.

(Reference: Report by Audit Scotland dated March 2013, submitted)

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ARGYLL AND BUTE COUNCIL	**AUDIT COMMITTEE**
IMPROVEMENT AND HR	**21 JUNE 2013**

PERFORMANCE MANAGEMENT REPORTING

1 INTRODUCTION

1.1 This report outlines options for the Audit Committee to consider regarding scrutiny of the council's performance management processes and procedures. The Audit Committee's role is to ensure that there are appropriate management systems in place. Now that the council's Performance Review and Scrutiny Committee has been established, there is a requirement to review the role of the Audit Committee in relation to performance management.

2 RECOMMENDATION

2.1 1 That the Audit Committee considers the options for future scrutiny of the council's performance management system and procedures.

3 DETAIL

3.1 The Audit Committee has scrutinised the council's performance management processes and procedures on a quarterly basis to ensure that appropriate management systems are in place.

3.2 The council has now established a Performance Review and Scrutiny Committee which now considers performance reporting, which was previously the role of the Executive Committee. This is the forum for discussion on and scrutiny of the council's scorecards and overall performance. The PRS will also consider Annual Reports on performance and the performance of Police and Fire against their approved plans.

3.3 Although the PRS will consider scrutiny, the Audit Committee retains a responsibility to ensure that appropriate management systems are in place across the council.

3.4 There are a number of options for the Audit Committee to consider in order that it may continue to be assured that the effective performance management systems are in place.

3.5 **Annual Audit Plan**

The Annual Audit Plan includes audit of the performance management system which is reported to the Audit Committee as a matter of course.

3.6 **Annual Report**

An Annual Report on performance management processes and procedures, can be developed as part of the review of the Planning and Performance Management Framework. This would be a new and additional piece of work.

3.7 **Performance Risk Based Assessment of Audit**

An additional criterion could be added to the Audit Plan Risk Assessment process based on a scoring of the section/team/service's performance management processes. This would ensure that higher risk sections were highlighted for additional support and if required additional scrutiny.

3.8 **Internal Audit Findings**

Internal audit findings could be amended to include consideration and analysis in terms of the effectiveness of a section/department/team's performance management system.

4 CONCLUSION

4.1 There are a number of options for the Audit Committee to consider in order to ensure that there continues to be an assessment of the performance management system that is in place in the council.

5 IMPLICATIONS

Policy	None
Financial	None
HR	None
Legal	None
Equal Opportunities	None
Risk	Effective management of performance reduces risk across the council.
Customer Service	None

Jane Fowler, Head of Improvement and HR
Tel 01546 604466

Agenda Item 5

ARGYLL AND BUTE COUNCIL — **AUDIT COMMITTEE**
CHIEF EXECUTIVE — **21 JUNE 2013**

ASSURANCE AND IMPROVEMENT PLAN UPDATE 2013-16

1 INTRODUCTION

1.1 The Local Area Network of external scrutiny bodies has recently completed its annual Shared Risk Assessment review of Argyll and Bute Council and updated the Assurance and Improvement Plan (AIP) accordingly. The Plan outlines the current level of audit and inspection risk within the Council and sets out the level of proposed external scrutiny for a rolling three year period.

1.2 The Chair of the Local Area Network, Fiona Mitchell-Knight from Audit Scotland, presented the AIP to the Council on 23 May 2013.

1.3 The Local Area Network continue to report positively about the Council's progress and notes both the significant improvements made and the challenges that we continue to face. Only one area was identified as requiring scrutiny, with the one previous area of significant risk being downgraded to no scrutiny required, therefore confirming the Council's position as low risk.

1.4 Audit Scotland assesses the council against 3 national risk areas and a number of local risk areas.

2 RECOMMENDATION

2.1 That the Audit Committee notes the annual Assurance and Improvement Plan update, and in particular the positive comments on the Council's improvement progress and continuing low risk. In particular there is a significant improvement in roads and transportation where the risk has reduced to no scrutiny required.

2.2 The Audit Committee notes that plans to address areas identified as requiring scrutiny or further information will be developed.

3 DETAIL

3.1 Since 2010 the Council has been subject to an annual Shared Risk Assessment (SRA) undertaken by a collection of our scrutiny bodies known as the Local Area Network (LAN). The LAN consists of representatives from our key audit and inspection bodies, and utilise a shared risk assessment approach to planning scrutiny of the Council that is proportionate and based on areas of risk. The findings of this risk assessment, and subsequent scrutiny plan, are reported in an Assurance and Improvement Plan update (AIP). This AIP for the period 2013-16 has recently been published, a copy of which is included as an attachment to this report.

3.2 The Shared Risk Assessment drew on evidence from a number of sources:

- The annual report to the Controller of Audit and elected members for 2011/12 from the council's appointed external auditors, Audit Scotland
- The council's own performance data and self-evaluation evidence
- Evidence gathered from Education Scotland, the Care Inspectorate and the Scottish Housing Regulator (including published inspection reports and other supporting evidence)

3.3 **Change in terminology by Audit Scotland**

The terminology used to describe risks has been amended this year for all AIPs in order to be clearer.

Previously used terminology	New terminology
Significant Risks	Scrutiny required
No Significant Risks	No scrutiny required
Area of Uncertainty	Further information required

3.4 **Risk Assessment for Argyll and Bute Council**

The risk assessment for Argyll and Bute Council saw a continued low level of risk for the council. No risk based scrutiny work is currently required on the council's services or outcome areas.
The table below shows the improving situation regarding significant risk (now scrutiny required) and areas of uncertainty (now further information required) since 2010 for local risks.

2010	2011	2012	2013
2 Significant Risks	1 Significant Risk	1 Significant Risk	1 scrutiny required
12 Areas of Uncertainty	7 Areas of Uncertainty	3 Areas of Uncertainty	3 further information required

The remainder of the assessment areas are classified as no scrutiny required.

3.5 **Overall Risk Summary – National and Local Risks**

Taking both national and local risks into consideration there is a total 42 risk areas. For Argyll and Bute Council 38 of these require no scrutiny, 3 further information required and 1 scrutiny required risk.

	Scrutiny Required	No Scrutiny Required	Further Information Required
Local Risks	1	36	2
National Risks	0	2	1
Total	1	38	3

The area of scrutiny required relates to the Council's Leadership and Culture – member to member and member to officer relationships. The previous area of significant risk in roads and transportation has now been assessed as requiring no scrutiny. This is as a result of the council agreeing its Roads Maintenance and Management Strategy in October 2012.

No significant risks were identified within the Council's overall corporate governance framework.

4 LOCAL SCRUTINY RISK ASSESSMENTS

4.1 There are a total of 39 local risk areas considered by the LAN during their assessment. Of these a total of 36 are classed as no scrutiny required. A list of these can be found at section 24 of the Assurance and Improvement Plan. Of the remaining 3 assessment areas, one is classed as a scrutiny required, and the remaining 2 as further information required. Further information on each of these is noted below.

4.2 **Asset Management: management of the school estate – Further information required.**
The council awaits the outcome of the Commission on Rural Education, and the Scottish Government's subsequent legislative response before the school estate is reviewed.

4.3 **Our older people are supported to live more active, healthier and independent lives – Further information required.**
There is a continued move towards care at home for older people as an alternative to residential care and continued improvement in the provision of home care services. The integration of health and social care may change how services are delivered and the challenge of identifying resources to support development of older peoples' services remains. The care inspectorate will gather further information through ongoing monitoring activity.

4.4 **Leadership and Culture – Member to member and member to officer relationships – Scrutiny required**
This is a new risk identified by the Local Area Network through the Shared Risk Assessment. Some targeted work is now planned in this area by Audit Scotland.

5 NATIONAL RISK PRIORITIES

5.1 There are 3 core national risk priorities that apply to all 32 Councils listed in the Assurance and Improvement Plan. 1 of these requires further information and the other 2 require no local scrutiny. These are:

The protection and welfare of vulnerable people (children and adults) including access to opportunities – Further information required
The council and its partners are committed to ensuring that adults and children who need access to support and protection get this in timely, effective and empowering ways. A joint inspection of children's services has been carried out in early 2013 and will report shortly. Until this is complete, the LAN has concluded that further information is required in this area.

5.2 **Assuring public money is being used properly – no local scrutiny required**

5.3 **How councils are responding to the challenging financial environment : no local scrutiny required other than monitoring of the financial position through the annual audit.**

6 SUMMARY OF SCRUTINY ACTIVITY

6.1 The focus of the AIP is strategic scrutiny activity focussed at a corporate or whole service level. Scrutiny level at unit level, including for example school
and residential home inspections, and unannounced inspections for services such as care for vulnerable groups, will continue on an ongoing basis.

6.2 In addition to routine scrutiny activity, and ongoing monitoring by the LAN and our appointed external auditors, the following scrutiny activity will take place within the Council over the next year:

Children's services joint inspection	April 2013
Scotland's public finances – Follow up national report	June 2013
Audit Scotland reshaping Scotland's public sector workforce	April 2013
Supported self evaluation of the impact on quality of the newly introduced national assessment and care planning instrument (LSCMI) in local criminal justice social work services.	No date
Audit Scotland – targeted work to review member to member and member to officer relationships	June 2013

7 CONCLUSION

7.1 The publication of the Assurance and Improvement Plan 2013-16 shows that the Council continues to be regarded as low risk by our external scrutineers. The level of external scrutiny placed upon the Council is therefore low. The specific area of targeted scrutiny, Leadership and Culture – Member to member and member to officer relationship will be subject to a targeted action plan.

8 IMPLICATIONS

8.1	Policy	In line with the Council's duty to deliver Best Value and continuous improvement.
8.2	Financial	None
8.3	Personnel	None
8.4	Legal	None
8.5	Equal Opportunities	None
8.6	Customer Service	None

Sally Loudon, Chief Executive
21 June 2013

For further information please contact:
Jane Fowler, Head of Improvement and HR
Tel 01546 604466

ATTACHMENT:
Assurance and Improvement Plan Update 2013-16

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Agenda Item 7

ARGYLL & BUTE COUNCIL **AUDIT COMMITTEE**
STRATEGIC FINANCE **21 JUNE 2013**

AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2012 - 2013

1. SUMMARY

In compliance with the CIPFA Code of Practice for Internal Audit, on a quarterly basis the Audit Committee receives Audit Scotland reports pertaining to Local Government. There are four reports appended for the Audit Committee. Three of the reports contain a checklist for which a management response has been provided.

2. RECOMMENDATIONS

2.1 It is advised that in future the full Audit Scotland National Reports will be issued to Members as they are published and advising at what Audit Committee meeting they will be discussed. A summary of these reports will be included in future agenda packs along with management responses where applicable.

3. DETAILS

3.1 Audit Scotland in March 2013 published a report entitled, Major Capital Investment in Councils, highlights the £27 billion invested since 2000/01 on schools, social housing, sports and leisure centres and other projects. This finance method has been used by the Council to enable new schools to be built. The report highlights that Councils have improved their oversight of major capital projects in recent years and are clearer about their broad goals. The report also states that this Council is one of three councils who are working with the Scottish Futures Trust (SFT) to develop Tax Incremental Financing (TIF) business cases. A management response is attached to the key findings in this report.

3.2 In March 2013, Audit Scotland issued the following report, “Responding to challenges and change - An overview of local government in Scotland 2013”. Councils spent a total of £21 billion providing a range of essential local services and most councils are predicting substantial funding gaps over the next three years. The report states that Councils are taking this very seriously and are responding well. Management have provided responses to the key issues raised in this report.

3.3 The Local Government Scrutiny Coordination Strategic Group in April 2013 published their scrutiny plans based on a risk assessment process designed to identify where scrutiny activity will make the most difference in terms of helping councils to improve and providing assurance to the public. Attached to the report is the national scrutiny plan for 2013/14 covering 32 Councils. The inspections for this Council will take place in the first quarter of the financial year.

3.4 Audit Scotland published a report in May 2013 entitled, "Managing early departures from the Scottish public sector". The report is an aid to help public bodies improve their management and reporting of early release schemes. The report says such schemes can provide significant savings, and public bodies generally are following good practice. In the period 2010/12 almost 14,000 employees took such packages which is approximately one in 40 of all public sector staff at a cost of £550 million. Argyll and Bute Council had 000 employees take up the early release scheme option between 2010/12 which was 0 in every 00 FTE Council employees at a cost of £000. The Council is referred to in the report in Part 3 Section 29 under the heading principles of best practice. Attached are management responses to key issues raised in the report.

3.5 Audit Scotland in May 2013 issued an update report entitled, "Maintaining Scotland's roads". The report charts the progress made by councils across Scotland against recommendations made in a 2011 national report. The update, based on reports from local auditors, says that the percentage of local roads in acceptable condition has marginally increased over the last two years, despite a 21 per cent reduction in spending between 2009/10 and 2010/11. The Head of Roads and Amenity Services is due to report back to the committee in September 2013 and therefore this report will come to that meeting providing members an opportunity to obtain direct comment.

3.6 In December 2012, Audit Scotland published a report entitled, 'Health Inequalities in Scotland'. The report highlights that whilst overall health has improved over the past 50 years, deep-seated inequalities remain. The national report came with a checklist for completion. The Audit committee requested that responses to the checklist in the report be discussed with the CPP to create a unified response with these reported to the June Committee. An initial response to the checklist was prepared by the council and circulated to CPP members for consideration. The joint response was considered in draft but not presented to the CPP Management Committee. The information collated as part of the response is being critically reviewed as a mechanism for informing the preparation of the new Argyll and Bute Single Outcome Agreement, which is currently in draft format. The national guidance for SOAs specifically refers to the need for health inequalities to be addressed.

3.7 In March 2013, Audit Scotland issued a national report entitled "Improving community planning in Scotland". The report says community planning is now at a cross roads. A fresh drive to realise its full potential, particularly in the light of severe budget pressures on all public services, has been outlined in a Statement of Ambition from the Scottish Government and the Convention of Scottish Local Authorities. The report is attached and a management report covering both reports has been prepared with a further response planned for the September committee.

3.8 Full reports can either be viewed at http://www.audit-scotland.gov.uk/work/local_national.php 2012/13 and 2013/14 or viewed in the Committee Room 1 where a copy has been made available.

4. CONCLUSIONS

This report and attachments are submitted to the Audit Committee for consideration and review.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Legal:	None
5.4	HR:	None
5.5	Equalities:	None
5.6	Risk:	None
5.7	Customer Service:	None

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216). 13 June 2013

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Major capital investment in councils

ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2013

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.

Contents

Summary

Key facts

£27 billion
The total value of capital investment by councils between 2000/01 and 2011/12

121 projects / **£3.5 billion**
The total number and cost of major capital projects that councils completed in the three years to March 2012

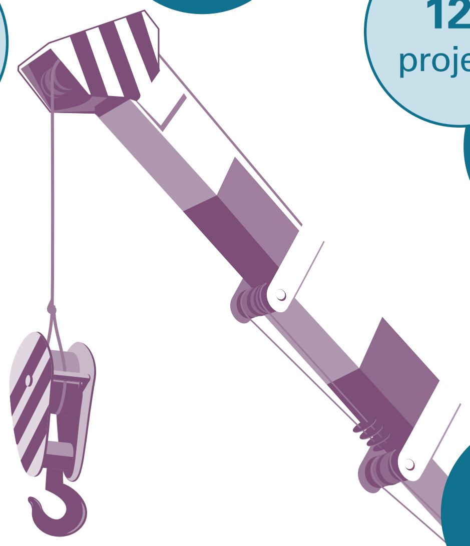
84 primary / **secondary 72** / **£2 billion**
The number and cost of new and refurbished schools in our sample that councils completed in the three years to March 2012

£35 billion
The combined book value of council assets at March 2012

£12.9 billion
The combined indebtedness of councils at March 2012

40 per cent
The percentage of major investment projects in our audit completed within the initial cost estimate

203 projects / **£5.1 billion**
The number and estimated cost of major capital projects that councils are currently progressing



Councils' capital investment involves spending on property and other assets that councils will use over many years to provide public services

Background

1. Councils' capital investment involves spending on property and other assets that councils will use over many years to provide public services. It includes spending on new buildings such as new and refurbished schools, social housing, sports and community centres and care homes for older people. As well as new facilities, councils must also invest to maintain and repair their existing property assets such as local roads, schools and social housing.

2. The 32 councils in Scotland spend significant amounts of money on capital investment every year and this has increased steadily in real terms – that is, allowing for the effects of inflation – since 2000/01. In 2011/12, they spent £2.4 billion on capital investment, in addition to their £18 billion revenue spending that year – that is, spending on the day-to-day cost of providing services. Capital investment in 2011/12 was the highest in real terms in any year since 2000/01.

3. Improving facilities and other assets can help councils deliver services more efficiently and effectively and enhance people's experiences of council services. Councils' capital investment can help to:

- sustain and improve public services and achieve service plans and local outcomes – that is, the local priorities that councils have agreed to deliver

- improve the overall efficiency of how councils manage their properties and reduce costs in the long term (this includes reducing carbon emissions and helping to contain the effect of rising energy prices)

- boost economic growth and stimulate economic recovery, by providing employment opportunities in construction and engineering and wider commercial opportunities for local and national businesses

- achieve a wide range of other goals and objectives, in accordance with local priorities.

4. Councils make their own decisions about capital investment and must ensure their spending plans are prudent, affordable and sustainable. Planning capital investment requires a long-term and strategic outlook. Councils must also select, design and deliver individual investment projects to a high standard. Elected members are important decision-makers for capital investment and have a fundamental role in ensuring that councils deliver investment plans successfully. Effective governance arrangements that manage, challenge and scrutinise how programmes are delivered, and strong financial, project and risk management are all important to ensure that investment provides value for money.

5. Councils pay for capital investment from a range of sources. Mainly they borrow for capital investment, so that the cost spreads over many years. They also pay for investment through Private Finance Initiative (PFI) and Non-Profit Distributing (NPD) contracts, which also allow the costs to be spread over a longer time.[1] Central government grants are the second main source of funding for investment and the Scottish Government therefore has a strategic role in shaping and supporting councils' investment, particularly for schools, housing and transport infrastructure. Councils also use money transferred from revenue budgets and income from selling property for capital investment. But these and other sources provided less than a fifth of the total capital investment by councils in 2011/12.

6. Over the two years to 2014/15, the public money available for capital investment across the public sector is forecast to decrease significantly and the position in later years is expected to face similar reductions. It will be vital for elected members and council officers to set clear priorities and provide strong leadership and effective management to ensure value for money from their capital investment programmes.

About this audit

7. Audit Scotland has reported previously on some major capital projects and initiatives in councils.[2] We have also reported on the management of major capital projects in other parts of the public sector.[3] However, this audit provides the first comprehensive review of major capital investment within councils. It focuses on major capital projects over £5 million each and assesses how well councils direct, manage and deliver capital investments. In doing so, it reviews the level, type and financing methods of investment spending in councils. It also examines how well councils manage their investment spending as a programme and their performance in delivering major capital projects against time and cost targets.

8. The report has three parts:

- Capital investment in councils (Part 1).

- Delivering major capital projects within cost and time targets (Part 2).

- Managing capital projects and investment programmes (Part 3).

1 These methods do not involve using a council's capital budget. Instead, the council meets the cost of providing each project over typically 25 to 30 years or more through ongoing revenue payments to the providers over the life of the contract. These payments cover the costs of construction as well as service and maintenance costs. For accounting purposes, PFI projects are now usually reflected in council balance sheets.
2 In particular, in recent years, *Commonwealth Games 2014 – position statement* (2012 and 2009), *Edinburgh trams interim report* (2011), *Maintaining Scotland's roads – a follow-up* (2011), *Improving the schools estate* (2008).
3 *Management of the Scottish Government's capital investment programme* (2011); *Review of major capital projects in Scotland* (2008).

9. In Part 1, we detail how much councils spend on capital investment, what it delivers and how it is funded and financed. Part 2 focuses on councils' performance in delivering individual major capital projects to cost and time, based on our examination of recently completed projects and projects currently in progress.[4] Part 3 assesses councils' broader capital planning and management capabilities, including areas where councils need to make improvements to help achieve value for money from their capital investment.

10. We have also published a good practice guide as part of the *How councils work* series to help councils make improvements where necessary.[5]

11. The report draws on a number of sources including the following:

- An initial survey of all 32 councils to establish the total number of major capital projects, both recently completed and currently in progress.
- A review of 63 recently completed major capital projects in councils with a combined cost of £2.9 billion, assessing how they performed against cost and time targets and other aspects.[6]
- A review of 15 major capital projects in progress in nine councils at April 2012, with a combined estimated cost of £919 million.
- Interviews with 21 senior council staff and nine elected members and a review of papers to assess project and programme management in nine councils.
- Published good practice in project and programme management.

12. In this audit our primary focus was on how councils direct major capital projects costing £5 million or more. Councils' capital investment also includes projects costing less than £5 million and major programmed maintenance work in areas such as roads and social housing. The latter may cost more than £5 million but comprises large volumes of relatively routine work such as roads maintenance or replacing kitchens or bathrooms. Our audit did not examine these other types of investment in any depth.[7]

13. Appendix 1 provides more information on our methodology.

Summary of key messages

- Since 2000/01, councils have invested £27 billion in real terms in building and maintaining assets and infrastructure – more than any other part of the public sector. This includes £23 billion from the capital budget and £4 billion using private finance methods such as Private Finance Initiative and Non-Profit Distributing contracts.
- Councils increased borrowing in recent years to maintain investment, during a period of wider public spending reductions and constraints. Where plans are available, councils anticipate they will spend less on capital investment in future years, although borrowing will remain the main source of finance for investment.
- Accurate cost estimates are important from the outset of major projects. Weak estimating can undermine the successful delivery of a project and the potential to achieve value for money. For most of the completed major capital projects we reviewed, councils' early estimates of the expected costs and timetable have proved to be inaccurate. Estimating improved significantly as projects advanced, plans became clearer and contracts were awarded. Estimating for schools projects is more accurate than for non-schools projects.
- Councils have improved governance structures for investment decision-making in recent years. However, we identified weak processes for developing and using business cases and that monitoring information is insufficient. Improvements in these areas are important to support scrutiny and decision-making.

Key recommendations

Councils should:

- develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment and consult with stakeholders, such as service users and suppliers, as they develop these strategies
- assess the overall appropriateness of using borrowing and private finance within the investment strategy. The strategy should balance the costs, risks and rewards of using these methods to ensure plans are financially sustainable and help each council achieve value for money

4 This report does not consider the Edinburgh trams project or projects relating to the 2014 Commonwealth Games. As noted, these projects have been subject to separate Audit Scotland reports.
5 *Major capital investment in councils: Good practice guide* is part of the Accounts Commission's *How councils work* series. The guide can be downloaded from our website www.audit-scotland.gov.uk
6 The projects we examined represented 82 per cent of the £3.5 billion cost of all 121 major capital projects completed by councils in the three years ending March 2012.
7 Audit Scotland will publish a report on housing in Scotland later in 2013.

- actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement
- improve the quality of capital project and programme information that is routinely provided to members. Information should cover:
  - annual financial performance against the capital budget
  - project and programme level performance against cost, time and scope targets
  - risk reporting (including identification, likelihood, financial impact and actions taken)
  - an assessment of intended and realised benefits
- carry out early assessments of risk and uncertainty to improve the accuracy of early-stage estimating of the cost and timescale of projects
- consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary
- collect and retain information on all projects including explanations for cost, time and scope changes and lessons learned. Report this information publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils
- develop and use clearly defined project milestones for monitoring and reporting. This should include a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects.

Part 1. Capital investment in councils

Since 2000/01, councils have invested £27 billion in real terms in building and maintaining assets and infrastructure – more than any other part of the public sector

Key messages

- Since 2000/01, councils have invested £27 billion in real terms in building and maintaining assets and infrastructure – more than any other part of the public sector. This includes £23 billion from the capital budget and £4 billion using private finance methods such as Private Finance Initiative and Non-Profit Distributing contracts. This investment was needed to address a long-term decline in councils' assets and to develop new infrastructure.

- Councils increased borrowing in recent years to maintain investment, during a period of wider public spending reductions and constraints.

- Most recently, in the three years ending March 2012, councils have completed 121 major capital projects worth £3.5 billion. A further 203 major projects are in progress with a combined value of £5.1 billion. Most of the completed projects (£2.5 billion) were for improving schools and school properties. This area remains a priority with 82 schools projects worth £2 billion in the current programme.

Since 2000/01, councils have spent £23 billion in real terms on capital investment

14. Since 2000/01, councils have spent £23 billion in real terms on capital investment. This has paid for building and developing many types of investment projects including new schools, care homes and sports facilities. It has also paid for significant elements of maintaining and refurbishing councils' infrastructure such as housing repairs and road maintenance.

15. Councils' capital spending almost doubled in real terms from £1.2 billion in 2000/01 to just below £2.4 billion in 2008/09. Following the onset of the recession, capital spending fell by 11 per cent between 2008/09 and 2010/11 but increased again to £2.4 billion in 2011/12 owing to additional borrowing. Councils' capital spending between 2000/01 and 2011/12 increased at a higher rate than revenue spending in the same period. Capital spending almost doubled in real terms whereas revenue spending increased by almost 50 per cent.

16. This growth in capital investment spending reflects priorities councils set individually and is consistent with the spending plans of the Scottish Government, reflected in successive local government financial settlements. In general terms, more investment was needed to address a long-term decline in councils' assets, to develop new infrastructure and (in later years) to stimulate the economy. An Audit Scotland report in 2009 found that many council assets were in poor condition and unsuitable for the services being delivered from them.[8]

Councils have spent around half of total public sector investment each year

17. Between 2008/09 and 2011/12, councils have provided almost half of public sector capital investment (Exhibit 1, overleaf). Total public sector investment includes spending on areas such as national transport infrastructure (mainly rail services and motorways), prisons, colleges and hospitals. In 2011/12, councils spent £2.4 billion (56 per cent) on capital investment compared to transport's spending of £755 million (17 per cent) and the NHS' £488 million (11 per cent).[9] Together, other areas spent £672 million (16 per cent).

18. Between 2008/09 and 2010/11, almost a third of councils' capital investment was on housing, with schools and transport, including road maintenance, each accounting for around a fifth of the total.[10] Central services, such as office accommodation, and culture services such as leisure facilities and museums, together accounted for just under a fifth of overall capital spending.

Councils have increased borrowing in recent years to maintain investment

19. Councils fund capital investment from a range of sources, including:

- borrowing from the UK Government[11]
- capital grants from the Scottish Government
- receipts from selling assets
- transfers from revenue budgets.

20. Increasingly, councils have borrowed to finance capital investment, allowing them to spread the cost over many years. The level of annual capital investment has almost doubled in real terms since 2000/01 and the proportion financed by borrowing has increased by about a half during the same period.

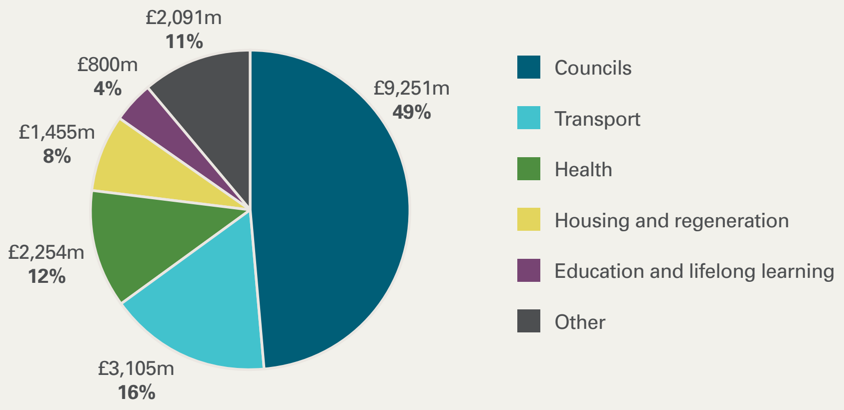
21. Councils have increased their use of borrowing since prudential borrowing was introduced in 2004. (Exhibit 2, page 9). This allowed councils greater flexibility to borrow for capital investment without specific consent from the Scottish Government. In doing so, each council

8 *Asset management in local government,* Audit Scotland, May 2009.
9 Councils' figures are taken from annual accounts. Other figures are taken from Scottish Government draft budget documents 2008-12. Owing to changes in the Scottish Government portfolio structure it is not possible to provide trend analysis from 2000/01.
10 *Scottish Local Authority Capital Expenditure 2010-11*, Scottish Government, April 2012.
11 Borrowing is mainly from the National Loans Fund and distributed by the Public Works Loan Board (PWLB). The PWLB is part of the UK Debt Management Office and is a non-ministerial UK government department.

Exhibit 1

Public sector capital spending by area 2008/09 to 2011/12 (real terms)

In the last four years, councils spent almost £9.3 billion on capital investment, about half of total public sector capital investment.



Note: Transport, Education and lifelong learning, and Housing and regeneration figures relate to central government spending. 'Other' includes Justice, Scottish Water loans, Rural affairs and the environment, and Enterprise, energy and tourism
Source: Audit Scotland

must decide and keep under review the amount of money it can afford to borrow for capital investment, with reference to the Prudential Code.[12] The requirements of the code are intended to ensure that councils apply proper care and prudence regarding investment decisions. Until 2011/12, councils received support from the Scottish Government towards the financing costs of borrowing. In the final year, this amounted to £305 million, representing just over a quarter of borrowing in that year. From 2011/12, this support was replaced by grant and included as part of the General Capital Grant.

22. Scottish Government grants have been the second main source of funding for councils. These comprise grants for specific projects and General Capital Grant, which can be used at councils' discretion. Although councils make their own decisions about capital investments and priorities, since 2000/01 the Scottish Government has provided £5.8 billion capital grant funding to councils in real terms. This is an average of about £480 million a year. The level of grant funding available to each council is an important factor in deciding how much borrowing they need to fulfil capital investment plans. Grant levels reached a peak of more than £820 million in 2009/10 but they have since declined in both cash and real terms.

23. Councils also use money transferred from revenue budgets and income from selling property to help fund capital investment. These and other sources provided less than a fifth of councils' total capital investment in 2011/12. Councils attribute the reduction in financing from asset sales to the significant general decline in property market values and activity across the Scottish and UK economy.[13]

24. Recent investment has contributed to an increase in the value of councils' total property assets reported in their annual accounts by 35 per cent, from £26 billion in 2007/08 to £35 billion in 2011/12.[14] The main sources of finance for investment in this period have been borrowing and the use of Private Finance Initiative (PFI) or Non-Profit Distributing (NPD) projects. Councils' combined debt levels have increased by 39 per cent from £9.3 billion in 2007/08 to £12.9 billion in 2011/12.[15] With further borrowing and private finance investment planned over the next few years, overall debt levels may continue to rise.

Councils have procured £4 billion of investment through private finance contracts

25. Councils have financed significant capital investment using PFI and NPD contracts. Under these contracts, the council appoints a contractor who is responsible for designing, building, financing and operating the new building over a contract period of around 30 years. The council does not have to meet the up-front costs of the new building or asset from its capital budget and does not pay for the investment directly from borrowing or other sources. Instead the council pays the contractor an annual charge for constructing the asset and any related services, for example building maintenance services, over the contract life.[16]

26. Councils have more NPD and PFI contracts in place than any other part of the public sector in Scotland. Since 2000/01, councils have procured almost £4 billion worth of capital investment in real terms using PFI

12 This is a professional code of practice developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to help councils with decisions that relate to affordability, sustainability and prudence.
13 For example, in evidence to the Scottish Parliament's Finance Committee in autumn 2012, Registers of Scotland reported that over the previous 12 months it had recorded just under £1.8 billion in commercial property sales in Scotland compared to the high of £6.3 billion during 2006/07.
14 Some of this growth is attributable to annual asset revaluation.
15 This is net external debt (total borrowing less any investments).
16 Buildings provided through PFI and NPD contracts have since 2010/11 been treated as assets on councils' balance sheets and some of the contract payments made to the PFI and NPD providers are treated as financing charges.

and NPD (Exhibit 3). This represents 58 per cent of total public sector NPD and PFI commitments in Scotland, compared to about 20 per cent in both health and central government. About half of these commitments were made in two years, 2006/07 and 2007/08, adding an extra 50 per cent worth of investment in those years and pushing the total investment to over £3 billion a year. Since then, councils have added £130 million of PFI and NPD investment.

27. The high levels of investment reflect previous Scottish Government policy, which encouraged councils to consider using PFI contracts for investment where councils judged it to provide value for money. Councils used PFI contracts for very large-scale major capital projects rather than smaller, more routine elements of capital spending. In 2008, the Scottish Government decided to adopt NPD as its preferred model for private finance projects.[17]

28. Thirty-eight projects for new or completely refurbished schools account for 95 per cent of the total value of councils' PFI and NPD commitments. Seven other PFI projects, including waste, IT and road projects, account for the other five per cent of these types of contracts.

29. Further information about methods of financing investment in councils is in Appendix 2.

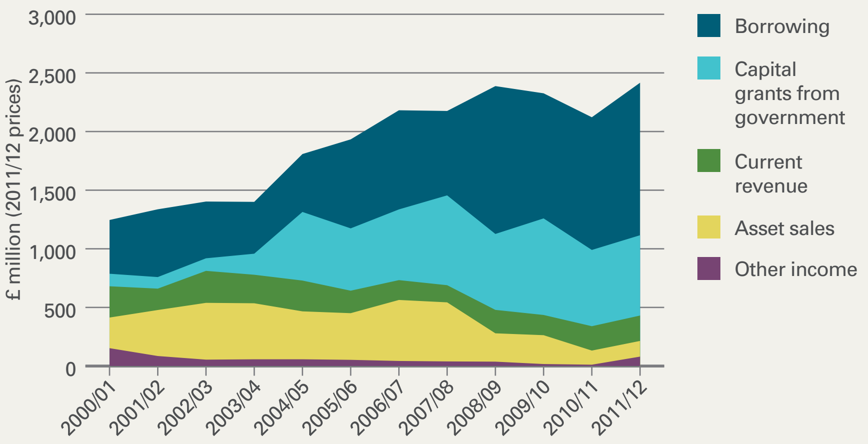
Councils have completed 121 major capital projects worth £3.5 billion since 2009

30. Each council must keep records of its capital projects. Annual accounts detail total capital investment spending each year. However, information was not available on all planned, ongoing or completed major projects across councils in Scotland. We therefore surveyed all 32 councils to get this information. We

Exhibit 2

Sources of financing for councils' annual capital expenditure, 2000/01 to 2011/12 (real terms)

Since 2000/01, councils have increasingly used borrowing and government grants, with a significant reduction in financing from receipts from asset sales.

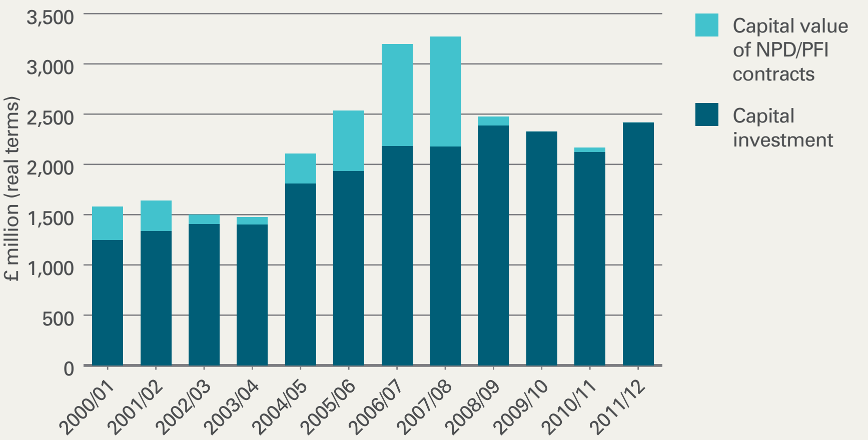


Source: Audit Scotland

Exhibit 3

Annual capital spending by councils and the capital value of signed PFI and NPD contracts in the same year

Since 2000/01, councils have spent £23 billion in real terms on capital investment. In addition, they have signed £4 billion worth of PFI and NPD contracts.



Source: Audit Scotland

17 Under the NPD method there is a partnership with a private sector company, who pays up-front construction costs and ongoing maintenance costs. The public sector pays an annual charge to this company over the life of the asset from its revenue budget. NPD contracts impose a limit on the profits that the private sector company may retain and any surplus profit is reinvested in the public sector.

concentrated on recently completed projects – that is, projects that were physically completed in the three years to the end of March 2012 – and projects that were in progress at the time of our survey in April 2012.

31. Councils reported that since 2009 they had completed 121 major capital projects with a combined value of £3.5 billion. Another 203 projects, worth £5.1 billion, were in progress at April 2012 (Exhibit 4).

32. Our analysis of completed projects shows the following:

- Most – 52 – with a combined value of £2.5 billion (71 per cent of the total cost of all projects) were for new or redeveloped schools.
- Thirteen were sports facilities, which accounted for £218 million (six per cent).
- Ten were road and other transport-related projects costing £124 million (four per cent), and four were arts projects costing £130 million (four per cent). These included the new Riverside Museum in Glasgow and the refurbishment of the Usher Hall in Edinburgh, costing £85 million and £25 million respectively.
- Eight were office accommodation projects costing £163 million (four per cent). These included Aberdeen City Council's new corporate headquarters (£68 million) and new office accommodation for Dundee City Council (£35 million).
- Three were flood prevention schemes costing £87 million (two per cent). The City of Edinburgh Council's scheme at Braid Burn (£43 million) was the largest of these.
- The remaining 31 projects, costing £320 million (nine per cent), included social housing, care homes and shared service facilities. West Lothian Council's Civic Centre (£47 million) was the largest of these projects.

33. Although only 16 of the 121 completed projects were PFI projects, they were higher-value projects with a combined value of almost £2 billion, 56 per cent of the value of all projects completed in the period. All PFI projects were for school buildings and property improvements.

34. Councils' investment in maintaining social housing can be significant but only a small proportion is in the form of major projects. Housing projects are typically valued at less than £5 million or are rolling programmes of maintenance and repair rather than new, one-off, projects. For example, in 2011/12, Aberdeen City Council spent £18 million replacing kitchens and bathrooms as part of its annual housing modernisation programme.

Councils have about 200 major projects in progress worth almost £5.1 billion

35. At the time of our audit, councils reported they had 203 major capital projects in progress with a combined value of almost £5.1 billion. This includes projects that are in the early planning stages through to projects where contracts have been signed and construction is under way.

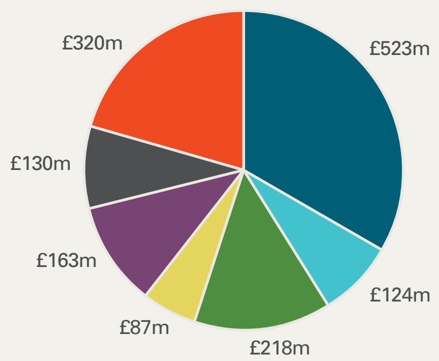
36. Investing in school buildings and property will continue to represent the highest spending area in councils' capital investment plans. Projects in progress include 82 school projects with a combined value of £2 billion (40 per cent). Councils will fund most of these schools projects from their capital budgets.

Exhibit 4

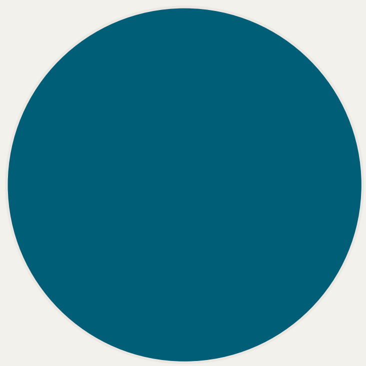
Completed major capital projects (2009–12)

Councils completed £3.5 billion of major projects between 2009 and 2012.

£1,565m from Capital budget



£1,969m from Private finance

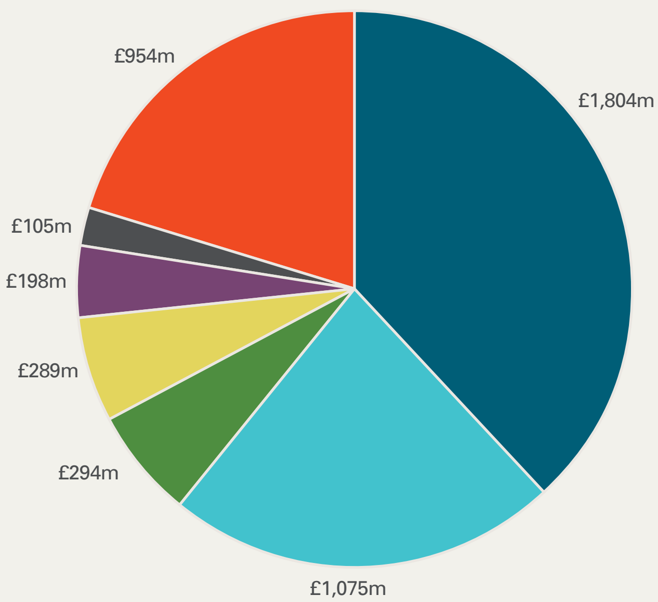


Major capital projects in progress

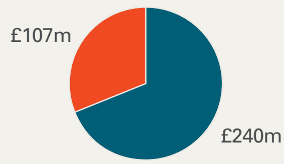
Around £5.1 billion worth of projects are in progress.

- Schools
- Roads and transport
- Sports
- Flood prevention
- Office
- Arts
- Other projects

£4,719m from Capital budget



£347m from Private finance



Note: 'Other projects' include housing, waste treatment, care homes, community centres, regeneration and ICT projects.
Source: Audit Scotland

Part 2. Delivering major capital projects within cost and time targets

Councils delivered most projects since 2009 within or close to contract cost, despite early estimates being too low

Key messages

- For most major projects completed within the last three years, councils' early estimates of the expected costs and timetable have proved to be inaccurate. For example, councils completed only two-fifths of these projects within the initial cost estimates. As expected, estimating improved significantly as projects advanced, plans became clearer and contracts were awarded.
- Estimating for school projects was better than for other projects. A seventh of completed school projects in our sample cost five per cent or more than the contract award estimate. This compared to almost half of non-school project estimates at the same stage. Similarly, a fifth of school projects were completed at least two months later than the contract award estimate, compared to just over half of non-school projects.
- Good practice requires strong control over costs and timescales of major projects. However, there are some significant gaps in the information that councils have to measure as to whether projects are completed to budget and on time.
- Councils' estimating of cost and time targets for a sample of current major projects is also inaccurate. Of 15 projects in progress reviewed, seven have cost estimates that are higher than initial estimates. Likewise, nine of these 15 projects have estimated completion dates that are later than initial estimates.

37. We have previously reported on how major public sector capital projects perform against time and cost targets. In 2008, our report *Review of major capital projects in Scotland* found that at project approval stage, the early estimates of cost and time were too optimistic for many major projects in health and central government. In 2011, our report *Management of the Scottish Government's capital investment programme* found that the accuracy of cost estimating had improved since our 2008 report but cost increases and slippage continued to affect many projects.

There are significant gaps in the availability of cost and time information

38. Good project management increases the likelihood that projects will meet time, cost and scope targets.[18] Key features of good practice include the importance of well-defined project plans with carefully calculated and realistic estimates of timescales and costs from the outset. Good practice requires strong control over the expected costs and timetable at each stage of the project from inception through to completion and operation. Each project should pass through several key stages (Exhibit 5, overleaf).

39. We examined the latest reported costs and completion time compared to earlier estimates for a sample of 63 completed major capital projects. These 63 projects accounted for over half of all projects completed by councils. They had a combined cost of £2.9 billion (82 per cent of the combined cost of £3.5 billion of completed projects). Summary information about the sample of projects is in Appendix 3. We have published separately on our website further information about the 63 individual projects in our sample.

40. In particular, we assessed the performance against two milestones:

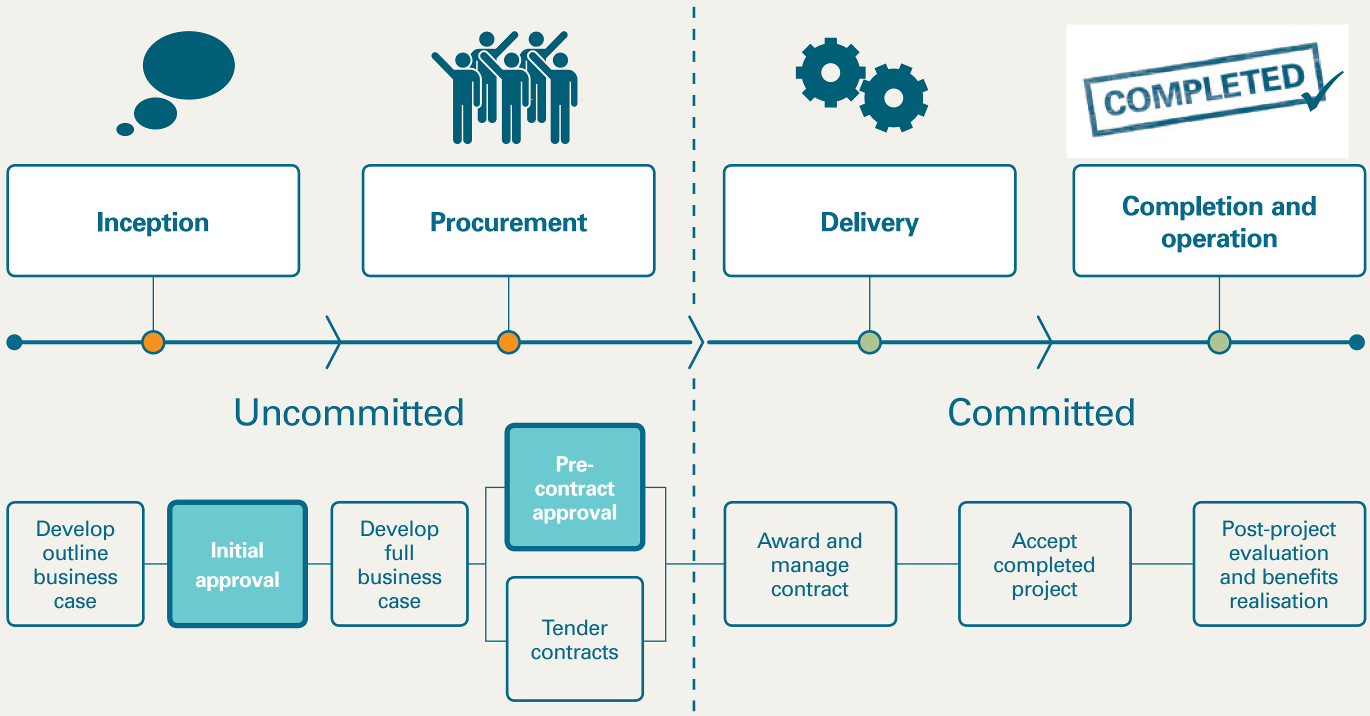
- **Initial approval stage:** At this stage the following features of the project need to be clear:
  - Overall value and purpose.
  - Contribution to business goals.
  - The best balance of cost, benefit and risk for delivering it effectively.
- At this stage, accurate cost and time estimates contribute to effective decision-making. There should be a formal outline business case. However, there is no legal commitment as a contract has not been awarded. Where we refer to initial costs we are referring to estimates at this stage.
- **Contract award stage:** The estimate just before awarding the contract is vital because it provides a basis for confirming value for money before the main financial commitment (the construction or service contract) is accepted. Once a contract price is agreed, significant changes to a project are likely to be costly, disruptive and may jeopardise value for money.

41. There are some significant gaps in the availability of cost and time information. For one in five projects, the relevant council could not provide a cost estimate at the initial approval stage, either because project costs were not estimated at this time or data were unavailable (records could not be retrieved). Similarly, 20 out of 63 (32 per cent) could not provide a time estimate at the initial approval stage.

18 Examples of scope targets include measurements such as space per pupil (schools) or number of beds (care homes).

Exhibit 5
Key stages in major capital projects

Each project should pass through several key stages. Two important milestones for any project are the initial approval and the pre-contract approval (shown as shaded below).



Source: Audit Scotland

Councils delivered most projects since 2009 within or close to contract cost, despite early estimates being too low

Few major projects are completed within initial cost estimates

42. Forty-seven of the 63 projects in our sample were traditionally financed projects with a combined final cost of £980 million. Councils were able to provide cost estimates at the initial approval stage for 37 of these projects. Of the 35 projects where final costs were known, the majority had initial cost estimates that proved to be significant under-estimates:

- Councils completed 13 projects, costing £355 million, on or within the initial cost estimate.
- One project had final costs that exceeded the initial cost estimate by one per cent.
- Twenty-one projects had final costs that were significantly higher – between five and 189 per cent – than the initial cost estimate. These projects had a combined outturn cost of £344 million, £89 million (26 per cent) more than their combined initial cost estimates.

43. Councils reported a wide range of reasons for these overruns. They reported that changes in project scope were a contributory factor for time and cost increases for three-quarters of projects. They reported that unforeseen delays or extra costs from third parties, such as utility providers, affected half of the projects.

44. North Lanarkshire Council's Ravenscraig Regional Sports Facility had one of the largest monetary increases. It cost £33 million, against the initial estimate of £18 million. North Lanarkshire Council attributed this cost increase to major changes in project scope in conjunction with the development of a national strategy for sports facilities.

Estimating improved by the point of contract award

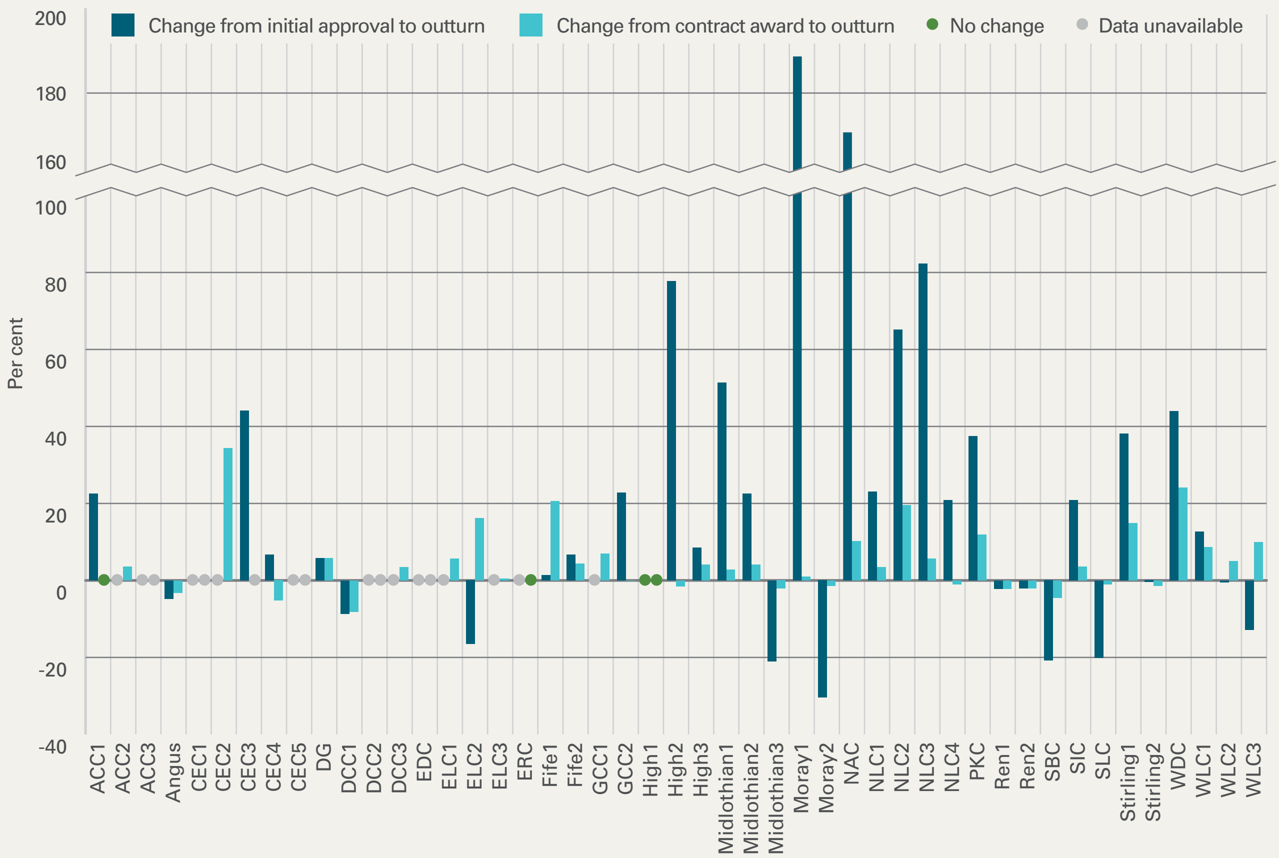
45. Councils were able to provide contract award estimates and final costs for 41 of 47 traditionally financed projects. These had a combined final cost of £838 million, £26 million (three per cent) more than the combined approved contract award estimate. Contract award cost estimates are more reliable than estimates made at the initial approval stage (Exhibit 6). For the 41 projects with contract award cost estimates:

- 16 projects, costing £447 million, were delivered within the contract award estimate

Exhibit 6

Traditionally financed projects – change in final cost compared to forecasts at earlier stages

Contract award estimates are more reliable than estimates made at the initial approval stage.



Note: Please see Appendix 3 for further information about each project
Source: Audit Scotland

- ten projects, costing £138 million, were less than five per cent above the estimate
- 15 projects, costing £253 million, were between five and 34 per cent over the estimate.

46. The City of Edinburgh Council's Usher Hall redevelopment had the largest cost increase for any traditional project when compared to the contract award estimate. The project cost £25.5 million, 34 per cent higher than the contract award estimate of £19 million. The council attributed the increase to substantial additional works on the foundations of the existing structure of the building considered necessary after contractors had started work. There were also knock-on costs from additional temporary works to allow access to the theatre during the period of the 2008 Edinburgh International Festival.

Early cost estimates for PFI projects were too low

47. Between 2009 and 2012, 16 major capital schools projects were completed using PFI contracts, with a total capital value of almost £2 billion.

48. We examined the cost and time targets for all 16 schools projects. For these projects we have used the Net Present Cost of the contract as the best measure of final cost.[19, 20] South Lanarkshire Council's Secondary Schools Modernisation programme and The City of Edinburgh Council's PPP2 Schools programme were the two largest projects, costing £407 million and £271 million, respectively.

49. Councils provided initial cost estimates for 13 of 16 PFI projects, with a combined estimated net present cost of £2.2 billion. For

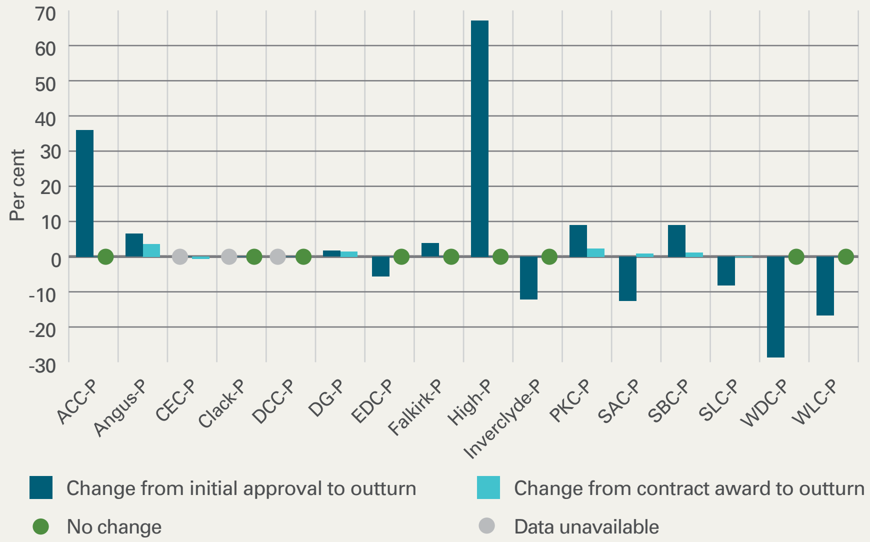
19 The Net Present Cost (NPC) is the value of all costs over the lifetime of the contract discounted to reflect the time value of money decreasing over the life of the contract. Lifetime costs include annual unitary payments made by the council to the private sector provider for use of the asset over the course of the contract – usually 25 to 30 years. These payments typically cover capital repayment and interest, service and maintenance costs.

20 The estimated capital cost of PFI projects in our sample was available for 15 of the 16 projects. These costs are detailed at Appendix 3.

Exhibit 7

PFI projects – contract cost compared to earlier estimates

Initial cost estimates for around half of PFI projects were under-estimates.



Note: Please see Appendix 3 for further information about each project.
Source: Audit Scotland

about half of these projects the initial approval estimates were under-estimates (Exhibit 7). We found that:

- six projects, costing £1,068 million, were completed on or within the initial cost estimates
- two projects, costing £344 million, were less than five per cent above the estimate
- five projects, costing £832 million, were between five and 67 per cent over estimate.

50. The Highland Council's schools project had the largest cost increase. The contract cost increased from £148 million to £247 million, an increase of 67 per cent. The council reported an increase in the construction cost element of the contract as a reason for the increase.

51. Cost estimates at the contract award stage for PFI projects appeared to be more reliable. Comparing the contract award estimate to the latest available estimate for each project:

- 11 PFI projects, with a combined cost of £2 billion (74 per cent by value), have latest estimates equal to or below the contract award estimate
- five projects with a combined cost of £708 million (26 per cent by value) have latest estimates higher than the contract award estimate; in each case these were by less than five per cent.

52. Councils reported that changes to scope were the main reason for increases in the latest estimated costs, where these occurred.

Most projects were delayed compared to initial estimates

53. We examined the actual completion time of all 63 projects, both traditionally and privately financed, compared to estimates made at the initial approval and contract award stages. The analysis of time estimates at the initial approval stage in this section is based on 43 projects, while the analysis of contract award time estimates is based on 61 projects. Councils were not able to provide us with time estimates for one or both stages for the remaining projects.

54. For 63 completed projects, the average duration was four years from initial approval. Generally, councils completed traditionally financed projects more rapidly than PFI projects, with PFI projects taking just over two years longer on average. The difference is largely due to the lengthier preparation period, from initial approval to contract award, for PFI projects. PFI projects spent an average of 34 months in the pre-contract stage compared to 20 months for traditionally financed projects. The longest PFI project was Perth and Kinross Council's Investment in Learning Schools programme, which took about eight years to complete. The council reported that almost four years were for preparation before the contract was awarded, including three years to resolve issues that were outside its direct control. Glasgow City Council's Riverside Museum was the longest traditionally financed project. It was complex, involving a design contest providing an iconic building by a world-renowned architect and had secured significant funding from the Heritage Lottery Fund. It took over seven years to complete, including over three years' preparation before the contract was awarded.

55. Seventy-nine per cent of projects took at least two months longer to complete than estimated at initial approval, with only 19 per cent completed on time. The average delay was 17 months, with delays ranging from three months to 52 months.

56. Where significant delays arose, they were mostly during the initial planning stages of projects, rather than the delivery phase where delays are more costly. Delays at initial stages may arise owing to unforeseen circumstances such as planning enquiries or legal challenges rather than specific project management issues. Time spent on planning and design of projects may help to avoid problems later in construction.

57. Estimating project duration was more accurate at the contract award stage. Fifty-six per cent of projects were completed on or within contract award estimates. However, 34 per cent of projects took at least two months longer to complete than the estimates at this point.

58. In most cases, the delay during the contract phase was shorter. The average delay was five months; delays ranged from one month to 24 months. South Ayrshire Council's schools PFI project had the longest delay following contract award, taking two years longer to complete than estimated. The City of Edinburgh Council's Usher Hall redevelopment and Fife Council's Carnegie Sports Centre project both took 11 months longer to complete than estimated at contract award.

59. Delays do not necessarily result in higher project costs. For example, The Highland Council's Raasay Ferry Terminal project took ten months longer than expected at contract award but its final cost was £200,000 lower than the contract estimate. The council reported that delays were due to a major subcontractor entering administration. However, as the contract risk remained with the contractor, the council did not have to meet any additional contract costs.

School projects perform better to cost and time targets

60. Within our sample of 63 completed projects, we reviewed the cost and time targets of 37 schools projects with a combined capital cost of £2 billion. These projects included building or redeveloping 84 primary schools and 72 secondary schools. Each project provided between one and 34 schools and some included a mixture of school types including primary, secondary or additional support needs schools. Sixteen projects, providing mostly secondary schools, were completed using PFI contracts; the other 21 projects providing mostly primary schools, were traditionally financed.

61. Schools projects had more accurate cost and time estimates than other projects:

- Fourteen per cent of schools projects had cost overruns of at least five per cent compared to the contract award estimate. This compared to 45 per cent of non-schools projects.

- Twenty-two per cent of schools projects were completed at least two months later than estimated at contract award. This compared to 54 per cent of non-schools projects.

62. Building and redeveloping schools is the most common type of major capital project that councils deliver. Councils' experience of delivering schools projects may explain why estimating is more reliable. The requirement to deliver new schools to coincide with school term dates and the high priority that councils give to these projects may also help to explain why councils deliver them more successfully.

Some major projects in progress have increasing costs and delays

63. We assessed how 15 major capital projects under way were performing against cost and time estimates. We reviewed these projects between August and December 2012 and, inevitably, costs and time estimates may have changed since our review. The combined value of these 15 projects is £919 million, which represents 18 per cent of the total value (£5.1 billion) of the 203 projects in progress (Exhibit 8, overleaf).

64. Seven of the 15 projects have cost estimates that are higher than initial estimates. The combined variance compared to initial cost estimates is £58 million, which is seven per cent higher than the combined value of initial costs (£861 million). Fife Council's Flood Prevention Scheme in Dunfermline has the largest percentage variance from initial estimate. The latest cost estimate is £24.7 million - an increase of 152 per cent from its initial estimate of £9.8 million (Case study 1, page 19). Glasgow City Council's Pre-12 Schools Strategy (phase 4) project had the largest cost increase from initial estimate. The current estimate of £178 million is £50 million greater than the initial estimate of £128 million (Case study 2, page 19).

65. Nine projects have estimated completion dates that are later than initial estimates, including five projects with slippage of a year or more. The time to complete Moray Council's Flood Alleviation Scheme in Elgin increased by 35 months mainly because of the need for a public local inquiry into the scheme to resolve planning objections. The time for The City of Edinburgh Council's project to provide an extension to the Edinburgh International Conference Centre increased by 43 months, mainly because of the withdrawal of the original contractor in 2007 and subsequent reappraisal of the scope of the project.

Recommendations

Councils should:

- carry out early assessments of risk and uncertainty to improve early-stage estimating of the cost and time of projects; each risk assessment should take into account experience and expertise gained from previous projects and the potential for higher risks with projects that are relatively novel

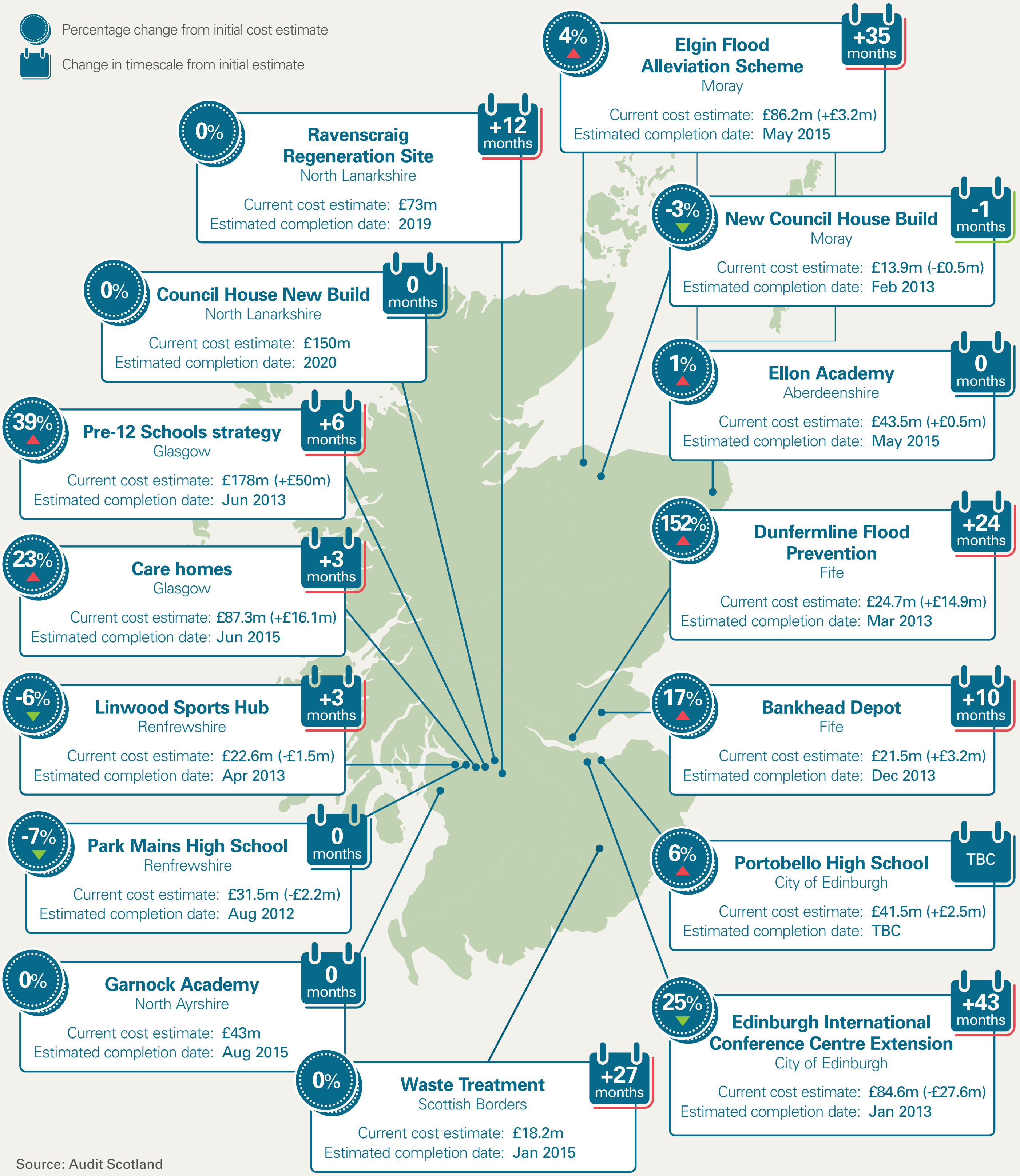
- collect and retain information on all projects including explanations for cost, time and scope changes and lessons learned

- report this information publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils.

Exhibit 8

Major capital projects in progress – variance of current estimates from initial estimates

Seven of 15 projects in progress have cost estimates above the initial estimate. The estimated completion date for nine projects has slipped.



Source: Audit Scotland

Case study 1

Fife Council – Dunfermline Flood Prevention Scheme

In December 2002, Fife Council initially approved the design of a flood prevention scheme in Dunfermline with an estimated cost of £3.75 million. In November 2005, the council approved the project with a revised estimated cost of £9.8 million, following work by consultants on the project design. In September 2006, the tendering process resulted in the appointment of a preferred bidder with an estimated price, including consultants' fees, of £14.15 million. Since then the project has been problematic, with conflicts between the contractor and the council and challenges with problems faced over the design and specialist nature of the project. As a result, the estimated cost has risen to £24.7 million and the expected completion date has slipped by a further two years from March 2011 to March 2013.

Source: Audit Scotland

Case study 2

Glasgow City Council – Pre-12 Schools Strategy (phase 4)

The council's Pre-12 Schools Strategy construction programme is designed to meet primary school needs across the area it is responsible for. The overall programme is multi-phased with phase 4 planned to deliver 16 new or refurbished primary schools. In 2006, when the programme was approved and began, cost estimates were £128 million. Individual schools projects within the programme are subject to regular reporting and cost control. However, the programme's total cost is now projected to be about £178 million by its completion in June 2013. The movements in cost are due to:

- problems over site identification and planning approval
- changes to design requirements
- unforeseen additional ground works needed as a result of siting on brown-field sites.

Source: Audit Scotland

Part 3. Managing capital projects and investment programmes

Because of its scale and impact, councils must clearly direct and rigorously manage their capital investment activity

Key messages

- Councils have improved governance structures for investment planning in recent years. But councils do not have enough monitoring information to scrutinise effectively. All levels of the governance structure, from working groups to committee level, need to be supplied with reliable, accurate, realistic and publicly available information for arrangements to be effective.
- Councils' investment and financing plans are uncertain. To the extent that plans are available, councils anticipate that investment will decrease over the next few years to 2014/15, although the position after this is unclear. Borrowing will remain the main source of finance for councils' investment spending.
- Many councils do not have established processes for developing and using business cases. Where available, business cases are often short and highly summarised and do not all reflect good practice. Without good-quality and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This may make it more difficult to hold decision-makers to account if problems arise on a project.
- Councils are clear about the broad goals for their investment projects. However, where councils outline intended benefits, they are often high-level and measurable benefits are rarely specified. Councils have evaluated about half of recently completed projects to assess if they have delivered the intended benefits.
- Councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes. While there are some examples of shared assets, joint procurement and joint projects, there is little evidence of councils systematically assessing the potential for increased joint working and the related costs and benefits.

66. This part of the report considers how well councils manage capital projects and programmes. It outlines areas where improvements are required to help councils achieve best value from their capital investment.

In recent years, councils have improved governance structures for investment decisions

Most councils plan investment corporately, taking into account future service priorities

67. Councils must have sound governance structures in place to oversee and deliver their capital programmes. Annual capital spending within each council ranges from £8 million to £332 million. At the time of our audit, 20 councils had at least four major capital projects at various stages of design and delivery. Of these, five councils had ten or more major projects under way including Glasgow City Council with 35. Particularly where there are many projects in progress simultaneously, it is important that councils have clear corporate oversight of:

- their investment programme
- how well they select and progress individual major projects.

Good practice – managing capital programmes

Because of its scale and impact, councils must clearly direct and rigorously manage their capital investment activity. To achieve this, they require to do the following:

- Be clear about the overall purpose and justification for spending and the benefits it will deliver. There should be a clear understanding of the links between investment, performance and outcomes.
- Establish priorities to help them decide which projects to choose taking into account what they can afford. Proposals for new investment should reflect these priorities. Councils should balance proposals for new projects with what they need to spend to maintain current properties and ensure they stay fit for purpose.
- Take a long-term view of their total investment spending so they can plan and coordinate it effectively.
- Put a clear and effective governance structure in place and ensure responsibilities are clearly defined, allocated and understood. The structure should provide scope for constructive challenge and effective scrutiny at all stages of the programme.
- Ensure financial and risk management are robust.
- Clearly define benefits and manage programmes to ensure they deliver the benefits. Monitor and report outcomes and learn lessons from programmes.

Source: Audit Scotland

68. Of the councils reviewed, we found that most capital governance structures follow good practice. This includes having an officer-led corporate capital group that considers and challenges the capital and asset management plans of each individual service. This group should report and make recommendations to the council's senior management team, who in turn will report, make recommendations and answer to the relevant council committee (Case study 3 is an example of a good governance structure).

69. Having a good governance structure is necessary but does not guarantee that councils will deliver capital investment plans and projects effectively. At all levels of the governance structure, from working groups to committee level, there should be clear arrangements for reporting and monitoring. All levels need to be supplied with reliable, regular information on the capital programme including details of current performance, financial performance, risk and benefits management.

70. Independent expert reviews at key stages of a project – known as Gateway Reviews – can help support good governance. The purpose of such reviews is to provide assurance about the performance and planning of the project at key stages, including the opportunity to identify – and correct – any gaps. It is mandatory to assess the need for and if necessary plan to undertake such reviews for all major projects in the central government and health sectors that the Scottish Government is directly responsible for. Most of the 16 completed schools PFI projects that we examined had received such reviews, as they were required as a condition of funding by the Scottish Government. However, councils considered or undertook such reviews for only one in five of their other major projects that we examined.

Councils are making progress in linking their investment planning to asset management

Good practice – asset management

Councils need reliable information on the condition of existing assets to be able to make the best decisions on what capital investment they need to make in the future. Good asset management plans provide information on the condition of their assets, if these are suitable and if the council has enough for its needs. These plans should also assess energy efficiency, reflecting the rising price of energy and the need to reduce carbon emissions.

Source: Audit Scotland

Case study 3

Good practice example – Aberdeenshire Council

Level	Purpose	Key activities
Policy and Resources Committee	Approval body for capital investment decisions	• Approve the capital programme • Approve the corporate asset management plan • Approve project inclusion into capital programme and subsequent spending
Strategic Management Team (SMT)	Acts as a steering group for capital works, led by Chief Executive	• Manage the capital strategy • Undertake strategic resource management • Manage corporate performance of investment • Consider and approve proposals for investment, making recommendations to the Policy and Resources Committee
Capital Plan and Asset Management Working Group	Acts as a project group for the capital programme, chaired by member of the SMT	• Review and challenge service asset management plans • Manage and monitor the capital plan • Assess proposals for new projects including options appraisal and examination of business cases • Assess requests from services for changes to current projects • Recommend to SMT the corporate prioritisation of projects

Source: Audit Scotland

71. In 2009, an Audit Scotland report found that many council assets were in poor condition and unsuitable for the services being delivered from them.[21] About half of councils had a council-wide strategy for managing assets and although there was some good management information available it was not always used to help make decisions. The report recommended that councils should ensure they put in place better asset management strategies. Our follow-up in 2010 showed that councils were making good progress.

72. In 2012, our review of nine councils indicated that most are adopting good practice in relation to their asset management plans. Most have asset management plans for each service area that feed into a corporate asset management plan. Together these help councils decide their capital investment priorities. For example, North Ayrshire Council and Renfrewshire Council have developed asset management plans based on categories suggested by CIPFA covering property, housing, ICT, open spaces, roads and fleet. The findings of condition surveys contribute to both councils' plans. Renfrewshire Council surveyed the condition of all non-housing property in 2011 and North Ayrshire Council plans to complete more surveys during 2012/13. However, some councils still have to complete asset management plans in some areas. For example, at the time of our audit, Moray Council had only completed an asset management plan for housing and was developing four other plans.

Councils adopt good practice when engaging with stakeholders on project-specific issues

73. Every project has stakeholders. These can cover a range of different groups including local residents, businesses, employees, service users, suppliers and public sector bodies such as health boards. Engaging and consulting with stakeholders is essential in achieving a successful project outcome. Stakeholders' interest in a project can have both positive and negative effects on its progress. Their concerns may also create additional risks to a project's outcome. Engaging with stakeholders effectively is therefore important and should be a vital part of project planning from the start. Consulting with stakeholders can often be a lengthy process. But it can shape the project at an early stage and help ensure a more successful outcome.

74. In our audit, councils demonstrated good practice in engaging with stakeholders on project-specific issues, particularly on projects where there is a statutory consultation requirement. For example, the Schools (Consultation) Scotland Act 2010 requires any council to formally consult if it proposes to change any part of the existing education services it provides in its area (Case study 4).

75. Although councils consult on individual projects, we found no evidence of them consulting with stakeholders on their capital programmes. Councils should consult with stakeholders on their capital programmes to ensure they are fully aware of their capital spending priorities and plans. This may:

- be particularly valuable to potential suppliers and contractors by finding out about potential procurement opportunities
- help identify opportunities to find efficiencies or synergies within the whole programme rather than restricting communications to project-specific issues
- offer stakeholders the chance to engage with, scrutinise and challenge significant spending proposals.

Case study 4

Good practice example – consultation. Moray Council

Public and statutory consultation has played an important role as the council has developed options for the Elgin Flood Alleviation Scheme. Consultation with the general public has continued since the start of the project. The council first consulted at the start of the project in 2002 with key stakeholders to identify the policies, plans and programmes that may affect the development of engineering options for flood alleviation in Elgin. The consultation took the form of meetings, supplements in local newspapers, press releases, public exhibitions and information on the Moray Flood Alleviation Group's website. There was also one-to-one consultation with individuals likely to be directly affected by the options. The council used this feedback to develop and refine the business case and technical reports.

Good practice example – consultation. Aberdeenshire Council

The council's consultation with the public for the Ellon Academy Campus development started in August 2011. The council issued a proposal document to parents, pupils, teaching staff, trade unions, community councils and Education Scotland. The council also launched a website dedicated to the development and displayed the proposals in the council's headquarters, libraries and neighbouring schools. The council asked HM Inspectorate of Education (HMIE) to independently review the consultation process. HMIE praised the plan as comprehensive and stated that it had allowed time for the council to collate and consider all views.

Source: Audit Scotland

21 *Asset management in local government,* Audit Scotland, May 2009.

Councils' investment and financing plans are uncertain

Good practice – capital investment plans

Capital investment is, by definition, a long-term activity. It is important that councils develop and maintain a clear strategy to direct and control their investment. To do this, they should produce an investment strategy with priorities to decide the level and nature of investment spending and develop plans to assess how they can finance and afford the spending.

Source: Audit Scotland

76. At the time of our audit, three councils did not have a corporate capital plan covering annual investment spending to 2014/15. Twenty-nine councils had plans, which indicated they would reduce investment spending by about 40 per cent between 2012/13 and 2014/15. However, many of these plans were tentative or needed to be updated as not all provided a complete forecast.

77. From a review of available plans, borrowing is likely to provide the main source of finance for investment. For six of the 29 councils with capital plans, their plans did not outline how investment would be financed, that is how much the councils would borrow, use grants or other sources to pay for planned investment.

78. To help understand what levels of borrowing councils might need to make, we projected investment spending and financing using three different, illustrative scenarios over the next eight years to 2020/21. For this illustration, we have assumed that government grant funding will fall by five per cent each year beyond 2014/15. Similarly, we have assumed that the contributions from current revenue, asset sales and other income will also decrease by five per cent each year to reflect recent trends. Our analysis showed that, by 2020/21, if capital investment was to:

- increase by five per cent each year, borrowing levels would need to almost double their current levels to £2.9 billion a year
- remain at current levels, borrowing levels would need to increase by 14 per cent on current levels to £1.6 billion a year
- decrease by five per cent each year, borrowing levels would fall by almost half of their current levels to nearly £700 million a year.

79. This analysis confirms that councils' future borrowing will vary significantly depending on their appetite or otherwise for additional investment. It illustrates the importance of councils developing a clear long-term strategy for investment and how they will finance this.

80. Councils plan to continue to use private finance for some future investment:

- Twenty-nine secondary schools projects will begin over the next few years as part of the Scottish Schools for the Future programme.[22] Councils will use the Hub initiative led by the Scottish Futures Trust (SFT) as the means to procure these projects. This may include up to around £300 million using private finance contracts.[23]
- In addition, the SFT has identified that about £1 billion of investment is needed over the next ten years if Scotland is to meet its zero waste targets. Twelve councils are planning to use private finance contracts to invest in waste projects although plans remain at the early stage of development in most cases.

81. Many councils are considering using Tax Incremental Financing (TIF) to finance capital investment, although no additional investment under TIF has yet gone beyond the planning stage.[24] Scottish ministers have approved three councils' business plans for TIF projects: North Lanarkshire, Glasgow City and The City of Edinburgh. However, the projects remain at an early stage and no council has so far made any additional borrowing under TIF. A further three councils – Falkirk, Fife and Argyll and Bute – are working with the Scottish Futures Trust to develop TIF business cases.

Councils need to develop long-term, sustainable investment strategies

82. Using borrowing and private finance can be attractive as it spreads the cost over many years. But by doing so, councils commit a larger proportion of future budgets to financing charges, for example, repaying debt and interest. This leaves less money available to spend on the day-to-day costs of running council services. This is demonstrated in the following ways:

- Annual interest and debt repayments for borrowing arrangements have increased from £946 million in 2009/10 to £1,450 million in 2011/12. This represented an increase from eight to 12 per cent of councils' net revenue expenditure over the same period.
- Annual payments for previously signed NPD/PFI contracts are increasing. In 2012/13, these annual payments were £459 million. These will peak at £591 million in 2025/26 with the final payment for current

22 The Scottish Schools for the Future programme is a £1.25 billion investment programme to provide 67 new or refurbished schools across Scotland. All councils are included in the programme, which reflects the Scottish Government and the Convention of Scottish Local Authorities (COSLA) joint school estate strategy established in 2009. The Scottish Government aims to provide £800 million for the programme over the period to 2017/18 and councils will provide the remainder.
23 See Appendix 2 for more information about the Hub initiative.
24 See Appendix 2 for more information about TIF.

signed contracts to be made in 2041/42. In 2012/13, The Scottish Government provided councils with £227 million (49 per cent) towards these payments. This level of financial support will continue each year but will reduce to around 39 per cent of annual payments as they peak in 2025/26.

83. Very few councils have developed detailed capital investment plans beyond 2014/15. There is less certainty about future funding arrangements beyond 2014/15. But councils need to develop long-term investment plans to set out their investment needs and constraints and provide the information needed for prioritising and planning. Long-term capital investment plans should also provide a strategic assessment of the various financing options available to the council.

Councils have weak processes for developing and maintaining business cases

84. Many councils do not have established processes for developing and maintaining business cases. The evidence we have indicates that, where they are available, business cases are short and highly summarised or are not updated, and therefore do not reflect good practice. For example, the business case for Midlothian Council's Cuiken Primary School only included an options appraisal with associated costs. It did not consider other important aspects such as an assessment of risk, a procurement strategy or details of stakeholder consultation plans. The business case for this project estimated it would cost £6.2 million but its final cost of £7.6 million was 23 per cent higher. Without detailed, accurate and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This could make it more difficult to hold decision-makers to account if problems arise later in the project.

Good practice – business cases

Good-quality business cases are key to project scrutiny, decision-making and transparency. The business case should develop as each project develops. It should provide the basis for all important project decisions. Councils should develop business cases over the following stages:

- A Strategic Business Case (SBC) to confirm the strategic context of the proposal and provide an early indication of the proposed way forward.
- An Outline Business Case (OBC), including the council's preferred option for getting the best value for the money available. It should also provide details of a procurement strategy. This is equivalent to the initial approval stage at paragraph 40 previously.
- The Full Business Case (FBC) to revise the OBC and provide important project information including a recommendation following discussions with key stakeholders including potential suppliers. This is equivalent to the contract award stage at paragraph 40 previously.

Councils should revisit the business case throughout the course of a project, particularly if things change. These changes could include developments in financing arrangements; adjusting the scope of the project or dealing with an external delay that affects the project. Revisiting the business case will help to ensure that the aims and objectives remain clear and that project benefits remain relevant. It is also a good basis for transparency and accountability, by making sure councils are seen to be continually monitoring progress against the business case.

Source: Audit Scotland

Councils have appointed in-house providers for some major projects

85. An important part of any business case for a major capital project is developing a procurement strategy. The preferred procurement route for any project should include a detailed assessment of value for money to ensure councils take the best option for cost, quality and, ultimately, the likelihood of a successful outcome to the project. The strategy should consider the use of competition in selecting and appointing a contractor for the work.

86. One option available to councils is to use in-house providers, including arm's-length external organisations (ALEOs). Glasgow City Council and Fife Council have both recently appointed in-house providers for major capital projects (Case study 5, overleaf).

In many cases, councils are not outlining the intended benefits of investment

Good practice – identifying the benefits

It is important that councils clearly define the intended benefits of a project from the outset to justify the investment decision and provide a benchmark against which they can measure progress. By doing so, it allows councils to track, monitor and measure the delivery of benefits as a project progresses.

Source: Audit Scotland

87. Councils are clear about the idea or vision for their major investment projects. However, we found that where councils had outlined intended benefits, they were often high-level; councils rarely specified measurable benefits from investment. For example, neither Moray Council's Flood Alleviation Scheme nor Scottish Borders Council's Waste Treatment project clearly outlined a benefits strategy covering how the councils would measure or assess

Case study 5

Procurement of in-house providers to deliver capital projects

Glasgow City Council contracted with City Building Glasgow LLP (CBG), its wholly owned subsidiary, to carry out two major capital projects: Phase 4 of their Pre-12 Schools Strategy and their Care Homes and Day Care Re-Provision. The projects have a combined estimated cost of £265 million. The council decided to award the contracts for both projects to CBG by single tender, under case law (the 'Teckal' case). This exempts the council from European procurement rules if the council controls the provider and the provider carries out the essential part of its activities for them. The council appointed a cost consultant to assess the value of the CBG tender price, who reported that it was in line with market prices.

Likewise, **Fife Council** contracted with its internal trading organisation Fife Building Services (FBS) through a single tender to deliver renovation works at their Bankhead Depot, at an estimated cost of £11.4 million. The award was made on the basis that FBS would deliver 30 per cent of works and subcontract the remaining 70 per cent. The council's Property Services team benchmarked the price for the FBS element.

Source: Audit Scotland

the achievement of project benefits identified at the initial approval stage of each scheme.

Councils do not have enough information to scrutinise effectively

Good practice – monitoring information

The success of any governance system will partly depend on the quality of the information provided to decision-makers. It is important that this information is tailored to each level within the governance structure and that the decision-makers at each level have all the information they need. Without good information, there is a risk that decision-makers will not be able to ensure that the project delivers best value for money.

Source: Audit Scotland

88. Councils regularly report to elected members on capital spending and on major projects. However, in many cases, performance reports focus on comparing spending against approved annual budgets with the risk that scrutiny concentrates on any slippage in this area.

89. Monitoring information does not routinely extend to project performance against earlier benchmarks for cost, timescales and benefits. Without this information, elected members may not be able to properly challenge decisions made during the project and scrutinise how well the projects are progressing. Councils generally have weak processes for developing business cases and where clear business cases are absent ambiguities can arise about the initial cost estimates. This, in turn, makes it difficult to benchmark later cost estimates.

90. Generally councils monitor risks with their capital investment activity by focusing on individual projects. Councils rarely undertake more strategic reviews on programme-level risks, their implications and the proposed action to lessen their impact. Project risks need to be visible at a programme level to gauge the wider implications to other projects and the programme itself. Councils should reflect individual project risks on a programme risk register. They then should review and update these regularly. By not assessing risk at a programme level, councils will be unable to explore opportunities that may arise or manage threats to the programme effectively. Improving the quality of programme risk reporting will increase the likelihood that councils will identify risks at an early stage, allowing them to take appropriate and timely action. It does not guarantee a successful outcome. But it can help resolve any potential problems that may arise.

91. Councils provide training to elected members on capital issues. In many cases this is restricted to one-off training for new members as part of their induction rather than as part of an ongoing training programme. Councils should consider developing a continuing programme of training for members on capital issues, using independent external advisers if necessary. Increasing the knowledge and expertise of members on capital investment issues will help them scrutinise and challenge capital investment plans.

Councils do not review all completed projects to learn lessons

92. There are a number of reasons why a major capital project might fail to deliver best value for the taxpayer. When a project fails to deliver it is often due to a number of contributory factors, such as:

- lack of a clear link between the project and strategic priorities
- lack of robust planning and assessment of expected costs and timetable
- lack of accountability and leadership from senior officials or elected members
- lack of effective engagement with stakeholders
- poor relationships between client and suppliers.

Good practice – lessons learned

Identifying lessons learned from projects after they are completed, both in terms of success and failure, are key to improving the way councils deliver future projects. However, councils often overlook this stage of a major project. They should assess the completed project to ensure that it meets business requirements and provides good-quality design and functionality. They should then apply any lessons learned to other projects that are being developed.

Source: Audit Scotland

93. A post-project evaluation is often the formal review carried out at this stage and has two main purposes:

- to review how the project was managed, from preparing the business case through to how it was delivered and completed
- to assess whether the intended benefits set out in the business case have been achieved.

Without carrying out a post-project evaluation, councils will not be able to clearly demonstrate the investment has been worthwhile or identify lessons learned and apply them to future projects.

94. Just over half of the 63 completed projects in our sample had been evaluated to assess whether they have delivered the intended benefits. Councils reported the following:

- For 34 projects (54 per cent), they have undertaken, or are scheduled to undertake, a formal post-project evaluation. For the other projects, some councils reported they had carried out ongoing evaluations throughout the project, while others reported a lack of money or people to carry out any post-project evaluation.
- For 36 projects (57 per cent), they have undertaken, or are scheduled to undertake, a post-occupancy evaluation (POE) to assess how well the building operates.
- For 20 projects, about a third of the total, councils reported carrying out formal design quality assessments. These assessments were more common for PFI projects – eight of these projects (50 per cent) had a formal assessment of design quality. Councils had formally assessed 12 of 47 traditional projects against design quality standards. Where councils had assessed projects against specific measures of functionality, build quality, impact and diversity and inclusion, most reported the project as having scored ‘high quality’ across these areas. The exception to this was in build quality, where 41 per cent reported only ‘satisfactory’.
- For 24 projects, councils reported they had assessed them against environmental (BREEAM) criteria.[25] This was 42 per cent of projects where councils responded to this question and considered the assessment was relevant. The majority of projects were rated as ‘excellent’ or ‘very good’. Councils completed such an assessment for 81 per cent of PFI school projects, compared to 27 per cent for traditionally financed schools.

There is limited evidence of collaboration in capital investment planning

95. Councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes. Collaborating with others provides councils with the opportunity to improve performance by making more effective use of their resources. This can take various forms, including sharing resources such as buildings and staff, taking part in joint projects or joint procurement. It can also extend to sharing good practice and advice in delivering capital projects and programmes.

96. Sharing or rationalising the use of buildings, land and property can help generate significant savings on accommodation and maintenance costs. Although there are some examples of shared assets, joint procurement and joint projects, there is little evidence of councils systematically assessing the potential for increased joint working and the related costs and benefits. Where joint working had been considered, councils reported it was difficult to work effectively with other public bodies owing to conflicting timescales or priorities.

97. The Scottish Futures Trust (SFT), established by the Scottish Government in 2008, leads a number of initiatives to help public bodies collaborate to make their capital investment programmes more efficient. The SFT has a remit to examine and develop new financing arrangements for investment and work collaboratively with both public bodies and commercial enterprises.

98. One of the main activities of the SFT is to lead the Hub initiative. The Hub is a procurement process aimed at improving collaboration and joint working between public sector bodies through a joint venture. There are five regional hubs in Scotland, each incorporating councils, health boards, police, and fire and rescue services. They work in partnership to deliver new community assets, such as local ‘drop-in’ offices and health premises. Many councils have projects either planned or in construction through the initiative, with most projects to deliver new accommodation facilities. The first completed project was Drumbrae Library Hub in Edinburgh which includes library, daycare and community-use facilities.

25 Building Research Establishment Environmental Assessment Method. It sets the standard to describe a building’s environmental performance.

Councils should improve procurement strategies

99. Some councils have established 'framework' contracts to procure and deliver their capital programmes. These are long-term agreements between a council and a panel of suppliers to undertake major investment programmes. Such agreements can result in significant savings compared to other strategies that involve repeated one-off tendering for individual projects. They can allow purchasers and suppliers to build up strong working relationships. This helps to reduce the potential of expensive legal disputes. They should also allow for projects to be procured quickly and more efficiently.

100. A number of councils have framework contracts in place. In 2011, Aberdeenshire Council established a framework contract of five contractors to deliver over £200 million worth of major capital works. Similarly, in 2009, Renfrewshire Council established a framework contract to deliver five major projects within its capital investment programme. While establishing framework contracts is recognised good practice, it should not prevent councils from seeking opportunities with other councils and public bodies in joint procurement practices.

101. There is limited evidence of councils becoming involved in collaborative procurement for construction activity. In most cases, councils adopt their own procurement practices without working with other public sector bodies to identify possible opportunities for generating efficiencies through joint procurement.

102. In August 2012, the Scottish Government published its consultation proposals for a new Procurement Reform Bill. These proposals would establish new rules for procurement by Scottish public bodies, with an aim of adopting more efficient procurement practices across the public sector. The Bill aims to:

- use public procurement, worth about £9 billion a year, as a lever for economic growth
- streamline the public sector's dealing with business
- adopt more efficient procurement practices
- secure value for money.

These proposals increase the profile of public procurement and the expectation that public bodies, including councils, implement, and can demonstrate, effective purchasing practice.

Recommendations

Councils should:

- develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment and consult with stakeholders such as service users and suppliers as they develop these strategies
- assess the overall appropriateness of using borrowing and private finance within the investment strategy. The strategy should balance the costs, risks and rewards of using these methods to ensure plans are financially sustainable and help the council achieve value for money
- establish standard criteria for the content of business cases that reflects good practice and establish clearly defined project milestones for monitoring and reporting
- prepare detailed and robust business cases for every project. These should cover the intended aims and benefits, options appraisal, risk assessment and cost, time and scope targets
- actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement
- improve the quality of capital project and programme information that is routinely provided to elected members. Information should cover:
  - annual financial performance against the capital budget
  - project and programme level performance against cost, time and scope targets
  - risk reporting (including identification, likelihood, financial impact and actions taken)
  - an assessment of intended and realised benefits
- consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary

- consult with stakeholders on its capital programme to ensure stakeholders are fully aware of council capital spending priorities and plans. This may create opportunities to generate efficiencies over the whole programme rather than restricting it to project specific issues

- improve how they manage risk and report on programme-level risk to members. Reports should provide details on the likelihood of risks occurring, potential impact and what proposals are in place to lessen the impact of risk

- carry out post-project evaluations within six months of a project being completed to find out if the projects have delivered, or are on course to deliver, the intended benefits and to learn lessons. The results should be reported publicly

- ensure lessons learned from projects are shared across services and other councils to help improve the successful delivery of future projects to time and cost targets.

Appendix 1

Audit methodology

The focus of our work was to assess how well capital investment is directed, managed and delivered within councils. For Part 1 we considered how much councils spend on capital investment, what this delivers and how it is funded. For Part 2 we focused on evidence from councils on the performance of recently completed projects and projects currently in progress. For Part 3 we focused on how well councils manage their investment spending as a programme.

Our audit had five main components:

- A questionnaire to all councils to collect data on all major capital projects completed between April 2009 and March 2012 and major capital projects in progress at April 2012.
- A detailed data survey of 63 completed projects.
- A case study review of 15 projects in progress.
- A review of capital programme management arrangements at nine councils.
- Desk research of existing information on council investment levels, debt and borrowing levels, types of financing and funding arrangements.

We did not consider capital investment relating to police and fire and rescue boards owing to their forthcoming mergers. We did not consider the Edinburgh trams project or projects relating to the Commonwealth Games in 2014 as these projects have been subject to separate Audit Scotland reports.

Initial data request

We requested data on all major capital projects completed between 1 April 2009 and 31 March 2012 from all 32 councils. This covered all types of projects, financing methods and projects where councils received financial contributions from other public or private sector bodies.

Data survey of 63 major capital projects

We analysed quantitative and qualitative data on a sample of 63 completed major capital projects. We selected this sample using information from the initial data request. The sample covered 28 councils, 52 per cent of the projects we had data for and 82 per cent of their total capital value. The survey requested data from each council on project cost, time, scope and quality. However, not all councils could provide all the data we requested as they were either not held or could not be accessed. Appendix 3 provides a full list of the projects included.[1]

Case study review of projects in progress

We reviewed a sample of major capital projects in progress to evaluate whether management controls and governance are effective. We selected the sample using the information we received from our initial request for data. The sample covered nine councils and 18 per cent of the total capital value.

We appointed Pricewaterhouse-Coopers after a competition to lead the case study reviews. Each case study included interviews with key project staff and a review of relevant project documents. The work was completed between August and December 2012 and therefore the status of each project may have changed since the review. The case study projects are identified in Exhibit 8 on page 18.

Review of capital programme management arrangements

We examined capital programme arrangements at a sample of nine councils: Aberdeenshire, Fife, Glasgow City, Moray, North Ayrshire, North Lanarkshire, Renfrewshire, Scottish Borders and The City of Edinburgh. These were the same councils included in the case study review noted above. We assessed how well councils managed their investment spending as a programme and how they could improve in this area. For this work we interviewed elected members, the Director of Finance or equivalent and other Heads of Service. We also reviewed a number of relevant documents.

Desk research and other analysis

We examined existing information such as trends in council capital spending, Scottish Government capital budget projections, sources of financing investment, and councils' borrowing levels and procurement activity. We reviewed published good practice on project and programme management, including information published by the Chartered Institute of Public Finance and Accountancy.

To help understand what levels of borrowing councils might need to make, we projected investment spending and financing using illustrative scenarios for variations in investment over the next eight years to 2020/21.

1 We have published separately on our website further information about individual projects in our sample.

Appendix 2

Methods of financing and funding capital investment in councils

Method	Potential
Capital grant	
The Scottish Government provides grant funding to each council on an annual basis. This has provided around a quarter of councils' capital budgets since 2000/01.	Looking ahead, the Scottish Government will reduce the capital grant to councils in real terms from £604 million in 2012/13 to £540 million in 2013/14, but will increase it to £733 million in 2014/15.
Prudential borrowing	
Introduced in 2004, it allows councils to borrow for capital investment. In doing so, each council must calculate and keep under review the amount of money it can afford to borrow with reference to the Prudential Code.	The potential for new borrowing depends, in part, on an assessment of affordability and therefore varies among councils. The City of Edinburgh (£151m), and North Lanarkshire (£93m) had the highest increases in underlying need for new borrowing in 2011/12. Eleven councils reduced their need for new borrowing, with Orkney Islands Council having the largest decrease of over £9 million.
Revenue budget	
Councils can transfer money from revenue budgets to capital budgets to fund capital investment.	The scope to transfer money from revenue budgets to capital budgets depends on how much councils are willing to reduce their revenue budgets.
Private finance initiative (PFI)	
PFI is a form of Public Private Partnership (PPP) where public and private sector partners agree a contract to build and maintain an asset that the public sector will use. The private sector partners pay for the up-front costs of building and ongoing maintenance in return for annual payments from the public sector. Contracts are usually for 25 to 30 years after which the asset either remains with the private sector or is transferred to the public sector.	Twelve councils have plans to use PFI for waste projects, although information on these is limited. Councils continue to operate a number of previously signed PFI contracts, mainly for schools projects.
Non-profit distributing (NPD)	
NPD is another form of PPP. As with PFI, there is a partnership with a private sector company, which pays up-front construction and ongoing maintenance costs. However, NPD contracts limit the profits that the private sector company may retain. Any surplus profit is reinvested in the public sector. The public sector pays an annual charge over the life of the asset from its revenue budget.	Four councils have each approved an NPD contract for new schools in their area, with a combined estimated capital value of £370 million. However, most councils are now pursuing new schools projects through the Hub initiative, which is more suitable for the smaller scale of projects included.
User charging	
However the project is funded, the public sector can help pay for it over time by charging the public to use the asset. Examples of user charging include road tolls and waste disposal charges.	This is restricted to certain assets and services such as museums, waste collection and leisure facilities.

Method	Potential
The Hub initiative	
The Scottish Futures Trust is leading hub implementation across five geographical territories in Scotland. The hub is a partnership-based approach to providing new community assets such as new health premises and other facilities for local community services. In each territory the initiative aims to bring together community planning partners (health boards, councils, police and fire and rescue services), the SFT and a private sector development partner in a joint venture delivery company called a hubco. Five hubcos were established between 2010 and 2012 and have awarded some initial contracts. Public bodies may acquire new projects through the hub using either traditional or private financing.	The hub aims to increase the value for money of construction procurement through better collaboration in the public sector and partnership with private sector suppliers. Previous Audit Scotland reports have identified the need for improvement in these areas. Hubco plans anticipate that they will deliver £2 billion worth of education, transport, health and community services projects over the next ten years. This includes plans for 29 secondary schools projects with an estimated capital value of over £800 million, to be taken forward within the Scottish Schools for the Future programme. The SFT estimates it will give significant financial benefits, including efficiencies of two to three per cent of total project spending and lower procurement costs.
Tax incremental financing (TIF)	
Many councils are considering using TIF to finance capital investment, although no additional investment under TIF has yet gone beyond the planning stage. Under TIF, investment is intended to be ultimately self-financing: • Projects need to be able to deliver regeneration and sustainable economic growth. • Councils invest in infrastructure, such as new access roads, to promote growth in a specified regeneration area. The objective is to attract and permit additional private sector investment - such as new shops, offices or factory space - in the same area. • Councils borrow to pay for their investment; however, the Scottish Government allows them to keep a greater share of the anticipated extra non-domestic rates income expected to flow from the additional private sector investment in the specified area. • If all goes to plan, in the short term the anticipated future additional income allows councils to borrow and repay more than would otherwise be affordable; in the long term the extra income pays for the infrastructure investment at no net additional cost to councils.	Three councils – North Lanarkshire, Glasgow City and The City of Edinburgh – have had business plans approved by Scottish Ministers for TIF projects, but have not made any financial commitments. A further three councils – Falkirk, Fife and Argyll and Bute – are working alongside the SFT to develop TIF business cases.
Capital receipts	
Councils can use income from selling assets to pay for new projects. In most cases councils use these receipts to supplement funding from grants.	During 2012/13, 25 councils planned to sell existing assets with a combined book value of £91 million. A further £62 million worth of assets are held for disposal at a later date, of which Glasgow City Council holds £55 million. However, any income received will depend on the sale price and conditions of each sale.

Appendix 3

Sixty-three completed projects analysed in our audit

Project reference	Council	Project name	Project outturn capital cost (£) [1]	Lifetime contract cost (£) [2]	Year of completion (ready for service)
Denotes PFI projects. PFI project references are also suffixed '-P'. All other projects were traditionally financed.					
ACC-P	Aberdeen City	3Rs School Programme	124,800,000	181,700,000	2011
ACC3	Aberdeen City	Marischal College	68,300,000		2011
ACC1	Aberdeen City	Regional Sports facility (Phase 1)	27,800,000		2009
ACC2	Aberdeen City	Rosewell House	8,700,000		2009
Angus-P	Angus	Forfar / Carnoustie Schools Project	42,300,000	75,500,000	2009
Angus	Angus	Seaview Primary School	6,000,000		2009
CEC-P	City of Edinburgh	PPP2 Schools Programme		270,600,000	2010
CEC5	City of Edinburgh	Braid Burn Flood Prevention Scheme	43,000,000		2010
CEC2	City of Edinburgh	Usher Hall	25,475,247		2009
CEC1	City of Edinburgh	Housing - Gracemount	6,000,000		2012
CEC4	City of Edinburgh	Inch View Care Home	8,895,000		2011
CEC3	City of Edinburgh	Redhall MLD Primary School	7,566,000		2008
Clack-P	Clackmannanshire	3 secondary schools project	65,500,000	93,800,000	2009
DG-P	Dumfries & Galloway	Schools PPP project	108,824,000	176,898,000	2010
DG	Dumfries & Galloway	Cargenbridge Depot	7,300,000		2010
DCC-P	Dundee City	Schools PPP project - phases 1-5	90,000,000	145,000,000	2009
DCC3	Dundee City	Dundee House	35,200,000		2011
DCC1	Dundee City	Kingspark Special School	13,700,000		2010
DCC2	Dundee City	Whitfield Primary School	8,000,000		2012
EDC-P	East Dunbartonshire	Schools PPP project	134,100,000	183,100,000	2009
EDC	East Dunbartonshire	Kirkintilloch Health & Social Care Centre	8,900,000		2009
ELC3	East Lothian	New Dunbar Upper Primary School	10,000,000		2011
ELC2	East Lothian	Housing - Brunt Court	8,600,000		2011

Notes:
1 Latest reported cost. Estimated construction cost for PFI projects.
2 For PFI projects only. This is the estimated Net Present Cost of contract.

Project reference	Council	Project name	Project outturn capital cost (£) [1]	Lifetime contract cost (£) [2]	Year of completion (ready for service)
ELC1	East Lothian	Kinwegar Waste Recycling Centre	3,800,000		2010
ERC	East Renfrewshire	Isobel Mair School	12,118,000		2011
Falkirk-P	Falkirk	Schools PPP project	115,500,000	167,390,000	2009
Fife1	Fife	Carnegie Leisure Centre refurbishment	20,050,000		2011
Fife2	Fife	Leven Primary Schools	9,600,000		2010
GCC2	Glasgow City	Riverside Museum	84,700,000		2011
GCC1	Glasgow City	River Clyde Regeneration - quay walls, public realm and bridge	30,600,000		2009
High-P	Highland	Education PPP2	133,900,000	246,700,000	2009
High2	Highland	Raasay Ferry Terminal	13,400,000		2010
High1	Highland	Highland Archive & Registration Centre	10,400,000		2009
High3	Highland	Lochaber High Phase 2 refurbishment	7,700,000		2011
Inverclyde-P	Inverclyde	Schools PPP project	77,600,000	124,200,000	2011
Midlothian1	Midlothian	Woodburn Primary School	10,900,000		2009
Midlothian3	Midlothian	Housing - Site 16 Eskvale Road	9,400,000		2010
Midlothian2	Midlothian	Cuiken Primary School	7,600,000		2009
Moray1	Moray	Forres Burn of Mosset Flood Alleviation Scheme	21,100,000		2009
Moray2	Moray	Council Headquarters Annexe	7,100,000		2011
NAC	North Ayrshire	Bailey Bridge	5,400,000		2010
NLC3	North Lanarkshire	Ravenscraig Regional Sports Facility	33,176,399		2010
NLC4	North Lanarkshire	Cathedral & Firpark PS campus & Daisy Park Community Centre	19,090,500		2011
NLC1	North Lanarkshire	Buchanan Centre	18,200,000		2010
NLC2	North Lanarkshire	Motherwell Theatre Refurbishment	6,700,000		2012
PKC-P	Perth & Kinross	Investment in Learning Programme	135,800,000	217,600,000	2011

Project reference	Council	Project name	Project outturn capital cost (£) [1]	Lifetime contract cost (£) [2]	Year of completion (ready for service)
PKC	Perth & Kinross	Errol Primary School redevelopment	6,600,000		2009
Ren2	Renfrewshire	Renfrew High School refurbishment	9,900,000		2010
Ren1	Renfrewshire	Johnstone High School (part 2) refurbishment	8,700,000		2009
SBS-P	Scottish Borders	Schools PPP project	76,300,000	110,500,000	2009
SBS	Scottish Borders	Kingsland Primary School	8,400,000		2010
SIC	Shetland Islands	New Mid Yell Junior High School	8,700,000		2010
SAC-P	South Ayrshire	Schools PPP project	76,300,000	127,700,000	2009
SLC-P	South Lanarkshire	Secondary Schools Modernisation Programme	318,900,000	406,600,000	2009
SLC	South Lanarkshire	Primary Schools Modernisation Programme	180,500,000		2012
Stirling2	Stirling	Peak Sports Village	27,200,000		2009
Stirling1	Stirling	Bannockburn High School Refurbishment	11,600,000		2010
WDC-P	West Dunbartonshire	Schools PPP project	96,992,000	137,049,000	2010
WDC	West Dunbartonshire	Goldenhill Primary School	7,200,000		2010
WLC-P	West Lothian	Schools PPP project	60,800,000	89,800,000	2009
WLC3	West Lothian	West Lothian Civic Centre	46,787,046		2009
WLC1	West Lothian	St Kentigern's Academy refurbishment	20,956,213		2009
WLC2	West Lothian	James Young High School refurbishment	18,515,997		2009

Notes:
1 Latest reported cost. Estimated construction cost for PFI projects.
2 For PFI projects only. This is the estimated Net Present Cost of contract.

Appendix 4

Project advisory group members

Audit Scotland would like to thank members of the project advisory group for their input and advice throughout the audit.

Member	Organisation
Ian Black	Director of Finance & Shared Services, East Dunbartonshire Council
Alan Carr	Board member, Civil Engineering Contractors Association
Stephen Crichton	Head of Corporate Finance, Glasgow City Council
John Fyffe	Executive Director (Education), Perth and Kinross Council
Alison Hood	Audit Manager, National Audit Office
Michael Levack	Chief Executive, Scottish Building Federation
Peter Reekie	Director of Finance & Structures, Scottish Futures Trust

Note: Members of the project advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Major capital investment in councils

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AUDIT SCOTLAND NATIONAL REPORTS – MAJOR CAPITAL INVESTMENT IN COUNCILS

Key Point/Checklist/ Recommendation	Action/Response:	Implementation Date	Lead Officer
Councils should develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment and consult with stakeholders such as service users and suppliers as they develop these strategies	Consultation on the proposed investment strategy will be included in the budget prioritisation process.	February 2014	Head of Strategic Finance
Councils should assess the overall appropriateness of using borrowing and private finance within the investment strategy. The strategy should balance the costs, risks and rewards of using these methods to ensure plans are financially sustainable and help the council achieve value for money	This is considered both when looking at the overall financing of the capital programme and again when deciding on the procurement option for individual projects.	n/a	Head of Strategic Finance
Councils should establish standard criteria for the content of business cases that reflects good practice and establish clearly defined project milestones for monitoring and reporting	These are contained in the Capital Programme Planning and Management Guide.	n/a	Head of Facility Services
Councils should prepare detailed and robust business cases for every project. These should cover the intended aims and benefits, options appraisal, risk assessment and cost, time and scope targets	Initial business cases are prepared and approved for each project before it appears on the Capital Programme and in respect of Service Development and Strategic Change projects further business cases are approved before the asset is procured.	n/a	Head of Facility Services
Councils should actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement	The Council works with its Community Planning Partners to look at opportunities for sharing. For example the Mull Progressive Care Centre.	n/a	Head of Facility Services
Councils should improve the quality of capital project and programme information that is routinely provided to elected members. Information should cover: – annual financial performance against the capital budget – project and programme	The content of the capital monitoring information provided to members covers information on financial, project and programme performance. An assessment of the risks is carried out and the implications are included in the information provided above but not separately reported.	January 2014	Head of Facility Services

Key Point/Checklist/ Recommendation	Action/Response:	Implementation Date	Lead Officer
level performance against cost, time and scope targets – risk reporting (including identification, likelihood, financial impact and actions taken) – an assessment of intended and realised benefits	No information is provided on the realisation of benefits. Amendments will be made to the reporting to members to include specific information on risks and benefits realisation.		
Councils should consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary	Training on capital issues will be included in the formal training given to members.	To be agreed with Council leadership.	Head of Facility Services
Councils should consult with stakeholders on its capital programme to ensure stakeholders are fully aware of council capital spending priorities and plans. This may create opportunities to generate efficiencies over the whole programme rather than restricting it to project specific issues	Consultation on the proposed capital programme will be included in the budget prioritisation process.	February 2014	Head of Strategic Finance
Councils should improve how they manage risk and report on programme-level risk to members. Reports should provide details on the likelihood of risks occurring, potential impact and what proposals are in place to lessen the impact of risk	This will be incorporated into the reporting to members in terms of capital monitoring and the papers on the capital programme preparation.	January 2014	Head of Facility Services
Councils should carry out post-project evaluations within six months of a project being completed to find out if the projects have delivered, or are on course to deliver, the intended benefits and to learn lessons. The results should be reported publicly.	Post completion reviews are carried out. Consideration will be given to how these could be reported publicly.	December 2013	Head of Facility Services
Councils should ensure lessons learned from projects are shared across services and other councils to help improve the successful delivery of future projects to time and cost targets.	Lessons learned are shared within the Council. Consideration will be given on how these can be shared with other Councils	December 2013	Head of Facility Services

Responding to challenges and change

An overview of local government in Scotland 2013

ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2013

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.

Contents

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Summary

Councils that place Best Value at the centre of all they do are well placed to deal with challenges and change

Introduction

1. The Accounts Commission's overview report last year identified the pressures facing local government. This year, we look at how councils are responding and identify what more needs to be done. There are many challenges facing local government. The most immediate are managing financial pressures, dealing with welfare reform and continuing to provide Best Value.

2. Our report draws on recent audit work including the annual audits, Best Value audits and national performance audits to provide an independent view on the progress councils are making. The report is in two parts:

- Part 1 highlights service challenges in 2013
- Part 2 reviews use of resources in 2012.

3. There are short summaries at the end of each part of the report, leading to a checklist of actions for councillors in Appendix 1. There is a glossary of terms used in the report in Appendix 2.

Context

4. Budgets are tightening and councils anticipate even tougher times over the next few years. Reserves have increased but they can be used only once and are not a sustainable source of support for expenditure. Demands on services continue to rise and the longer-term impact of changes in the population and, in particular, the growing number of older people, is likely to be substantial. So far, tighter budgets have been met by reducing staff numbers and increasing charges.

5. There have been significant changes in the make-up of the people leading and managing councils. Over a third of the councillors elected were new to local government at the May 2012 elections. About a third of councils have changed their chief executives over the last two years. Councils are also changing how they deliver services with, for example, more arm's-length external organisations (ALEOs) now in place.

6. Politics is, of course, an integral part of local government and heightened political tensions are apparent. Further pressures are likely as the new administrations strive to deliver manifesto commitments at a time when reduced budgets mean that choices and decisions are harder.

7. The public service reform agenda is gathering pace and significant changes lie ahead for local government. Reform of the welfare system is likely to have significant and far reaching consequences for councils and their communities. There are plans for major change in adult health and social care. The new single police and fire services mean new relationships will need to be established with councils. It is also very clear that the Scottish Government expects Community Planning Partnerships (CPPs) to oversee and lead public service reform.

Priorities

8. Against this backdrop, the overall aim for councils is to achieve Best Value and improve outcomes. Common themes are leadership and governance, partnership working, service changes and performance information and management. We return to these themes in the summaries at the end of each part of the report.

9. There are many aspects to the councillor role, and there is a wide range of material available to support them. In recognition, and drawing on the range of issues covered in the report, we have identified a small number of key recommendations for councillors in 2013 (Exhibit1, overleaf).

10. Councillors and senior managers should consider this report, identify what they are doing in response and, where there are gaps or where progress is slow, determine the immediate actions they need to take to improve. We would also encourage councils to discuss the report with their community planning partners. Local authorities that place Best Value at the centre of all they do are well placed to deal with the challenges in 2013 and beyond.

Exhibit 1
The Accounts Commission's key recommendations for councillors in 2013

Pressures

Resource and service demands

Challenges

Public service reform

Recommendations

Leadership and governance

- Build and maintain strong working relationships, in councils and with community planning partners
- Provide robust scrutiny of finances and service performance
- Ensure effective financial planning, management and controls are in place
- Provide clear information about the purpose and intended use of reserves

Working in partnership

- Ensure effective leadership of community planning
- Demonstrate that the council's contribution to community planning is resulting in better services and improved outcomes

Service changes

- Monitor the impact of the major changes in the welfare system
- Ensure rigorous and challenging appraisal of options for delivering services
- Improve workforce planning to understand how changes in staff numbers are affecting services and the capacity for improvement

Performance information and management

- Promote thorough and robust self-evaluation
- Ensure performance information supports scrutiny and service improvement
- Make better use of cost information and benchmarking to assess value for money

Source: Audit Scotland

Part 1. Service challenges in 2013

The councillor role in performance, improvement and governance is crucial in 2013 and beyond

11. In this part of the report, we consider the resource and demand pressures facing local government in 2013, the impact of public service reform and underline why the councillor role in performance, improvement and governance is crucial.

Demand and resource pressures continue to build

12. Councils are managing their finances in challenging economic circumstances and against a backdrop of increasing demand for services. As shown in Part 2 of the report, reserves have increased but this is only one indicator of financial health. The position at each council needs to be considered overall, taking account of borrowing and other commitments, for example.

13. The Scottish Government funding settlement to local authorities for 2013/14 is £9.9 billion, a decrease of about 0.2 per cent in cash terms or 2.2 per cent in real terms.[1] While local government's share of the Scottish budget has remained fairly constant, the actual amount of money councils receive has been cut. Councils are increasing charges for some services but need to weigh these decisions against the impact on service users. There are also uncertainties about the scale of any further reductions which may flow from the UK Government's Comprehensive Spending Review later in 2013.

14. At the same time, councils are facing continuing cost pressures. Following a series of pay freezes, salaries are set to increase. There are also pressures in a range of other areas, including food and energy costs, waste disposal and building and road maintenance.

15. Staff early-release schemes continue to feature strongly as an option to reduce costs. Councillors should take a close interest to ensure the principles of transparency and accountability are observed in an area which is, rightly, of particular interest to the public.

16. Cost pressures have to be managed alongside substantial service demand pressures relating to, for example, looked-after children, supporting people most affected by economic recession and welfare reform, and the effect on services of the ageing population. Many of the services which councils provide are non-discretionary, leaving limited room for manoeuvre in budgets. Typical cost and demand pressures facing councils are summarised in Exhibit 2; their impact will vary from council to council.

17. Achieving savings will become progressively more challenging. Most councils are predicting substantial funding gaps over the next three years and need to consider seriously policy options which in the past may have been rejected. Councils are putting plans in place to address funding gaps, for example through savings and efficiency programmes. However, longer-term plans with clear links to workforce and asset strategies are less well developed.

18. Councils are doing more to engage local people in discussions about the financial position and the choices available to balance the budget, eg by online questionnaires and through meetings in local communities. This is a healthy development which provides councils with more information about residents' views and promotes a wider understanding of the tough decisions councillors face. It is important that councils follow through on these initiatives by publishing information on what people said and how this influenced budget decisions.

19. Set against a background of substantial demand and resource pressures, there is a range of changes on the horizon to which local government will need to respond (Exhibit 3, page 8).

Public service reform is gathering pace; councils and Community Planning Partnerships are at its centre

20. Public service reform is gathering pace and local government is at its heart. The Scottish Government's reform approach across public services is founded on 'four pillars' for change: shifting resources towards prevention; integrated local services through better partnership working; workforce development; and transparent and improving performance. Responding to public service reform can help public services, including councils, deal with demand and resource pressures. Shifting resources to preventative activity presents a major challenge for councils and their partners.

21. Councils are reviewing services to meet the changing demands, to address inequality and better meet the expectations of people and communities. In doing so, councils need to work with partners so we also look at what more needs to be done to meet the growing expectations of community planning.

Reforms and changes, now and in future

22. Councils and local services face significant changes. Welfare reform, the new national police and fire and rescue services and adult health and social care reform will all have a significant impact on local government. An increasing emphasis on partnership working and community empowerment also provide opportunities for new approaches to service delivery.

Welfare reform

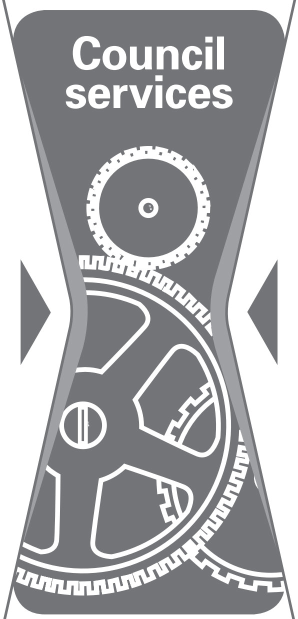
23. The Welfare Reform Act 2012 of the UK Parliament aims to improve work incentives, simplify benefits

1 *Local Government Funding: Provisional Allocations for 2013-2014*, Scottish Parliament Information Centre (SPICe), December 2012.

Exhibit 2
Demand and resource pressures in 2013 and beyond

Demand pressures

- Population growth and changes:
  - demand for social care services eg care for older people
  - demand on school places
- Economic pressures:
  - increasing benefit claimants/ pressures on welfare benefits and advice services
  - social housing demand
  - demand on economic regeneration and business advice services
- Impact of welfare reform
- Implementing national and local priorities
- Local pressures:
  - increasing maintenance costs for roads and other assets
  - flooding/winter maintenance demands



Resource pressures

- Reducing revenue and capital budgets
- Salary and pension commitments
- Early release costs and equal pay commitments
- Reducing staffing numbers
- Borrowing commitments
- Capital programme slippage
- Economic pressures:
  - reduced income from non-domestic rates
  - impact on council tax payment/ arrears
  - reducing income from sale of buildings/assets
  - reducing income from cash deposits/investments
  - reducing income from planning and building control fees
  - inflation and rising costs eg fuel

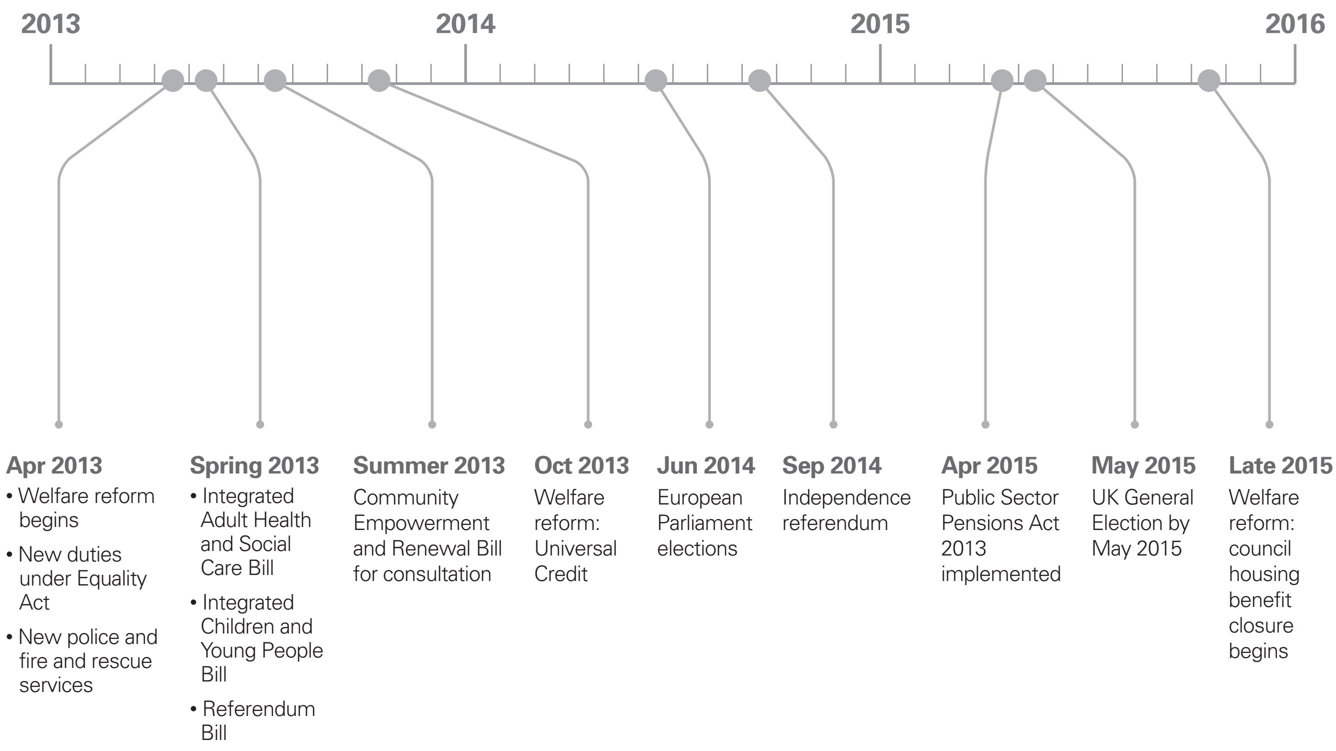
Source: Audit Scotland

and their administration, and deliver substantial savings. It is the biggest reform of the UK welfare system in 60 years, which could change the lives of millions of people and have significant implications for councils and the services they provide. The most significant changes include: a new universal credit to replace existing benefits, including housing benefits currently administered by councils; the introduction of a benefit cap which will limit the amount paid to households; and a new scheme to replace existing council tax benefits.

24. Councils are taking this very seriously and are responding to this major change by identifying the implications for existing services and anticipating the effect on local communities. Some councils have estimated the effect on disposable income in their area, further emphasising the far-reaching effect of the reforms. There is also evidence of councils working together and working with their partners, such as housing associations, to plan for the changes. Some councils are involved in testing aspects of the reforms, including direct payments to benefit claimants (as opposed to offsetting benefits against rents due under current arrangements).

25. Immediate challenges include monitoring the impact of changes from April 2013. Work is continuing to ensure council staff are prepared to deal with issues that arise and to assist those most effected. In the longer-term, councils may review new house building to address the likely increased demand for properties with fewer bedrooms because, under the reforms, benefit will be restricted if a dwelling is larger than required. Many councils have yet to address

Exhibit 3
Summary of changes facing local government



Source: Audit Scotland

fully the longer-term implications. This is mainly because they are unable to predict with certainty the services they will be expected to provide and therefore the number, skill mix and staff grades required.

26. It is difficult to overstate the potential implications of welfare reform on people and communities, on council services and their policy objectives, and on council staff. Welfare reform represents a major challenge for councils in the short to medium term.

Other changes

27. The Police and Fire Reform (Scotland) Act 2012 of the Scottish Parliament established a single police service and a single fire and rescue service from 1 April 2013. This is a substantial undertaking involving major change in vital public services. During 2012, we produced overview reports[2, 3] highlighting the main issues from Best Value audit and inspections of police authorities and forces and the Best Value audits of fire and rescue authorities.

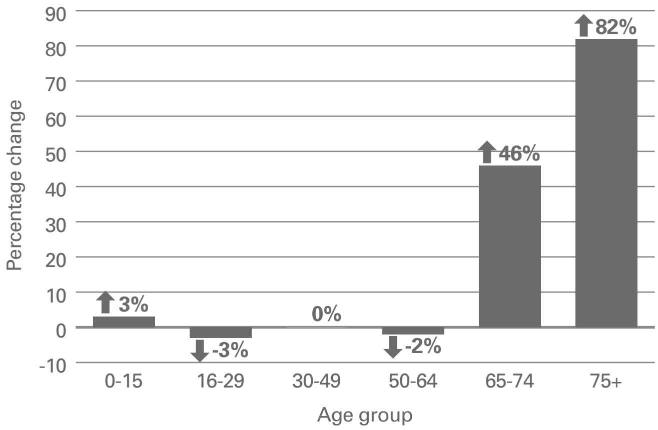
28. In December 2011, the Scottish Government set out plans to integrate adult health and social care. This aims to improve the quality and consistency of care for older people, and to shift resources to community services and away from institutional care. The Government plans to introduce Health and Social Care Partnerships (HSCPs) to replace the existing Community Health Partnerships. These changes affect major public services and, potentially, represent the biggest change in local government since its reorganisation in 1996.

29. Demographic changes, particularly the ageing population, have significant implications for council services and will increase demands in key areas such as homecare and housing. Registrar General for Scotland[4] figures show

2 *Best Value in police authorities and police forces in Scotland*, Accounts Commission and the Auditor General for Scotland, November 2012.
3 *Best Value in fire and rescue services in Scotland*, Accounts Commission, July 2012.
4 *Scotland's Population 2011 – The Registrar General's Annual Review of Demographic Trends*, General Register Office for Scotland, August 2012.

that Scotland's population reached a record high, growing by 0.6 per cent in the year to June 2011, largely due to inward migration with 27,000 more people entering Scotland than leaving, and 4,809 more births than deaths. Projections suggest further growth, and a significantly ageing population. From 2010 to 2035 the number of people aged 75 and over will increase, by over 80 per cent, representing about a third of a million people (Exhibit 4).

Exhibit 4
Projected change in age structure of Scotland's population, 2010–35



Source: General Register Office for Scotland

30. The anticipated effect across council areas is not uniform, with rural areas likely to see proportionately larger increases in the number of older people, with the potential to compound the challenges in meeting service demands. The demographic changes mean significant and pressing challenges for councils and the wider public sector. There is a wide recognition that services need to change but services have been slow to adapt and there is limited evidence of changes in the way resources are being used over time.

Reform and the growing expectations of community planning

31. By working together to plan services and make best use of the overall resources, partners can achieve better outcomes and value for money than by working alone. Community Planning Partnerships (CPPs) offer part of the solution to the pressures on resources and will play a crucial role in public service reform. The Scottish Government expects CPPs to take the lead in improving outcomes with reduced budgets.

32. Community planning involves councils and other public bodies working together, with local communities, the business and voluntary sectors, to plan and deliver better services and improve outcomes for people. CPPs set out their priorities in Single Outcome Agreements (SOAs).

33. Local authorities have a duty[5] to initiate, facilitate and maintain effective community planning, and statutory partners such as health boards are required to participate. All councils have established a CPP to lead and manage community planning in their area. CPPs are not statutory committees of the council or public bodies in their own right.

34. As part of its response to the Christie Commission's report on the future delivery of public services,[6] the Scottish Government worked with the Convention of Scottish Local Authorities (COSLA) to produce a Statement of Ambition for community planning.[7] It requires community planning partners to achieve better outcomes for communities and to work together to help prevent problems arising. It also emphasises that all partners are collectively accountable for delivering services (Exhibit 5, overleaf).

35. The Scottish Government asked the Accounts Commission to consider how external audit and inspection might help CPPs to improve and deliver better outcomes. In doing this we worked with the Auditor General, Audit Scotland and our scrutiny partners[8] and developed a framework to audit CPPs and how they perform.

36. Aberdeen City, North Ayrshire, and Scottish Borders CPPs participated in initial audits which, for the first time, focussed on the effectiveness of individual CPPs. Audit reports on each CPP and a summary report covering common issues and related information were published in March 2013.[9]

37. The initial audit work suggests that while there are examples of good partnership working and initiatives to meet local needs, there is a long way to go before the full potential of community planning will be realised. Exhibit 6 (overleaf) summarises the findings from our early audit work on community planning.

5 Local Government in Scotland Act 2003, Part 2, section 15.
6 *Commission on the Future of Public Services*, Christie Commission, June 2011.
7 *Review of Community Planning and Single Outcome Agreements: Statement of Ambition*, Scottish Government and COSLA, March 2012.
8 Partners included: Education Scotland, Care Inspectorate, Her Majesty's Inspectorate of Constabulary for Scotland, the Scottish Housing Regulator and Healthcare Improvement Scotland.
9 *Community planning in Aberdeen, Community planning in North Ayrshire, Community planning in Scottish Borders, Improving community planning in Scotland*, Accounts Commission and the Auditor General for Scotland, March 2013.

Exhibit 5
The Statement of Ambition – key features and what CPPs must do

- **Understand place:** develop a clear and evidence-based understanding of local needs and opportunities. This requires local and national agencies, supported with good data that can be monitored over time, to demonstrate continuous improvement. CPPs and SOAs must be responsive to local circumstances, within the context of the National Performance Framework – this sets out national priority areas such as 'we live longer healthier lives', 'we realise our full economic potential', and 'our children have the best start in life'.
- **Plan outcomes:** translate their understanding of place into plans that recognise the particular needs and circumstances of different communities. These should clearly identify outcome priorities and improvement actions, agreed jointly by partners.
- **Deliver outcomes:** translate into delivery, with partners working together to implement local priority outcomes. CPPs must have a clear understanding of the respective contributions from partners, and how overall resources will be targeted to deliver the priorities. This will require service integration, a focus on prevention, and investment in the people who deliver services through enhanced workforce development, including effective leadership.

Source: Audit Scotland

Exhibit 6
Community planning – audit findings

- Community planning provides a clear opportunity to deliver a step change in the performance of public services.
- Partnership working is well established and there are many examples of joint working that are making a difference for specific communities.
- Community Planning Partnerships (CPPs) are not yet able to demonstrate that they have had a significant impact in delivering improved outcomes across Scotland.
- Performance issues go beyond individual CPPs: delivering change to help meet the demanding requirements of the Statement of Ambition for community planning will require strong and sustained leadership at national and local level.
- The outcomes that CPPs are trying to improve are complex and deep rooted.
- CPPs need to be clearer about their priorities for improving their area.
- CPPs need to focus their efforts through using their combined resources, skills and expertise.

Source: Audit Scotland

38. The messages from the CPP audits are consistent with matters identified in our report on health inequalities.[10] This highlighted the lead role that CPPs have in bringing together all relevant local organisations to address health inequalities. The report found a number of areas where health and social care providers need to improve the joint delivery of services (Exhibit 7).

Councils and CPPs must involve and consult local communities

39. Councils and CPPs need to understand local community needs to deliver better services and address inequalities. The Statement of Ambition for CPPs stresses the importance of using strong and reliable data to understand and act on local need.

40. Most councils survey service users in some way and some have established customer standards setting out what people can expect from services. Reports from surveys provide useful information and help to support public performance reporting, eg where councils take an approach based on 'you said..., we did...'.

41. Councils are doing more to understand the views of residents more generally. Information from complaints and user feedback, for example, helps to identify problems and gauge customer satisfaction. Councils with good complaint-handling processes are more responsive and transparent in the way they deliver services.

42. The effectiveness of community engagement is variable. Many councils and CPPs do not link consultation and engagement activity with decision-making to adapt and improve services. More developed approaches, involving CPPs and others, can help manage expectations about what can be achieved by local public services in a context of reducing budgets.

10 *Health inequalities in Scotland*, Accounts Commission and the Auditor General for Scotland, December 2012.

Reviewing services and implementing options

43. Councils decide the best way to deliver services taking account of the needs of service users and communities. In so doing, they must observe their duty to provide Best Value, which requires continuous improvement, while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. Pressures on finances and changes in the workforce give even greater impetus for councils to be active and ambitious in considering alternative options for services.

44. Options include: council-provided services; services delivered through contracts with external private or voluntary sector suppliers; and services delivered through partnerships or by an arm's-length external organisation (ALEO). Option appraisal needs to be rigorous and challenging, and based on clear business cases. Alternatives to externalising services include simplifying and standardising existing processes, many of which are common to all councils, for example, issuing bills and paying creditors.

45. Reviews need to include discussions with local partners to identify areas for improvement. Fully evaluating the service options that flow from that can be complex and councillors need good-quality evidence. In summary, the key questions are:

- Is there a need for this service?
- If so, how should it be delivered and by whom?
- Have we explored all the realistic options?
- Do we have sufficient evidence to make an informed decision?

Exhibit 7
Health inequalities

- CPPs' reports on delivering their SOAs are weak in the quality and range of evidence used to track progress in reducing health inequalities. Current performance measures do not provide a clear picture of progress.
- It is difficult to track direct spending by the NHS and councils on addressing health inequalities.
- CPPs must ensure that partners have a shared understanding of health inequalities, their respective roles and the shared resources available, and that they involve local communities in initiatives to tackle health inequalities.
- NHS boards, councils, the voluntary sector and other partners should identify their combined spend on reducing health inequalities locally, and work together to ensure that resources are targeted at those with the greatest need.

Source: Audit Scotland

46. Improvement depends on strong and effective councillor and officer leadership which builds and maintains momentum through the change process. Councillors and officers must ensure they have the skills and capacity to deliver change and councillors need to challenge and scrutinise progress effectively.

Sharing services

47. Sharing services may provide an option for savings or for providing better services. However, barriers include organisational structures, leadership changes, compatibility of systems and staff terms and conditions (Exhibit 8, overleaf). It is particularly difficult when sharing services means loss of control and jobs. We remain of the view that significant savings in the short term are unlikely from sharing services.

48. Where business cases and option appraisal indicate the potential for savings, we encourage councils to press on in accordance with Best Value principles, with strong councillor and officer leadership, to realise the benefits as quickly as possible.

49. There is also potential from approaches that shift the emphasis from 'economies of scale' to 'economy of skills', particularly around professional services. For example, our report on protecting consumers[11] noted that councils are working collaboratively on specific projects such as sharing laboratories, equipment and expertise.

ALEOs

50. Our *How councils work* report on ALEOs[12] sets out good practice in setting up and running ALEOs. We encourage councillors to use it to check progress on governance, performance and risks. We have previously highlighted the problems that can emerge when governance is not effective, and the risks to finance and services. A key issue for the Accounts Commission is for auditors to be able to 'follow the public pound', from the council to the ALEO, where it is then used to provide public services.

11 *Protecting consumers*, Accounts Commission, January 2013.
12 *How councils work: an improvement series for councillors and officers – Arm's-length external organisations (ALEOs): are you getting it right?* Accounts Commission, June 2011.

Exhibit 8
Shared services

- East Lothian and Midlothian councils ended their plans for joint working in education and children's services following changes in political administrations.
- The three Ayrshire councils decided not to proceed with a project for shared regulatory services (building standards, environmental health and trading standards) owing to the lack of savings likely to be generated and legal complexities in integrating services.
- Clyde Valley councils have worked together since the 2009 Arbuthnott review recommended closer working between councils and health boards. Work started in social transport, health and social care, waste management and support services. Many of the projects are still at planning and development stage and have not yet delivered the expected outcomes.
- Clackmannanshire and Stirling councils continue to work to integrate education and social care services. Each council has now agreed a shared methodology for apportioning costs and savings, and work is under way to agree a common performance management framework.

Source: Audit Scotland

51. ALEOs can take the form of a company or trust which is 'arm's-length' because the council retains a degree of control and 'external' because they have a separate legal identity. They deliver a wide range of council-related services, including leisure services and property maintenance, and offer the potential to reduce costs and increase flexibility. However, there are also potential disadvantages and risks.

52. More councils have established leisure trusts and there are other cases where councils are considering the ALEOs option, for example as the vehicle for innovative approaches to the management of commercial property.

53. Specifying policies on, for example, remuneration (including bonus payments), equalities and sustainability means that the council can shape from the outset the framework within which the ALEO operates. A clear framework also allows the council to retain responsibility for the public funds it provides to the ALEO without compromising the independence of the ALEO.

54. ALEOs operate in the same challenging financial environment as councils and there is an increasing number of cases where ALEOs are operating at a loss. In a quickly changing environment, councils need to keep their involvement in ALEOs under close review. This involves regular monitoring of financial and service performance but it will also involve periodic and systematic review of whether an ALEO remains the best option.

Councillor involvement in performance, improvement and governance is crucial

55. This section focuses on self-evaluation, performance information and governance. All of these are increasingly important in the context of the challenges which councils face in 2013 and beyond. Councillors need to be clear about what the council is trying to achieve and how they will monitor and review performance.

Self-evaluation and improvement

56. Our Best Value audits have helped stress the importance of self-evaluation and performance management as a route to improvement.

57. Self-evaluation done well can provide real insight into how councils can improve and is a characteristic of high-performing organisations. In order to improve, councils must be self-aware and critically review their performance.

58. There is still a long way to go before self-evaluation becomes a central part of change and improvement. There is scope for councils to improve self-evaluation by comparing performance with other councils by benchmarking, using the work developed by the Society of Local Authority Chief Executives and Senior Managers (SOLACE), and by making better use of service users' views.

59. Everyone in the council has a role in managing performance. In well-run councils, performance management is embedded in people's jobs. The key requirement is a culture that encourages open discussion and challenge. By taking a close interest in performance, councillors can support improvement. They need to be prepared to engage in strong scrutiny and to challenge officers on performance.

60. Performance management involves gathering, analysing and acting on information to manage and improve services. Good performance management is essential for councils to deliver effective services and to demonstrate the best use of resources. In 2012, we looked across our audit work to identify key issues to help support improvement.[13]

13 *How councils work: an improvement series for councillors and officers – Managing performance: are you getting it right?*, Accounts Commission, October 2012.

61. Councillors often have a strong appetite for scrutiny, although they can feel cautious about this where partners are involved. They need good-quality performance information to allow them to scrutinise effectively. Information needs to be concise and relevant, highlighting areas not meeting or exceeding target. Lengthy performance reports are often ineffective because critical issues are buried in the detail. Exhibit 9 sets out the main elements of performance management.

62. Our performance audit reports have confirmed that more work is required on performance information and management. For example, our report on reducing reoffending[14] identified the need to improve the range of performance measures used to assess the effectiveness of the Scottish Prison Service, criminal justice authorities and councils in reducing reoffending.

63. Similarly, our report on *Protecting consumers*[15] found that councils had differing and inconsistent performance reporting for trading standards. This makes it difficult to benchmark performance. Councils should continue to work together in the project developed by SOLACE to produce meaningful and consistent indicators that will allow them to compare their services. This will help them to identify what works well as a starting point to improving performance and cost effectiveness.

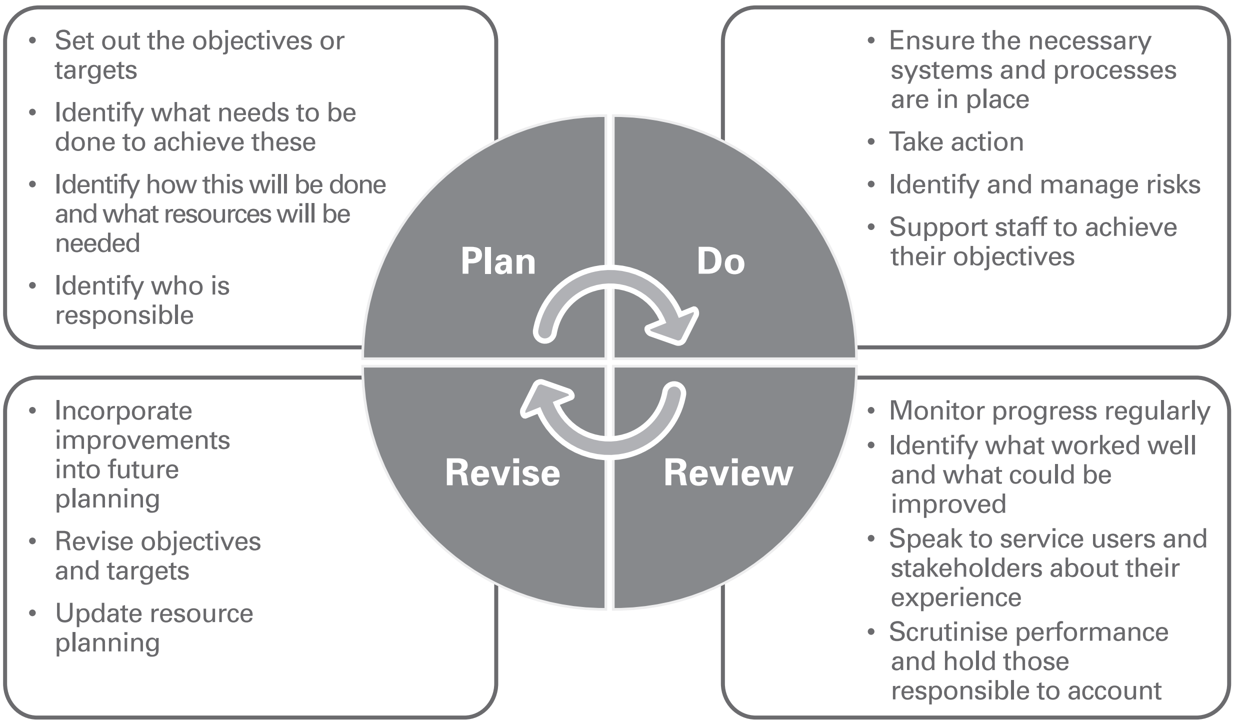
64. The Accounts Commission has a duty to define the performance information that councils need to publish. In 2008, we made a significant change, inviting councils to develop a broad set of information to demonstrate they are securing Best Value. In December 2012, the Accounts Commission endorsed the SOLACE project to improve performance and benchmarking information.

65. We will continue to review councils' approaches to the Best Value principle of reporting performance to citizens, both in terms of the benchmarking indicators and in the range of service and corporate performance information reported.

Effective performance management in partnership working

66. The Statement of Ambition for CPPs emphasises the role for strong challenge and scrutiny from councillors, and the importance

Exhibit 9
Managing performance based on the plan-do-review-revise cycle



Source: Audit Scotland

14 *Reducing reoffending in Scotland*, Accounts Commission and the Auditor General for Scotland, November 2012.
15 *Protecting consumers*, Accounts Commission, January 2013.

of self-assessment. Similarly, the Scottish Government holds health boards and other public bodies to account for their contribution to CPPs.

67. Performance management in partnership working can be challenging. CPPs must demonstrate that they are improving local outcomes but this can be difficult. It requires good local data and meaningful comparisons to track progress over time. Differing financial and performance management arrangements across sectors can be problematic, and more work is needed to share data between agencies.

68. The extent to which shared partnership objectives are built into partners' performance management arrangements varies. This can make partners less clearly accountable for delivering SOA priorities. In addition, performance reporting of partnership work does not always give a clear picture of progress, for example in reducing health inequalities.

Using cost information more effectively

69. Our report on how councils use cost information[16] found scope for councils to use cost information more effectively. Cost information, and in particular the unit cost of services, is crucial for councillors to make informed budget decisions, particularly where finances are tight. The report stressed the need for councillors to scrutinise costs as well as performance. As part of this they should be able to benchmark or compare service costs and quality with other councils which operate in similar circumstances.

70. Our report on reducing reoffending[17] found that more detailed information on unit costs and service quality is needed to make an overall assessment on how efficiently money is being used. The report recommends that councils and their partners work together to improve understanding of costs of service delivery. Previous performance audits have identified the need for more consistent data and much greater transparency about the cost of in-house and externally provided services.

Governance of finances

71. Good governance is about clear direction and strong control. In the current financial circumstances, effective governance of finance is more important then ever. Part 2 of our report has details on matters arising from the audits which are of concern. In particular, it highlights:

- increasing evidence of large variances against budgets. It is important that councillors have good-quality and timely information about why variances occur
- weaknesses in basic accounting systems and controls and under-resourcing of internal audit. Councillors need assurance that officers are addressing these problems.

72. Councils decide local governance arrangements but they should take account of recommended good practice. If they decide not to follow it, they need to explain why. Audit committees provide a focus for financial control and risk and enhance public trust and confidence. We support the fundamental principle that audit committees should be chaired by someone who is not a member of the political administration.

73. Many administrations are now coalitions, so applying the principle in practice can be challenging. There are six councils where the chair of the audit committee is also a member of the administration. Those councils need to monitor their approach to ensure effectiveness and transparency and to maintain public confidence. Some councils have non-councillor, lay members on their committees. This can add a different perspective to the audit committee work and further enhance its independence and standing.

74. Status and independence provide the foundation but, ultimately, the effectiveness of the audit committee depends on the committee members and their approach. They need to know how services and resource management work and be prepared to ask challenging questions. This in itself requires particular skills. Specialist training in how to pursue lines of questioning may help support councillors in their role.

75. There is evidence of delays in updating key governance documents such as standing orders, schemes of delegation and financial regulations. These are essential points of reference which ensure that business is conducted properly within the agreed responsibilities and accountabilities, and need to keep pace with changes in structures and responsibilities.

76. The chief financial officer (also known as the statutory officer for finance or the Section 95[18] officer) has a crucial role in providing professional advice to colleagues and councillors on all aspects of the council's finances and is central to effective financial governance. A useful summary of the role is provided in the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance[19] (Exhibit 10).

16 *How councils work: an improvement series for councillors and officers – Using cost information to improve performance: are you getting it right?*, Accounts Commission, May 2012.
17 *Reducing reoffending in Scotland*, Accounts Commission and the Auditor General for Scotland, November 2012.
18 Section 95 of the Local Government (Scotland) Act 1973.
19 *The Role of the Chief Financial Officer in Local Government*, CIPFA, 2010.

77. The focus on finances means that the chief financial officer role is increasingly important. The role carries overall responsibility for financial management and reporting, contributing to the strategic management of resources and advising on the financial aspects of what are often complex proposals for new ways of delivering services.

78. However, management restructuring and the shift to smaller management teams means that the chief financial officer is often not now a member of the senior management team. As a result, in about a half of councils the chief financial officer is below director level. There is a risk, therefore, that the statutory role is less visible and that financial governance is affected. These risks can be mitigated where the chief financial officer attends senior management team meetings and has regular contact with councillors who have specific responsibilities for finance, such as the convener of the finance committee or equivalent.

79. As we have said in previous reports, where the chief financial officer is not a member of the senior management team, councillors need to understand why that is the case and satisfy themselves that the officer has appropriate access and influence to perform this crucial role.

80. Effective risk management is increasingly important in the current context, where there are substantial changes in staff and services, innovative approaches and more focus on partnership working. These require a shift in the culture and attitude to risk. In short, the scale of the challenge for councils means that they cannot afford to be risk averse, so the focus is on being risk aware.

Exhibit 10

CIPFA statement on the role of the chief financial officer (CFO)

The CFO:

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- must lead and direct a finance function that is resourced to be fit for purpose
- must be professionally qualified and suitably experienced.

Source: CIPFA

81. High-level risk registers are in place in all councils but more work is needed to ensure risk management is embedded and aligned through the council, from the corporate centre through individual services. It is important that risk management is not seen simply as a compliance exercise but rather it is used operationally, for example, to inform decision-making in individual projects, in services and to develop contingency plans.

82. Councillors have an important role in encouraging an open approach to risk management which promotes discussion about risk, and a clear plan which identifies acceptable risks and the steps needed to mitigate the likelihood of those risks materialising.

Summary of Part 1

Leadership and governance

- Councillors need to provide robust scrutiny of finances and service performance (paragraphs 59 and 71).
- Councils need to ensure strong financial governance, including fully resourced internal audit, strong audit committees and access and influence for the chief financial officer (paragraphs 71 to 79).

Working in partnership

- There are increasing expectations on community planning, and councils must provide strong leadership of this process (paragraph 31).
- Community Planning Partnerships must make better use of available resources, develop preventative practice to improve local outcomes, and demonstrate that the council and its partners are making progress in achieving outcomes (paragraph 37).

Service changes

- Significant changes for local government include: welfare reform; changes in health and social care; police and fire and rescue service reform; and the effect of demographic changes (paragraph 22).
- Rigorous option appraisal is needed to ensure that services are effective and demonstrate Best Value. Existing arrangements, including the use of ALEOs, should be reviewed to ensure they are meeting their financial and service aims (paragraphs 44 and 54).
- Councils need the capacity and skills to respond to budget challenges, support change programmes and improve services (paragraph 46).

Performance information

- Good self-evaluation is central to improvement (paragraph 57).
- Good cost and comparative performance information is essential for councillors to scrutinise services and take effective decisions (paragraphs 61 and 69).
- Councils must demonstrate Best Value, using benchmarking information to draw comparisons with other councils and providers (paragraph 58).

Part 2. Use of resources in 2012

There were significant changes in people and finances in local government in 2012

83. In this part of the report, we consider changes in 2012 in the make-up of those leading, managing and working in councils. We also look at the financial position in 2012 and how well councils are placed to deal with financial pressures in the years ahead.

There have been significant changes in the make-up of those leading, managing and working in councils

Changes in councils, councillors and senior managers

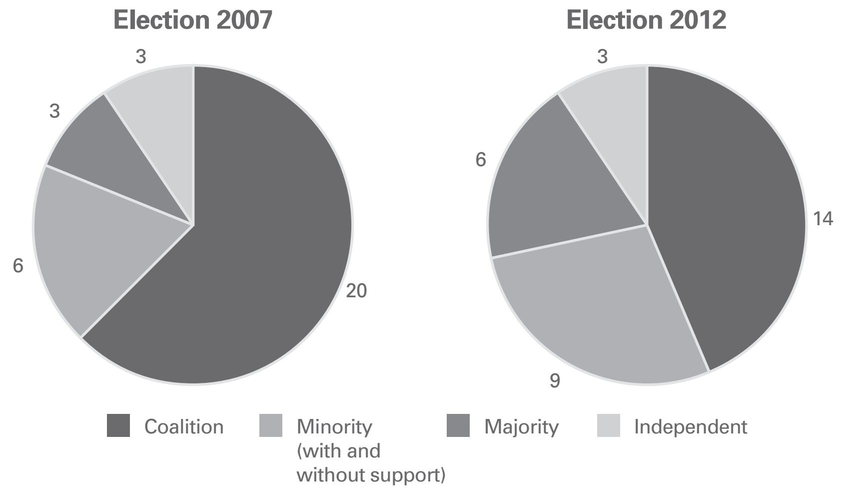
84. The political landscape has changed substantially in recent years. The move to proportional representation in 2007 resulted, in many cases, in a shift from one-party control to coalitions or minority administrations. In the May 2012 elections, there were changes in political control in 23 of the 32 councils and an increase in the number of councils led by a single political group. However, coalitions remain the most common form of administration (Exhibit 11).

85. A significant number of the 1,222 councillors across Scotland are new or relatively new to local government. In 2007, nearly half were elected for the first time and in the 2012 elections 34 per cent of councillors were new to local government. In some councils, the proportion was significantly higher, with almost half in Glasgow City and almost two-thirds in Shetland Islands.

86. Following the elections, 12 councils have made changes in their decision-making and scrutiny structures and more are in the process of doing so. Consequently, most, if not all, councillors now in office have some new aspect to their role, as part of the political administration, in opposition or in a different committee structure.

87. As at December 2012, 16 councils operated 'traditional' service structures where committees with cross-party membership govern and challenge on a service-specific basis. Twelve operated 'executive' or 'cabinet' models where the leading administration takes decisions that are monitored and challenged by scrutiny committees, typically chaired by a councillor who is not a member of the administration. The remaining four councils operate under other arrangements which combine elements of the traditional and cabinet models.

Exhibit 11
Political control in councils: 2007 and 2012



Source: Audit Scotland

88. Some councils have introduced a petitions committee designed to encourage individuals, community groups and other organisations to become involved by bringing forward concerns and suggestions for change. Alongside existing channels and other initiatives, these committees have the potential to deliver a more inclusive and accessible approach to council business.

89. It is for councils to decide structures that best suit local needs and it is important that they keep structures under review to ensure they remain fit for purpose in a quickly changing environment. How councils are organised is crucial in setting the framework within which decision-making and scrutiny take place. Ultimately, success will depend on what councillors do in practice to:

- make sure that decisions are in line with their best value responsibilities
- scrutinise the extent to which their decisions achieve the intended outcome, eg reduce costs and/or improve services and outcomes.

90. It will take time for the new councils to become fully established, and for newer elected members to develop an in-depth understanding of the context into which they will implement manifestos and priorities. Initial signs, such as disputes over the political balance on committees (unlike England, there is no statutory requirement in Scotland for committees to reflect the political composition of the council overall), suggest that political tensions may be more pronounced. Councils need to consider the implications on the public's perceptions of local government.

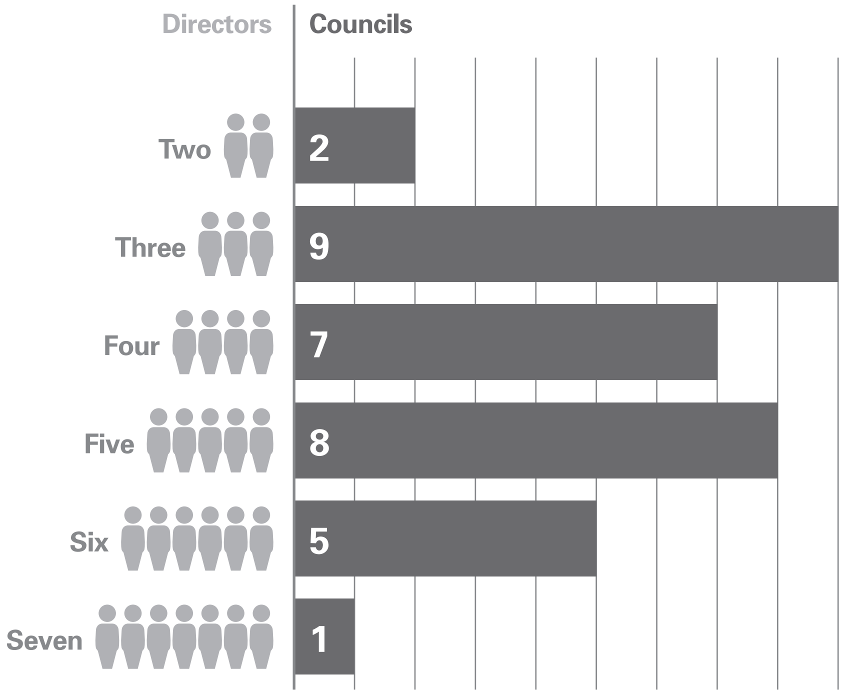
91. Changes in the make-up of councils provide an opportunity for fresh ideas and renewed impetus. This makes it more important than ever that councillors get the support they need, including effective training and development. Councils have made good progress in introducing personal development plans for councillors that include training for councillors working in specialist areas such as planning and licensing. In the current context, developing scrutiny skills is a priority. One year after last year's council elections, the time is right for councillors to assess the effectiveness of training and development.

92. As well as significant changes in political leadership, there continues to be substantial changes at a senior officer level. In the two years to December 2012, there have been ten new council chief executives and over a third of chief financial officers are new. There has also been substantial change in other senior manager positions as councils look to save money and put in place structures which best suit the service context now and in future. In some cases, councils and health boards have agreed to a single senior officer overseeing aspects of health and social care, and this has helped to promote a joint approach.

93. There has been a continuing move to smaller management teams and, by the end of 2012, over half of councils had four or fewer directors on their management teams (Exhibit 12). Changes were made to reduce costs or to promote a more corporate approach to management, or both.

94. Councils are complex organisations with many different services and areas of professional expertise. In recognition, steps to reduce the number of senior managers are often accompanied by changes in management structures at less senior levels, and by a change in culture to empower managers across the council. This takes time to embed and become fully effective and requires, in particular, strong skills and capacity at the first level below directors, at 'head of service' level.

Exhibit 12
Number of directors (corporate management teams, excluding the chief executive)



Note: Shows the 32 councils by number of directors (eg, nine councils have three directors).
Source: Audit Scotland

95. Management restructuring brings additional demands on senior managers and comes at a time when they need to support new political arrangements and manage substantial pressures on finances and services. Councillors need to ensure their councils maintain senior managers' skills and build resilience and capacity within smaller senior management teams.

Reducing staff numbers

96. A significant proportion of local authority spending is on staffing, typically about 41 per cent of net spending, or about £8 billion in total across Scotland's 32 councils. At a time of financial pressures, balanced budgets have been achieved mainly by reducing staff numbers. Councils need to monitor the consequences for services.

97. The number of staff directly employed by councils has decreased by about 6.4 per cent since 2010, a reduction of 25,800 people or 14,100 full-time equivalent (FTE) posts. There have also been reductions elsewhere in the public sector. Over that two-year period, the percentage reduction in local government was bigger than the NHS in Scotland (2.2 per cent) but smaller compared to other public bodies, including the Scottish Government core directorates (10.7 per cent). [20]

98. The number of people directly employed in local authorities is now at the lowest level since 1999. There are two main factors: workforce reductions to meet tighter budgets; and the transfer of staff to ALEOs and the commissioning of services.

20 Scottish Government core directorate figures refers to the core directorates only and not the whole civil service in Scotland. Joint Staffing Watch, Q3 data.

Information is not available on the extent to which these factors contribute to the decrease. Exhibit 13 therefore only shows the overall change in directly employed staff.

99. This trend is set to continue as councils look to reduce staff costs and numbers as part of their strategies for achieving budget reductions. The approach includes voluntary early release and vacancy management, where staff who leave are not replaced.

100. Councils with workforce plans in place to identify skills gaps, workforce pressures, and future needs are better placed to take informed decisions about how to reduce the workforce. Councils need to ensure that workforce plans are up to date and, in particular, to take a longer-term view in line with service plans, ensuring that they have sufficient skills and capacity to meet current and longer-term priorities. Councils are at an early stage of engaging with community planning partners to discuss the overall workforce-related issues in their area, including matters flowing from public service reform, eg adult health and social care changes.

101. One particular example was highlighted in our *Protecting consumers*[21] report on trading standards and food safety services. These departments are relatively small but provide important services. Trading standards has experienced greater than average staff reductions in the last four years (15 per cent compared to an average of ten per cent for all services) and its long-term viability is now under threat. Staff reductions in food safety services have been less severe but here too there are concerns about the loss of skills and experience.

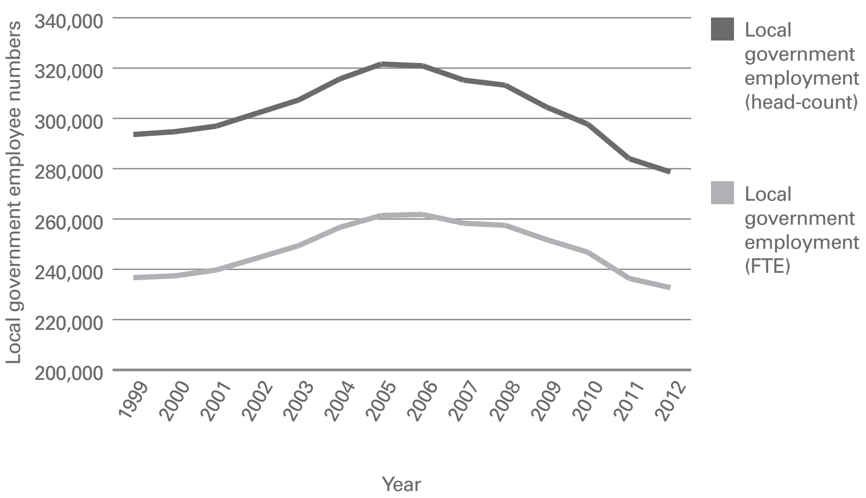
102. Part of the approach to reduce staff costs is to offer staff voluntary early release. Since 2010, about 9,400 local authority staff left at an average cost of £35,600 per person and at an aggregate cost over the two years of £335 million. Schemes vary, with some requiring individual business cases while others are based on eligibility, eg age. However, more work is needed to demonstrate that business cases and schemes have resulted in the anticipated level of savings.

103. Our audits have identified weaknesses in governance of senior officer early retirement. For example, at Strathclyde Fire and Rescue Joint Board we found a systemic failure by the board and its officers to follow good governance in the retirement and re-employment of the chief fire officer.[22] Our findings included points of principle which are applicable across local government (Exhibit 14). This case demonstrated the key role for councillors and, in particular, the need to do more to ensure transparency when senior officers retire early and to provide effective scrutiny of the financial implications.

104. The recommendations in our *Bye now, pay later?* report[23] remain relevant. These emphasise the importance of effective governance and identifying the full costs of early retirements, particularly when decisions relate to senior officers where the sums tend to be relatively large and the consequences of getting it wrong are at their greatest (Exhibit 15). We are currently working with the Auditor General to prepare a report on managing early departures in the Scottish public sector which we will publish in spring 2013.

105. There is progress in the number of women who are part of senior management structures. Our Statutory Performance Indicators (SPIs) show that the percentages of women in the top two per cent and five per cent of earners continue to improve. Women now make up 48.5 per cent of the top five per cent of

Exhibit 13
Numbers directly employed in local government



Note: Employee numbers by full-time equivalent (FTE) and head-count Q3 of each year
Source: Joint Staffing Watch

21 *Protecting consumers*, Accounts Commission, January 2013.
22 *Strathclyde Fire and Rescue Joint Board Statutory Report on the retirement and re-employment of the Chief Fire Officer*, Accounts Commission, September 2012.
23 *Bye now, pay later? A follow-up review of the management of early retirement*, Accounts Commission, June 2003.

council earners and 41.2 per cent of the top two per cent of council earners.

Workforce-related financial pressures

106. Councils are continuing to settle equal pay claims and make provisions where claims are still outstanding. Cumulatively, councils had paid £475 million by March 2012 (£25.6 million during 2011/12), with £106.3 million set aside for known future amounts. Some councils also earmarked reserves for equal pay and, beyond that, most councils' accounts note the possibility of future claims which cannot be quantified, ie contingent liabilities. We will consider equal pay implementation further in our performance audit on workforce planning.

107. Pension costs are met from employer and employee contributions over the long term. There is a risk that amounts required to fund staff pensions will increase over time, as a consequence mainly of reduced investment returns in recent years and retired members living longer.

108. The UK Government is changing all the main public sector pension schemes to help reduce their cost, through the Public Service Pensions Act 2013. The Act requires: ending the current final salary pension schemes; establishing a link between state pension age and normal scheme pension age; and improving scheme governance arrangements.

109. These changes apply to the local government pension scheme in Scotland and must be implemented by April 2015. Within the next two years COSLA, local authorities, the Scottish Government and trade unions must consult and conclude negotiations on the design of a successor scheme. They will also need to work together to help prepare the necessary legislation for approval by the Scottish Parliament and ensure new systems and processes are up and running in time.

Exhibit 14
Strathclyde Fire and Rescue – retirement and re-employment of Chief Fire Officer – Accounts Commission's findings

Public confidence in decisions on early retirement can only be secured if decisions are made and reported in accordance with the principles of good governance, including full transparency. We emphasise a number of key points for general application by all local authorities:

- Members of joint boards have an important decision-making role. In order to fulfil this role effectively, they must be provided with full and objective information and advice, setting out appropriate choices, and the full implications of those choices.
- Members must scrutinise and challenge officers on the information and advice provided to them, especially if they believe that it is inadequate.
- Members must be kept up to date with issues relevant to them fulfilling their obligations.
- The distinct roles and responsibilities of senior officers, either from the supporting authority or from the services for which a board is responsible, need to be clearly set out and adhered to.

Source: Accounts Commission

Exhibit 15
Bye now, pay later? – key recommendations

Framework for decision-making
- Early retirement policies should be approved by councillors and reviewed regularly.

Informing members
- Councillors should receive a report at least annually that details the number of early retirement decisions and the associated costs and savings.

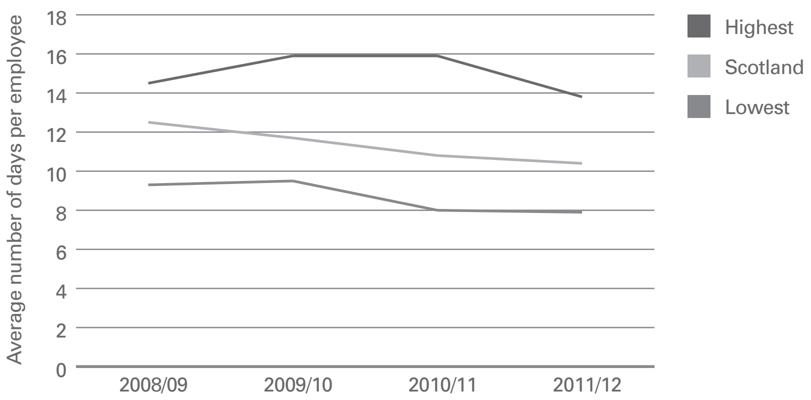
Decision-making
- Local authorities should rigorously appraise individual cases to ensure the expected savings associated with retirement outweigh the costs.
- To improve accountability and assist monitoring, the costs of early retirement should be charged to the appropriate service budget.
- Councillors should be involved in approving early retirement decisions for senior staff.

Source: Accounts Commission

110. Effective absence management practice can help to reduce sickness absence rates and support employees back into work. Local authorities have done important work to address the levels of sickness absence and absence rates have mostly improved:

- 6.2 days for teachers (2010/11: 6.6 days)
- 10.4 days for other council staff (2010/11: 10.8 days), (Exhibit 16)
- 7.2 days for fire and rescue services (2010/11: 8.3 days)
- Absence for police officers[24] in 2011/12 was 4.2 per cent (2010/11: 3.8 per cent[25]).

Exhibit 16
Other local government staff sickness absence



Source: Audit Scotland

111. The costs of sickness absence include sick pay, staff cover and overtime, and service loss. The extent to which employers monitor this varies, as do the costs they include. It is therefore difficult to estimate the cost of sickness absence. In a UK-wide absence management survey[26] public sector employers indicated that sickness absence costs around £80 per day per employee.

112. The costs of sickness absence can therefore be substantial. As an indication, in a typical council with around 5,000 employees (non-teaching staff), sickness absence could cost over £4 million a year, based on an average of 10.4 sickness days per employee. Each reduction of one day in the average level of sickness absence could save in the order of £400,000 per year. Projecting this further, a potential saving in the order of £12 million could be possible across councils as a whole for non-teaching staff alone if they each achieved a reduction of one day's sickness per employee.

113. These figures are indicative and focus only on savings; less sickness absence can also reduce pressures on services. However, we hope expressing this in financial terms goes some way to reflect the costs of sickness absence and how further relatively small reductions can contribute to savings.

Financial reserves strengthened in 2012, but funding is decreasing and significant cost pressures are growing

The financial position and asset management

114. Revenue expenditure is the day-to-day cost of providing services and includes employee costs, supplies such as food and fuel, and materials for routine repairs. Capital expenditure is the expenditure incurred on long-term assets such as schools, major repairs and refurbishment of other buildings and acquiring large items of equipment such as vehicles which will be used over time in providing services.

115. In financial year 2011/12, income from government grants, council tax, non-domestic rates, housing rents and other fees and charges in local government was £18.6 billion. Spending on services was £18.7 billion and, after accounting adjustments of £0.3 billion, £0.2 billion was transferred to usable reserves (Exhibit 17). Service spending was broadly in line with the spending patterns in the previous year.

116. The SPIs showed that, despite the financial context for taxpayers, most councils increased the amount of council tax collected. The overall figures increased from 94.7 to 95.1 per cent. Five councils had small reductions in collection rates. Around £116 million, or about five per cent of the £2.3 billion due in 2011/12, was not collected during the year. Councils will continue to pursue this through ongoing recovery processes.

117. Of the aggregate expenditure, councils spend over £4 billion in procuring goods and services to deliver outcomes. Better procurement can help councils achieve better value for money. A Procurement Capability Assessment scoring process was introduced in 2009 to measure progress against common criteria and standards. From a relatively low base, the average

24 Sickness absence for police officers is calculated as the proportion of working time lost.
25 *ACPOS Annual Performance Report 2011-12*, Scottish Policing Performance Framework, June 2012.
26 The 2012 CIPD Annual Report found that the median cost of sickness absence per year in a UK survey was £647 per employee for the public sector, and the average sickness level was about eight days per employee.

score for councils has been improving and now stands at 48 per cent, just short of the Scottish Government's target for all sectors of 50 per cent by the end of 2012.

118. Capital investment is essential to sustain delivery of high quality and effective public services in Scotland. Investing in areas such as schools, social housing and transport infrastructure can bring significant improvements to public services and the way they are delivered.

119. Total capital spending in 2011/12 was £2.4 billion, an increase of £0.3 billion or 14 per cent compared with the previous year (£2.1 billion), reflecting a focus on promoting capital spending to support more efficient services.

120. The main sources of money for capital spending are borrowing, capital receipts (from the sale of assets such as land and buildings), capital grants and the application of capital reserves. Exhibit 18 (overleaf) shows that more capital spending is being funded from borrowing, with reduced funding from capital receipts because of lower asset values and fewer sales.

121. Capital grants are forecast to be cut in 2013/14 before increasing again in 2014/15. Councils are considering new ways of financing capital expenditure, including Tax Incremental Financing (TIF) which uses forecasts of the expected additional income from non-domestic rates from property developments as a basis for additional borrowing.

122. We have carried out a performance audit of major capital projects in councils and published our report in March 2013. This assessed how well capital investment is directed, managed and delivered within councils. It is crucial that councillors and officers provide strong leadership and effective management to ensure value for money from capital investment programmes. To assist this we have published a good practice guide on major capital investment in the *How councils work* series.[27]

123. Having invested in assets to support service delivery, councils need to maintain these assets, to ensure they remain fit for purpose. Our report[28] on roads, for example, found that all councils had a road maintenance backlog and there is scope for better use of planning to help set priorities for roads maintenance. More recently, the Scottish Road Maintenance Condition Survey for 2010-12 indicates a slight improvement of 0.3 per cent in the proportion of council-maintained roads that are of acceptable condition. However, this survey is based on a rolling programme of work and it will take time before information is available as to the true effect of expenditure reductions.

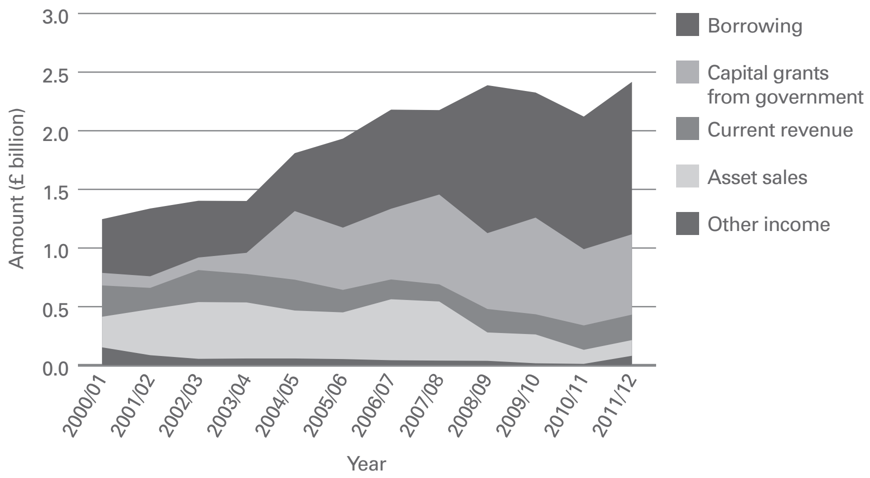
Exhibit 17
Income and expenditure 2011/12

	£ billion
Where the money came from:	
General revenue funding from government	£7.8
Service fees, charges, other revenue, government grants and housing rents	£5.6
Capital grants and contributions	£0.7
Council tax	£2.3
Non-domestic rates	£2.2
Total income	£18.6
Where the money was spent:	
Education	£5.3
Social work	£3.8
Housing	£3.7
Roads, environment, culture and planning	£3.3
Police, and fire and rescue services	£0.9
Other services and operating expenditure	£1.7
Total spending on services	£18.7
Accounting adjustments	-£0.3
Increase in usable reserves	£0.2
Total expenditure and transfer to reserves	£18.6

Source: Audit Scotland

27 *Major capital investment in councils* report and the associated good practice guide, Accounts Commission, March 2013.
28 *Maintaining Scotland's roads: A follow-up report*, Accounts Commission and the Auditor General for Scotland, February 2011.

Exhibit 18
Sources of financing for annual capital expenditure, 2000 to 2012 (real terms)



Source: Audit Scotland

124. Maintaining information and communications technology (ICT) assets is also important. ICT has a key role in enabling change and improving services. There are challenges in implementing ICT projects, including integrating working practices between services or organisations and in applying procurement legislation across organisations. ICT-related matters will be a central factor as councils and their partners work together to implement public service reforms.

125. The Local Government ICT Strategy[29] was developed in response to the McClelland review of public sector ICT, *Scotland's Digital Future – Delivery of Public Services*. It sets out a ten-year vision and a national programme of work taking into account the Christie review[30] and the opportunity for digital services at a time of tight financial constraints. Its aim is to help local government to deliver better services using ICT to plan and procure better, and to share future developments and operations.

Indebtedness

126. Local authorities determine programmes for capital investment in accordance with the prudential code[31], which was introduced in 2004 to support local authorities' capital investment decisions. Borrowing is the main way councils fund capital spending and the prudential regime allows flexibility to invest – on condition that capital plans are affordable, prudent and sustainable.

127. In the period since the code was introduced, the overall level of net indebtedness[32] increased by around 40 per cent, from £9.1 billion to £12.9 billion. The position at each council must be considered in the context of its overall financial strategy and circumstances, eg the decision to transfer housing stock to another landlord will have a significant effect on a council's borrowing. However, bearing in mind local circumstances, there is wide variation across councils in the change in net indebtedness in the years since the prudential code came into effect. Exhibit 19 (which excludes Orkney and Shetland Islands councils which have no net indebtedness).

128. We believe there would be merit in examining the reasons for the wide variation and in producing benchmark data to give councillors better information about indebtedness and how, alongside other key financial information, their council compares with others. This is a complex and important subject, with far-reaching consequences for the sustainability of public finances, and we would encourage a collective response, involving professional organisations and local government, supported if appropriate by auditors.

129. The prudential code has been revised on a number of occasions but the key indicators remain largely unchanged. There may be merit in considering the code further in the current financial context, and to explore how effective the framework has been in monitoring borrowing, supporting borrowing decisions and gauging the affordability of capital investment decisions.

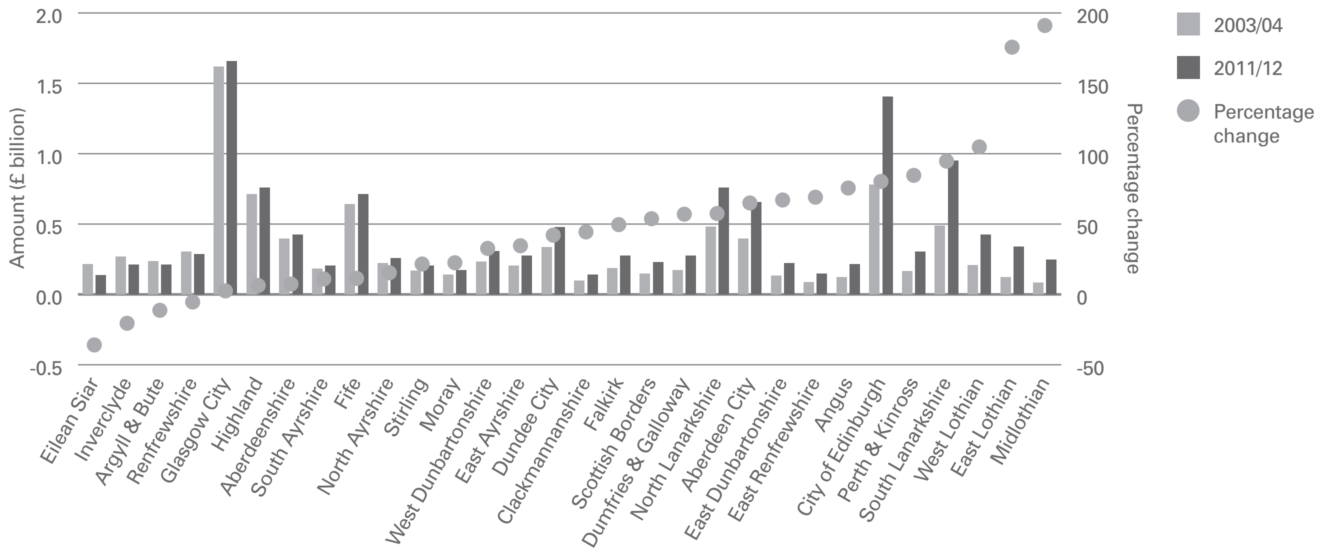
Reserves

130. Councils hold reserves which are available to finance service expenditure, to ensure stability in cash flow, to build up funds for predicted cost pressures, and as a contingency for unforeseen expenditure.

131. The overall level of cash-backed reserves increased by £0.21 billion (14 per cent) compared with the previous year and totalled £1.68 billion at 31 March 2012 (Exhibit 20). Contributory factors include lower than anticipated interest and more general under-spending against budgets; 27 councils experienced an increase in reserves in 2011/12.

29 *The Local Government ICT Strategy, Delivering Better Services for Communities – SOLACE, SOCITM*, Improvement Service, September 2012.
30 *Commission on the Future of Public Services*, Christie Commission, June 2011.
31 *The Prudential Code for Capital Finance in Local Authorities*, CIPFA.
32 We define net indebtedness as external borrowing plus PFI-related liabilities less investments, on a council-only basis, ie not including borrowing etc. in the 'group'.

Exhibit 19
Movements in net indebtedness 2003/04 to 2011/12



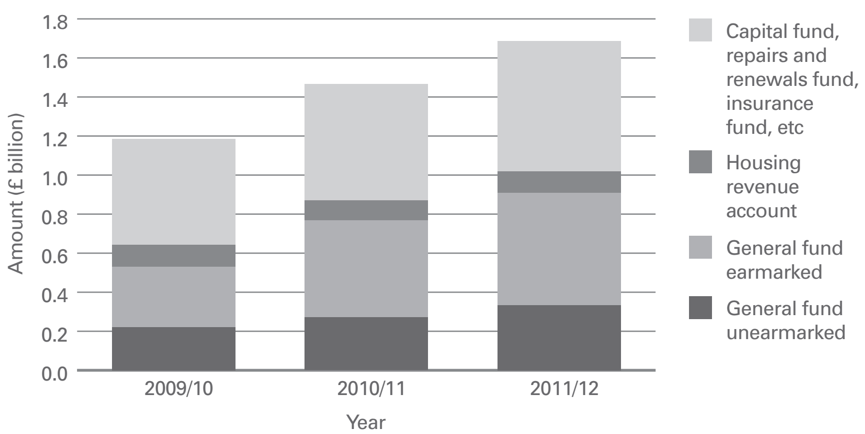
Source: Audit Scotland

132. As a broad comparison, councils in England held total reserves of £12.9 billion at 31 March 2012,[33] which is broadly similar to the position in Scotland taking account of the relative sizes of the local government sectors in each country.

133. The general fund is the main reserve and these funds increased by £139 million (18.1 per cent) in 2011/12 and totalled £907 million at 31 March 2012. Of this, £573 million was 'earmarked' to meet known commitments such as PPP/PFI payments and equal pay claims. The earmarked element represents 63 per cent of the amounts held in general funds, broadly in line with previous years.

134. Approaches to 'earmarking' vary from council to council and reflect local plans and views of risk and, as a result, earmarking is inconsistent. However, it does give an indication of how much

Exhibit 20
Total usable reserves



Note: Excludes Orkney and Shetland Islands councils which hold large reserves and balances arising mainly from harbour and oil-related activities.
Source: Audit Scotland

33 *Striking a balance – improving councils' decision-making on services*, Audit Commission, December 2012.

is available to meet unplanned expenditure. The information is important for councillors, to assist their understanding of the financial position and to assist them in scrutinising budgets.

135. The overall level of non-earmarked balances was £334 million or 37 per cent of the amount held in general funds at 31 March 2012. This has risen from 2.1 per cent last year to 2.7 per cent of net cost of services, and within individual councils varies significantly from 0.8 to 7.2 per cent of net cost of services (Exhibit 21).

136. Councils have policies on the optimum level of reserves they maintain to deal with unforeseen circumstances. Typically, these are in the range of one to four per cent of net cost of services. A number of councils have non-earmarked general fund reserves greater than the level set out in their policies, which may be prudent in the current environment.

137. Beyond the general fund, councils also held £666 million in other reserves, representing about 40 per cent of total usable reserves. This comprised capital funds (£323 million), capital receipts reserves (£195 million) and repairs and renewals funds (£122 million), with the balance (£26 million) in other smaller funds. These reserves vary from council to council and need to be viewed alongside the general fund position to get an overall picture.

138. In some cases, councils have not reviewed reserves policies for many years and so policies may no longer reflect the council's overall financial approach. Councillors need a clear picture of reserves and how they feature as part of their council's overall financial strategy.

139. Equally important is clear information for local people and communities about why reserves are built up, the reasons for any unplanned increases, and what the council intends doing with them. This information helps promote transparency, particularly now when budgets are reduced and competing pressures on financial resources are intensifying. It is helpful to include a clear statement that when reserves are used, they can be used only once and are not available to sustain services on a continuing basis.

140. We have been monitoring the position on the eight councils that had investments totalling £46.5 million in Icelandic banks when they failed in October 2008. To date, £22.7 million has been recovered and councils expect to recover between 88 and 100 per cent by 2019.

Financial reporting and management

141. Annual audited accounts show a council's financial performance and position and are important in demonstrating the proper stewardship of public money. The accounts should be published as soon as possible after the end of the financial year, along with an opinion from the independent, external auditor stating whether the accounts present a 'true and fair' view. This provides important assurance on financial reporting.

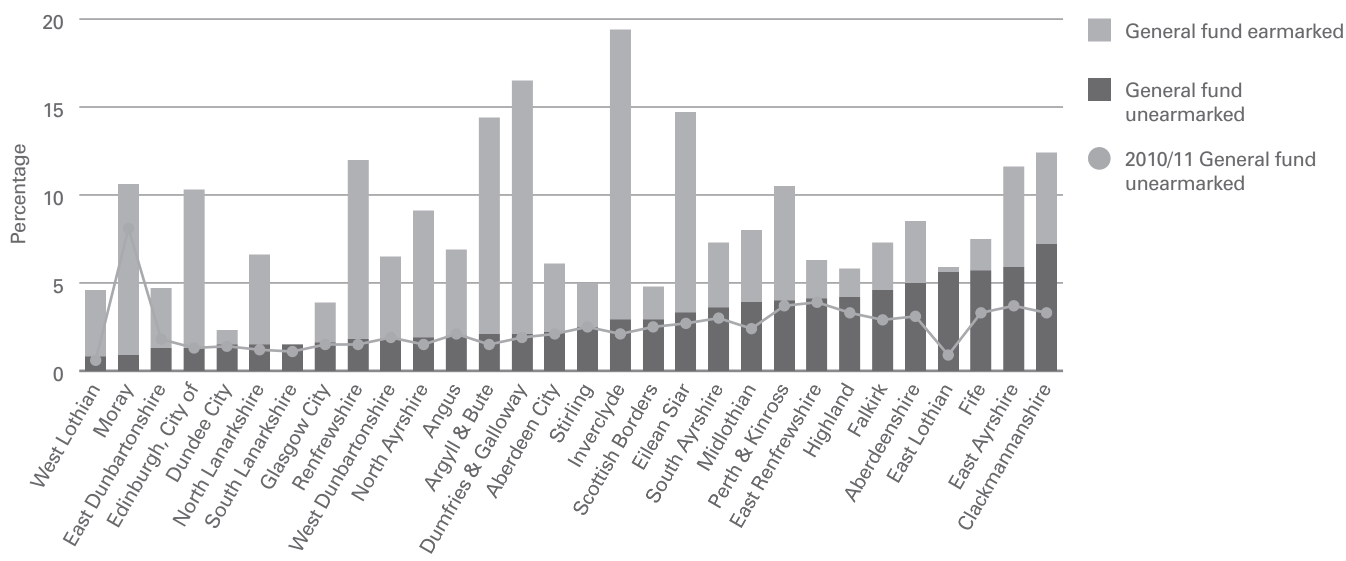
142. In 2011/12, accounts for all councils and other local authority organisations, including the 11 local authority-administered pension funds for 2011/12, were presented for audit on time and signed off by auditors without qualification. We welcome this achievement and the assurance it provides to the public and other stakeholders. We are, however, concerned about the increasing number of adjustments to accounts identified by auditors, often arising from more complex issues, such as accounting for capital assets.

143. There have been significant changes in the layout and format of accounts in recent years to align with international financial reporting standards. Compliance is essential to meet the statutory duty to observe proper accounting practice but, as a result, local authority accounts are increasingly complex and difficult to understand. Work is continuing by the accounting standard-setters to explore ways to support transparency, accountability and scrutiny. In the meantime, more can be done to improve the financial information presented in the foreword to the accounts and in public performance reports.

144. There is increasing evidence of large variances of actual expenditure against budgets, where actual spending has differed from planned spending. Of particular concern are cases where variances only became apparent during the closing months of the financial year or where variances against budget at the year-end were significantly different to those reported to councillors during the year. Councillors need to understand the reasons, including whether the root cause is over-spending or under-budgeting.

145. We are also concerned about the increasing reports by auditors of weaknesses in some councils' basic accounting systems and controls (Exhibit 22). Strong accounting systems and controls are the mainstays of financial management and if they are not in place, or do not operate effectively, local authorities are exposed to a greater risk of accounting errors, fraud and corruption.

Exhibit 21
General fund balances (as a percentage of net cost of services) as at 31 March 2012



Note: Excludes Orkney and Shetland Islands councils which hold large reserves and balances arising mainly from harbour and oil-related activities.
Source: Audit Scotland

146. We are also concerned to note an increase in reports of data loss, including cases where paper records were not disposed of properly and where computer equipment was not secured, and stolen. Investigations were undertaken by councils' internal auditors and further by the Information Commissioner. In such cases, public confidence in the council's systems is affected and there is reputational damage to the council overall.

147. There is further evidence of under-resourcing of internal audit and cases where the internal audit approach could include more focus on financial controls and risk management. Councils, through their audit committees, should ensure that the resources for internal audit are adequate and that they provide assurance on the effectiveness of financial controls across the council's range of activities, including pension funds where the council is an administering authority.

Exhibit 22
Basic weaknesses in accounting systems

Examples from auditors' reports:

- 'Key weakness related to the lack of timely completion of monthly bank reconciliations.'
- 'Weaknesses and risks arising from gaps in the financial control framework, including bank and other reconciliations and journal authorisation processes.'
- 'The key bank accounts were not fully reconciled at the year-end.'

Source: Audit Scotland

Summary of Part 2

Leadership and governance

- Building and maintaining strong working relationships in the new councils is essential to deal with the challenges facing councils (paragraphs 89 to 95).
- Sound governance is needed over early retirement (paragraph 104).
- Effective capital planning and management are essential if councils are to understand progress with capital projects, and their impact on services and council priorities (paragraph 122).
- Sound financial management is required to anticipate resource pressures in the longer-term and to ensure borrowing is affordable and sustainable (paragraphs 128 and 144).
- Strong accounting systems, controls and internal audit are essential (paragraphs 144 and 147).

Working in partnership

- Councils, with their partners, should plan and manage the overall workforce and other resources in their area (paragraph 100).

Service changes

- A stronger focus on workforce planning is important to ensure the right people are in place to meet future service needs and the challenges of public sector reform (paragraph 100).
- More work is needed to understand the impact of staff reductions on services (paragraph 96).

Performance information

- More can be done to improve the financial information presented in public performance reports (paragraph 143).

Concluding comment on this report

148. Our report draws on the audit work to provide an overall picture of local government in Scotland in 2013. Its wide-ranging nature reflects the many challenges, risks and opportunities for councils and their partners in providing vital public services across Scotland, now and in future.

149. Pressures on resources – and by that we mean finance, workforce and assets – continue. This is not new because in public services there have always been difficult choices to make about how to allocate limited resources across many competing priorities. However, the scale of the pressure, coming as it does at the same time as increasing demands and expectations on services and very significant changes such as welfare reform, is substantial.

150. We emphasise the crucial role of those leading and managing the response to this challenge. In particular, we emphasise the difference that strong and effective scrutiny by councillors can make in ensuring the best use of available resources, improving services and delivering improved outcomes.

151. The Accounts Commission acknowledges the progress achieved this far in challenging circumstances and we look forward to continuing to work with local government and our scrutiny partners to support improvement. The Best Value duty provides the platform for success.

152. To support improvement and to provide a focus for next steps, action points for councillors can be found in Appendix 1.

Appendix 1

Action points for councillors

Question	Action point
Leadership and governance	
Are you satisfied that you are supported in taking effective decisions, and can question and challenge your council's performance?	• Consider reviewing governance arrangements in your council and its committees.
Do you understand your council's overall financial position, including its borrowings and other commitments, and the level of reserves?	• Consider the extent to which you are made aware of financial issues and their impact on services. • Seek assurance from officers that sufficient controls and checks are in place.
Do you understand how the financial position affects on your council's services?	• Seek advice on how budget shortfalls, savings, or delayed spending will impact on services.
Do you know how well your council is managing its capital programme and major capital projects?	• Review whether progress with capital plans is on track and meeting its objectives, using our good practice guide on major capital investment to help improve your council's performance.
Working in partnership	
How well placed is the Community Planning Partnership (CPP) to meet the expectations set out in the Statement of Ambition?	• Review plans and progress, eg how well the CPP: engages partners; makes best use of employees and other resources; targets local need; involves communities.
Is your CPP delivering on its local priorities and improving people's lives?	• Assess how well CPP progress reports give you a clear picture of progress, including prevention.
Is your council making good progress in implementing reforms regarding police, fire, and integrating adult health and social care?	• Ensure measures are in place, and that the CPP and the council are providing sufficient direction.
Service changes	
Are you satisfied with how your council and its partners are leading public sector reform?	• Ensure you understand the issues and implications for the council and local services. • Check the extent to which arrangements are in place to plan and implement reform.
Do you understand the impact of staff reductions at your council on skills and capacity?	• Review the impact on services, sickness and morale. • Review how effective workforce planning is in your council and its services.
Do you understand the implications of welfare reform?	• Check your council has plans in place, including plans to change its workforce and its ICT systems.
Are you satisfied that your council has fully considered the various options to deliver services, and their advantages, risks, and disadvantages?	• Review whether existing delivery methods have delivered their intended benefits. • Check that you are satisfied that the council has a robust approach to review and option appraisal.

Question	Action point
Performance management and improvement	
Are you given the right information on costs and performance to challenge how well your council performs and whether it is achieving Best Value?	• Review the information you receive noting gaps and areas for improvement.
Do you have the information you need to assess how well your council's performance compares with others?	• Assess the benchmarking information you receive, eg on performance, practice, costs, sickness absence, etc.
Do you have skills and experience to scrutinise and take decisions effectively?	• Consider further training on scrutiny.

Appendix 2

Glossary of terms

Arm's-length external organisations (ALEOs)	Companies, trusts and other bodies that are separate from the council but are subject to council control, or influence.
Best Value	Continuous improvement in the performance of an authority's (council's) functions.
Community Planning Partnership (CPP)	A partnership between a council, health board, police, fire and rescue services, third sector and other public sector organisations to deliver improved outcomes in a geographical area.
Continuous improvement	Ongoing action to improve services, ie Best Value.
General fund	The main cash-backed fund or reserve held by a council.
Governance	The framework of accountability to users, stakeholders and the wider community, within which councils take decisions, and lead and control their functions, to achieve their objectives.
Outcomes	Priorities or objectives, and their associated measures (eg, set out in the SOA) to improve aspects of people's lives such as their health, employment or education.
Performance management	Processes at individual, team and service level to assess, manage and improve performance against objectives.
Private Finance Initiative (PFI)/Public Private Partnership (PPP)	A generic term for projects involving both the public and private sectors (resulting from earlier government initiatives to promote private sector financing and involvement). This can be to varying degrees with partnerships taking different forms.
Prudential code	A professional code of practice to support local authorities in taking capital investment decisions.
Reserves	Money set aside to meet expected and unexpected demands.
Resource management	The efficient and effective use of a council's collective resources, directed where they are needed. Refers to the workforce, finances, buildings and other assets, including ICT.
Risk management	The process of managing risk to identify risks to projects, services, or to the council itself and taking action to control or avoid unacceptable risks.
Section 95 officer	The statutory officer for finance, as required by Section 95 of the Local Government (Scotland) Act 1973 – 'every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs.'
Shared services	Joint services or functions provided by more than one council or partner.
Single Outcome Agreement (SOA)	An agreed vision between a Community Planning Partnership and the Scottish Government setting out the priority outcomes in the area and how the Community Planning Partnership will work towards achieving them.
Statutory Performance Indicators (SPIs)	A set of performance indicators specified by the Accounts Commission, the information for which must be collected and reported on by councils.
Value for money	Obtaining the maximum benefit from resources (money, people, assets) with regards to economy, efficiency and effectiveness.
Workforce planning	Process to identify and plan workforce needs (size, experience, knowledge and skills) to achieve service objectives.

Responding to challenges and change

An overview of local government in Scotland 2013

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Audit Scotland Report – Responding to Challenges and Change

Page 21 – Exhibit 15

Bye now, pay later? – key recommendations	**What is done at Argyll & Bute Council?**
Framework for decision-making	
• Early retirement policies should be approved by councillors and reviewed regularly.	Policy on discretions is approved by full Council and it states the policy will be reviewed in line with changes to statutory redundancy provision and Pension Scheme Regulations and reserves the right to review its practice with regard to any of the discretions, after appropriate consultation.
Informing members	
• Councillors should receive a report at least annually that details the number of early retirement decisions and the associated costs and savings.	A report will be submitted to the Council in August 2013 on the costs and savings associated with severance during 2012-13.
Decision-making	
• Local authorities should rigorously appraise individual cases to ensure the expected savings associated with retirement outweigh the costs.	Executive Director and Head of Finance approve all early retirements. Prior to making their decision they are provided with all costs associated with the retirement and costs will be repaid from savings within a 3 year period.
• To improve accountability and assist monitoring, the costs of early retirement should be charged to the appropriate service budget.	If there are any other payments due to the employee over and above pension related costs then these are charged to the service, this includes redundancy, pay in lieu of notice, etc – classed as “current service costs”. Any pension related lump sum is charged to Non Distributed Costs as well as any ongoing pension payments - classed as “past service costs”. Current service costs and past service costs are defined within CIPFA Service Reporting Code of Practice (SeRCOP). All early retirements or redundancies should meet the three year pay-back period and the budget for the post within the service is removed immediately and this provides an element of accountability within the service.
• Councillors should be involved in approving early retirement decisions for senior staff.	No, only involved where the repayment of costs incurred is longer than 3 years. (our old policy was that Chief Officers leaving would be approved by Council)

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National Scrutiny Plan for Local Government 2013/14

A summary of Local Government Strategic Scrutiny Activity

Prepared by the Local Government Scrutiny Coordination Strategic Group

April 2013

Accounts Commission

Audit Scotland

HMICS HM Inspectorate of Constabulary for Scotland

Healthcare Improvement Scotland

Chief Inspector HM Fire Service Inspectorate

Education Scotland Foghlam Alba

Scottish Housing Regulator

care inspectorate

Contents

Background

Following the publication of the Crerar report on the *Independent Review of Regulation, Audit, Inspection and Complaints Handling of Public Services in Scotland* in September 2007, the Scottish Government undertook to develop a simplified and more coherent approach to local government scrutiny, as part of its wider approach to improving the arrangements for the external scrutiny of public services.

A key aspect of this was the need to better coordinate and streamline strategic scrutiny work at corporate and service level, while continuing to provide assurance to the public. This marked a fundamental shift from scrutiny which had typically been based on standard audits and inspections done on a routine cyclical basis, to a more risk-based and proportionate approach.

In March 2008, the Cabinet Secretary for Finance and Sustainable Growth asked the Accounts Commission to undertake a transitional 'coordinating and gatekeeping role' in the planning of scrutiny activity in local government in Scotland. The Accounts Commission's transitional role was subsequently placed on a permanent footing by the Cabinet Secretary in March 2011, when he wrote to the chair of the Accounts Commission confirming that, "facilitating and coordinating… scrutiny relating to the corporate and strategic role of local government" should now be regarded as one of the accepted functions of the Accounts Commission.

We have sought to be open and transparent when preparing the National Scrutiny Plan and have therefore included all strategic scrutiny activity of which we are currently aware, as well as assisted self-evaluation work requested by councils which is designed to support improvement and build self evaluation capacity. In line with the phased approach requested by the Cabinet Secretary, our focus has been on planned scrutiny activity which assesses whole services or corporate functions. The plan does not therefore, focus on scrutiny activity carried out at service unit or institution level, eg school or care home inspections. The annual financial audit is also not included in the National Scrutiny Plan as this was considered by the Cabinet Secretary to be baseline scrutiny activity.

The *National Scrutiny Plan for Local Government* has been jointly prepared by the Local Government Scrutiny Coordination Strategic Group. This group includes the Accounts Commission, Audit Scotland, Education Scotland (ES), the Care Inspectorate (CI), Scottish Housing Regulator (SHR), Her Majesty's Inspectorate of Constabulary for Scotland (HMICS), Her Majesty's Fire Service Inspectorate (HMFSI) and Healthcare Improvement Scotland (HIS). Details of each body can be found in Appendix 1; they are collectively referred to as 'scrutiny bodies' in this report.

In developing this plan we have engaged with COSLA and SOLACE on an ongoing basis and we acknowledge the input we have had from them and councils to date in taking forward this scrutiny improvement work.

Part 1. Context

1. This fourth National Scrutiny Plan has been developed against the backdrop of significant change in the public sector and scrutiny landscape of Scotland including the Children's Bill, health and social care integration and police and fire reform. Local government continues to adapt and change in relation to significant budget pressures and in response to the four pillars of the Scottish Government's public sector reform agenda:

- Prevention – shifting resources to preventative activity.
- Place – integrated local services driven by better partnership working.
- People – workforce development.
- Performance – transparent and improving performance.

2. To ensure that scrutiny evolves and responds to the reform agenda, the Local Government Scrutiny Coordination Strategic Group has identified four workstreams to continue to improve scrutiny in Scotland. These workstreams are:

- improving the use of information and intelligence across scrutiny bodies – improving the manner in which information and intelligence is gathered and used by scrutiny bodies
- reviewing the Shared Risk Assessment (SRA) process – to align more effectively with scrutiny bodies risk assessment and planning and scheduling arrangements
- supporting self-evaluation – to develop a common understanding and approach to supporting self-evaluation and improvement within public bodies in line with our commitment to the Reducing Burdens Action Group recommendation to use self-evaluation information to inform scrutiny activity
- an approach to place-based audit and inspection – to design a framework to assess the quality, impact and effectiveness of local public services.

3. This work is unlikely to add to the scrutiny activity planned in the 2013/14 National Scrutiny Plan, but will have an impact on the way scrutiny bodies work together.

4. At the request of Scottish ministers, the Care Inspectorate tested a joint inspection of children's services last year and will be rolling this out across each local authority area in Scotland from 2013/14. The selection of local authority areas for inspection is based on intelligence and risk and takes account of the SRA and are included in the National Scrutiny Plan.

5. In addition, the Care Inspectorate is currently developing an approach to inspecting adult care services drawing on its experience of implementing multi-agency strategic inspections of children's services. The adult care services inspection sites planned for 2013/14 are included in the National Scrutiny Plan.

6. At the request of Scottish ministers, Audit Scotland developed an approach to auditing community planning partnerships (CPP) and the delivery of local outcomes. The CPP audit model was tested during 2012/13 in three councils. A comprehensive evaluation will be undertaken early in 2013/14. Following the results of this evaluation Audit Scotland will consider plans to undertake further CPP audits. Any sites identified for 2013/14 will be added to the National Scrutiny Plan in due course.

7. Scrutiny bodies continue to work with councils to support self-evaluation activity. The scrutiny bodies will consider opportunities to further develop this type of support activity over the coming year.

Part 2. The National Scrutiny Plan for Local Government 2013/14

8. Since 2008, the main scrutiny bodies for local government have worked together through the Local Government Scrutiny Coordination Strategic Group to identify and agree the key risks in each individual council and to develop a plan of scrutiny activity to respond to those specific risks. This approach, called Shared Risk Assessment (SRA), is designed to ensure proportionate and focused scrutiny and reduce the overall amount of external scrutiny activity in local government, while continuing to provide public assurance and help councils to improve.

9. The 32 Local Area Networks (LANs), representatives of the scrutiny bodies, meet annually to share intelligence and agree the scrutiny risks for each council. Each LAN prepares an Assurance and Improvement Plan update containing a scrutiny plan setting out the planned scrutiny activity over a rolling three-year period from 2013/14. These individual plans are aggregated to form the National Scrutiny Plan.

10. The *National Scrutiny Plan for Local Government* is one of the key outputs from the SRA work. The plan for 2013/14 is the fourth such plan and summarises the strategic scrutiny work from April 2013 to March 2014 as described in each of the 32 councils' individual scrutiny plans.

Appendix 1

The Local Government Scrutiny Coordination Strategic Group members

The Accounts Commission

The Accounts Commission is a non-departmental public body (NDPB). The Accounts Commission is the public's independent watchdog for local government in Scotland. Its role is to examine how Scotland's 32 councils and 45 joint boards manage their finances, help these bodies manage their resources efficiently and effectively, promote Best Value and publish information every year about how they perform.

Audit Scotland

Audit Scotland is a significant national body. Audit Scotland is a statutory body providing services to the Accounts Commission and the Auditor General for Scotland (AGS). Working together, the Accounts Commission, the AGS and Audit Scotland ensure that public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Education Scotland

Education Scotland (ES) is an executive agency. ES is the Scottish Government's national development and improvement agency for education. It is charged with providing support and challenge to the education system, from the early years to adult learning, in furtherance of the government's policy objectives.

The Care Inspectorate (Social Care and Social Work Improvement Scotland)

The Care Inspectorate is a non-departmental public body (NDPB). The Care Inspectorate's purpose is to provide assurance and protection for people who use care, social work and children's services.

The Scottish Housing Regulator

The Scottish Housing Regulator (SHR) is a non-ministerial department. The statutory objective of the SHR is to safeguard and promote the interests of persons who are, or who may become: homeless; tenants of social landlords; or recipients of housing services provided by social landlords.

Her Majesty's Fire Service Inspectorate

The Fire Service Inspectorate in Scotland exists to provide independent, risk-based and proportionate professional inspection of the Scottish Fire and Rescue Service (the Service). Its purpose is to support the Service in delivering its functions, to promote improvement in the Service and to give assurance to the Scottish public and Scottish ministers that the Service is working in an efficient and effective way. Through this, the Inspectorate provides external quality assurance to the Service.

Her Majesty's Inspectorate of Constabulary for Scotland

Her Majesty's Inspectorate of Constabulary for Scotland (HMICS) is a significant national body. The purpose of HMICS is to promote efficiency and effectiveness in respect of the standards of the police service in Scotland.

Healthcare Improvement Scotland

Healthcare Improvement Scotland (HIS) is a health body. The function of HIS is to improve the quality of the care and experience of every person in Scotland every time they access healthcare by supporting healthcare providers.

Appendix 2

Glossary

Assurance & Improvement Plan **(AIP)**	Document which captures agreed areas of risk and good practice, and the resulting scrutiny response for each council. It is the primary planning document for scrutiny bodies
Fieldwork	The part of the scrutiny work that is undertaken at the council
Local Area Network **(LAN)**	Representatives from all the scrutiny bodies for each council to maximise the benefit of the scrutiny knowledge and understanding of the council
LAN lead	LAN representative facilitating LAN discussions and responsible for engagement with the council and producing the AIP
National Scrutiny Plan **(NSP)**	The aggregation of the individual council's scrutiny plans into a national plan detailing all the scrutiny work planned across Scottish councils
Scrutiny contact days	The number of days spent in the council conducting fieldwork multiplied by the number of auditors/inspectors involved in the work
Scrutiny events	An individually defined piece of scrutiny work
Shared Risk Assessment **(SRA)**	A joint approach using key information about local government to plan scrutiny activity that is proportionate and based on risk
Supported self-evaluation **(SSE)**	Assistance provided by the Care Inspectorate to councils on request, to help them develop their own methods and quality of self scrutiny
Validated self-evaluation **(VSE)**	Assistance provided by Education Scotland to councils on request, to help them develop their own methods and quality of self scrutiny

National Scrutiny Plan for Local Government 2013/14

A summary of Local Government Strategic Scrutiny Activity

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National Scrutiny Plan for Local Government 2013/14

Council	Date TBC	April	May	June	July	August	September	October	November	December	January	February	March
Aberdeen City	SSE CJ SW	PSW 0	SPF 7										SHR15
Aberdeenshire	SPF 7 SSE CJ SW	PSW 8				ASI 120							
Angus	SSE CJ SW	SPF 7 PSW 0		HB 2									
Argyll & Bute	SSE CJ SW	CSI 135 PSW 0		SPF 7 AS – TBV 10									
Clackmannanshire	SPF 7 SSE CJ SW	PSW 0										CSI (with Stirling) 56 SHR – SHQS 4	
Dumfries & Galloway	SSE CJ SW	HB 2 PSW 0				LAN 1 SPF 7						CSI 135	
Dundee City	SPF 7 SSE CJ SW	VSE 56 PSW 0									HB 2		
East Ayrshire	SSE CJ SW	PSW 0	SPF 7					SHR 0			HB 2 VSE 56		
East Dunbartonshire	PSW 0 SSE CJ SW AS – TBV			CSI 135		SPF 7							
East Lothian	SPF 7 SSE CJ SW	PSW 0				LAN 2		CSI 135	AS/ES/LAN 55				
East Renfrewshire	SSE CJ SW	SPF 7 PSW 0											
City of Edinburgh	SPF 7 SSE CJ SW	PSW 0											
Eilean Siar	SPF 7 SSE CJ SW	PSW 0	EPS 8 → Follow up							VSE 56			
Falkirk	SSE CJ SW	PSW 0	SPF 7		CRM 3				HB 2				
Fife	SSE CJ SW	PSW 0	SPF 7				HB 2						
Glasgow City	SSE CJ SW SHR 25 → Homelessness service AS 50 → Audit of partnership working	PSW 8	SPF 7										
Highland	SSE CJ SW	PSW 0	SPF 7 ES 24			Homelessness follow-up SHR 4	HB 2	CSI 135					
Inverclyde	SPF 7 SSE CJ SW	PSW 0											
Midlothian	SPF 7 SSE CJ SW	PSW 0	SHR 15 → Follow-up	CSI 135							EPS 8 → Follow up		
Moray	SPF 7 SSE CJ SW	PSW 0							ASI 120				
North Ayrshire	SSE CJ SW	PSW 0	SPF 7										
North Lanarkshire	SPF 7 SSE CJ SW	PSW 0										SHR – SHQS 8	
Orkney Islands	SPF 7 SSE CJ SW	PSW 0											
Perth & Kinross	SSE CJ SW	SPF 7 SPF 0							HB 2				
Renfrewshire	SSE CJ SW	PSW 0	SPF 7										
Scottish Borders	SSE CJ SW	PSW 0				SPF 7 LAN 1							
Shetland Islands	SSE CJ SW SHR 10 Homelessness and SHQS	PSW 0 ES 11	SPF 7										
South Ayrshire	SSE CJ SW	PSW 0 FBV 10	SPF 7			HB 2							
South Lanarkshire	SPF 7 SSE CJ SW	PSW 8											
Stirling	SSE CJ SW	PSW 0	HB 2	SPF 7							SHR10 SHQS and rent arrears	CSI with Clackmannans) 56	
West Dunbartonshire	SSE CJ SW	PSW 0			HB 2	SPF 7							
West Lothian	SSE CJ SW SHR 0 Homelessness submission	ASI 120 PSW 0				SPF 7							

Key

Auditor
- National or thematic follow-up work
- Reshaping Scotland's public sector workforce (PSW)
- Scottish Public Finances follow up (SPF)
- Housing Benefit Audit (HB)
- Corporate risk management (CRM)

Audit Scotland
- Best Value (BV)
- Follow-up Best Value (FBV)
- Targeted Best Value Audit (TBV)

Care Inspectorate
- Supported Self Evaluation Criminal Justice SW[1] (SSE CJ SW)
- Children's Services Inspection (CSI)
- Adult Services Inspection (ASI)

Education Scotland
- Education Psychology Service (EPS)
- Other (ES)
- Validated Self-Evaluation (VSE)

Scottish Housing Regulator (SHR)
- Inquiry – as described
- Self assessment submission

Local Area Network (LAN)
- Strategic mid-year review of council performance with CMT to identify key risks and challenges for inclusion in next years SRA.
- Support and challenge on HGIOC

Collaborative work (CW)
- BV Audit and support and challenge

Numbers
Equals the number of inspectors/auditors in the team multiplied by the number of days planned to be on site at the council

Note:
1 Subject to Ministerial approval, the Care Inspectorate, in partnership with the Association of Directors of Social Work (ADSW) and the Risk Management Authority (RMA), will undertake supported self-evaluation across the 32 local authority criminal justice social work services during the latter part of 2013. This will look at the impact of the Level of Service Case Management Inventory (LSCMI), otherwise known as the national assessment and care planning instrument. This particular approach is one of a number of approaches the Care Inspectorate will use in its current and future scrutiny and improvement work in this area.

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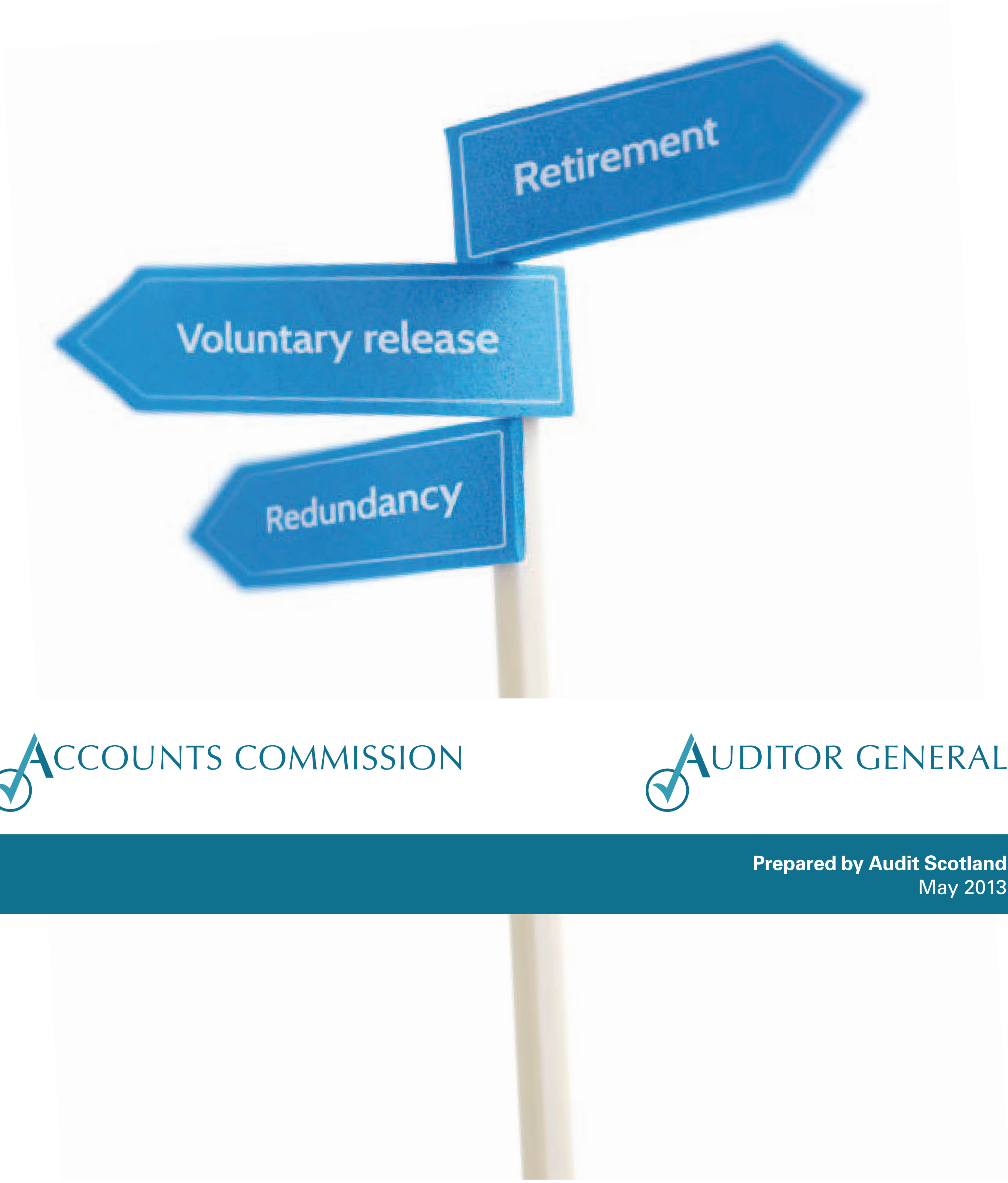
Managing early departures from the Scottish public sector



ACCOUNTS COMMISSION

AUDITOR GENERAL

Prepared by Audit Scotland
May 2013

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 33 joint boards and committees.

Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- 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 Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website:
www.audit-scotland.gov.uk/about/ags

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Key messages

1 In most public sector organisations, staffing costs make up a significant proportion of the budget. Early departure schemes have been used for many years by both the public and private sectors as a way of changing the size, shape and cost of the workforce. Early retirements and voluntary redundancies, for example, can be a useful way of avoiding the delays and costs of compulsory redundancies and quickly reducing staff numbers and costs. Once the initial outlay has been recouped, they can provide significant savings for organisations.

2 In recent years, many public sector organisations have turned to a range of early departure schemes. Given the significant financial challenges facing the public sector, they can be an effective way of achieving savings. Scotland's devolved public sector has been spending about £280 million a year on early departure schemes. This has helped reduce the size of its workforce, encouraging over 14,000 staff to accept early retirement in 2010/11 and 2011/12.

3 There is evidence to show that this is leading to savings. But significant amounts of public funds are also being spent on these departure schemes and, with a continuing need to reduce public spending, they are likely to remain an important management tool. Organisations therefore need to ensure that they follow the principles of good practice in how they:

- design early departure schemes
- ensure they provide value for money
- report publicly on the costs and savings.

4 The principles of effective early departure schemes have been known for many years. In 1997, for example, the Accounts Commission published *Bye Now, Pay Later*. Based on a review of local authority schemes, this set out a series of good practice standards. It encouraged councils to have clear policies on these schemes, to consider all their costs and potential savings, and to check that these savings were delivered. These principles continue to be relevant to all parts of Scotland's public sector.

5 There is evidence to show that Scotland's public sector generally follows the principles of good practice. Many have up-to-date policies on their early departure schemes. Wider workforce strategies are used by organisations to help decide where they need to reduce staff numbers or which grades they need to reduce. Most use some form of business case to help decide if early departure will lead to savings.

6 However, there are striking differences in how organisations design and implement their early departure schemes. For example, some look to recover their costs within a year, others within three years or even longer. The quality of the business cases used to inform decisions varies and organisations also vary in the extent to which they keep councillors or board members informed on early departure schemes. This can be particularly noticeable on proposals affecting senior managers. There is also a marked inconsistency in what information is openly provided to the public on the costs of early departures and the savings which they have generated.

7 Compromise agreements can be a useful means of protecting public sector organisations from legal challenges relating to departures. They must not, however, be used to hide the full cost of early departures from the public.

8 This report provides a reminder of the principles of good practice on how organisations should design, manage and monitor their early departure schemes. The circumstances of individual organisations will vary and it is up to managers and councillors or board members to ensure that their early departure schemes are tailored to their needs. However, the underlying principles of consistent policies, independent checks, value for money, and open reporting to the public apply to everyone.

Good practice

The main principles of good practice for early departure schemes

- Early departure schemes should be driven by the needs of organisations and their workforce plans.
- Alternatives to early departures should be considered such as redeployment, natural turnover and service redesign.
- There should be clear policies and procedures which are consistently applied.
- Proposals should be supported by business cases, showing the full additional costs of early departures and their anticipated savings.
- There should be restrictions on staff who have accepted an early departure package from being re-employed.
- Councillors or board members should approve early departure schemes, ensuring that proposals represent value for money.
- Councillors or board members should approve proposals affecting senior managers to ensure each application is independently authorised.
- Compromise agreements should not be used to limit public accountability,

for example by trying to silence whistleblowers or by hiding the full cost of departures.

- Senior managers, as well as councillors or board members, should monitor progress to help ensure that planned savings are being made.
- Senior managers, as well as councillors or board members, should use lessons learned from past and existing schemes and apply these accordingly to future proposals.
- Organisations should be open in their annual reports and accounts about the costs of early departures and the savings they have generated.

See Appendix 4 for a more comprehensive list.

Source: Audit Scotland

Part 1

Introduction

1. This report aims to remind public organisations of the principles of good practice in managing early departures of staff. It is not based on any new audit work. Instead, it uses information on costs and numbers already published in annual accounts and examples of current practice drawn from auditors' reports over the past year or two.

2. Given the significant financial challenges facing the public sector, early departure schemes can be an effective way of achieving savings. They are used in both the public and private sectors. But, with higher standards of transparency, their use is more clearly visible in the public sector, where organisations are required to disclose information in their annual accounts or in response to requests made under the Freedom of Information (FOI) legislation.

3. In recent years, early departure schemes have become a particularly important issue for public sector organisations, faced with mergers and reduced budgets and a pressing need to make savings. Staffing costs form a high proportion of the costs of most public sector organisations. But, with a Scottish Government policy to avoid compulsory redundancies in the NHS and central government, organisations have needed to look for other ways to reduce the size of their workforce. In many cases, they have turned towards early retirement schemes or voluntary redundancies as a way of quickly restructuring the workforce and reducing payroll costs. With continuing financial pressures for the foreseeable future, public sector organisations will continue to use early departure schemes to deliver recurring savings by reducing the size of their workforce.

early departure schemes can be an effective way of achieving savings

4. Reaching agreement on some form of voluntary departure package can be more straightforward and cheaper than compulsory redundancy. Initial costs can be high, but these can be quickly repaid with significant savings in payroll costs. However, organisations need to be clear about how they assess the value for money of early departure schemes. They need to consider the full costs of such deals, including the impact on pension funds as well as their own revenue budgets. They also need to ensure that schemes are transparent and subject to independent scrutiny and challenge from councillors or board members, particularly where they affect senior managers.

5. There are some differences between sectors in the details of pension arrangements and how the costs of early departures are calculated. Local government pensions, for example, are 'funded'. In essence, this means that throughout their employment, each individual and their employer set aside money to fund the pension. In contrast, NHS and central government pensions are mainly 'unfunded'. Employees and employers make contributions to pensions throughout an individual's career, but no specific fund is earmarked. When pensions become due, they are simply funded from current expenditure. A more detailed explanation of pension and redundancy payments, together with a worked example, is provided at Appendix 1.

6. These differences can affect how organisations account for the costs of their early departures. However, there are underlying principles which should apply to all parts of the public sector. Any assessment of the value for money of early departures should only take into account the additional costs associated with an early retirement or redundancy. In other words, pension entitlements which have been earned over the individual's career and would be paid in due course should not be included. The assessment of value for money should focus on additional costs, such as those associated with paying pensions early or other incentives such as added years. These should include the additional costs that will be met from pension funds and recharged to employers, as well as direct costs paid from employers' budgets.

7. This report provides a reminder of the principles of good practice in managing early departures. It is based on the standards set out in the Accounts Commission's report *Bye Now, Pay Later*, published in 1997 and which was the subject of a follow-up report in 2003. These reports focused on local government, but their underlying principles are relevant to all public sector organisations, helping them achieve the highest standards of transparency and demonstrate that their early departure schemes represent value for money.

8. Early departures, as defined in this report and outlined in Exhibit 1, include voluntary early release or retirement, voluntary redundancy and compulsory redundancy. In broad terms, this is any early release for which public sector organisations fund part or all of the departure cost. Ill health and normal age retirements are excluded as pension funds cover the full cost of these departures.

9. It should be noted that not all individuals departing under early departure schemes will be entitled to a pension. Many will not yet be of retirement age, and will receive only a redundancy payment upon their exit.

Exhibit 1
Scope of this report

Included in this report	Not included in this report
✓ Voluntary early release agreements	✗ Normal age retirement
✓ Voluntary early retirement	✗ Ill-health retirement
✓ Voluntary and compulsory redundancy	

Source: Audit Scotland

10. This report also provides information on the current level of early departure schemes across the devolved Scottish public sector. This includes:

- the Scottish Government and its agencies and non-departmental public bodies (NDPBs)
- local authorities
- NHS boards
- police, and fire and rescue.

11. The information in this report is drawn largely from the annual accounts for 2011/12 which, for the first time, require most of these organisations to disclose the costs of exit packages.

12. With a planned programme of mergers, further education colleges are also making significant use of early departure schemes. However, as there is currently only a limited requirement to disclose these in their accounts, we have not been able to obtain comprehensive information on the number of staff involved or the costs of these schemes.

13. The report also provides examples of how organisations manage these schemes and assess value for money. These are drawn from reports already published by auditors and from a limited number of case studies. These examples do not seek to provide a comprehensive assessment of early departure schemes throughout Scotland's public sector. They simply aim to illustrate some of the variations in how public sector organisations currently manage early departure schemes.

14. During 2013, the Accounts Commission and the Auditor General for Scotland will also publish a joint report *Reshaping Scotland's public sector workforce*. This report will consider whether public bodies are effectively managing changes to their workforces, using cost-effective approaches and will highlight good practice. In particular, the report will consider:

- how the size and structure of the public sector workforce is changing
- what the financial costs and benefits of changes to the public sector workforce are and whether these changes are likely to provide long-term cost reductions
- whether the workforce planning approaches being used follow good practice and assess the capability of public sector organisations to meet future needs
- what are the significant opportunities and challenges which face those managing the public sector workforce in future years.

15. In addition, the Auditor General will monitor the position of the new police and fire authorities and further education colleges with regards to workforce management.

Part 2

Numbers and costs

The number of staff employed in the Scottish public sector has fallen by about 40,000 since 2009

16. Scotland's devolved public sector in recent years has been facing significant budget cuts. This has affected all areas, including Scottish Government directorates and their associated agencies and non-departmental public bodies (NDPBs), local authorities, and NHS boards. In addition, police, fire and rescue and further education colleges have been going through significant organisational mergers. As a result, after many years of growth, the number of people directly employed in the Scottish public sector has fallen by about 40,000 since 2009. About half of this reduction is due to early departures, with some also due to staff moving to other jobs, retiring normally or retiring through ill health. While there is no reliable information on the numbers involved, a significant proportion also relates to staff being transferred from local authorities to arm's-length external organisations (ALEOs).

Public sector organisations are currently spending approximately £280 million per year on early departure packages

17. Information on the scale of early departure packages is now disclosed in the annual accounts for most public sector organisations. These show that, in the two years 2010/11 and 2011/12, over 14,000 public sector staff accepted some form of early retirement or redundancy, at an initial overall cost of £561 million[1] (Exhibit 2).

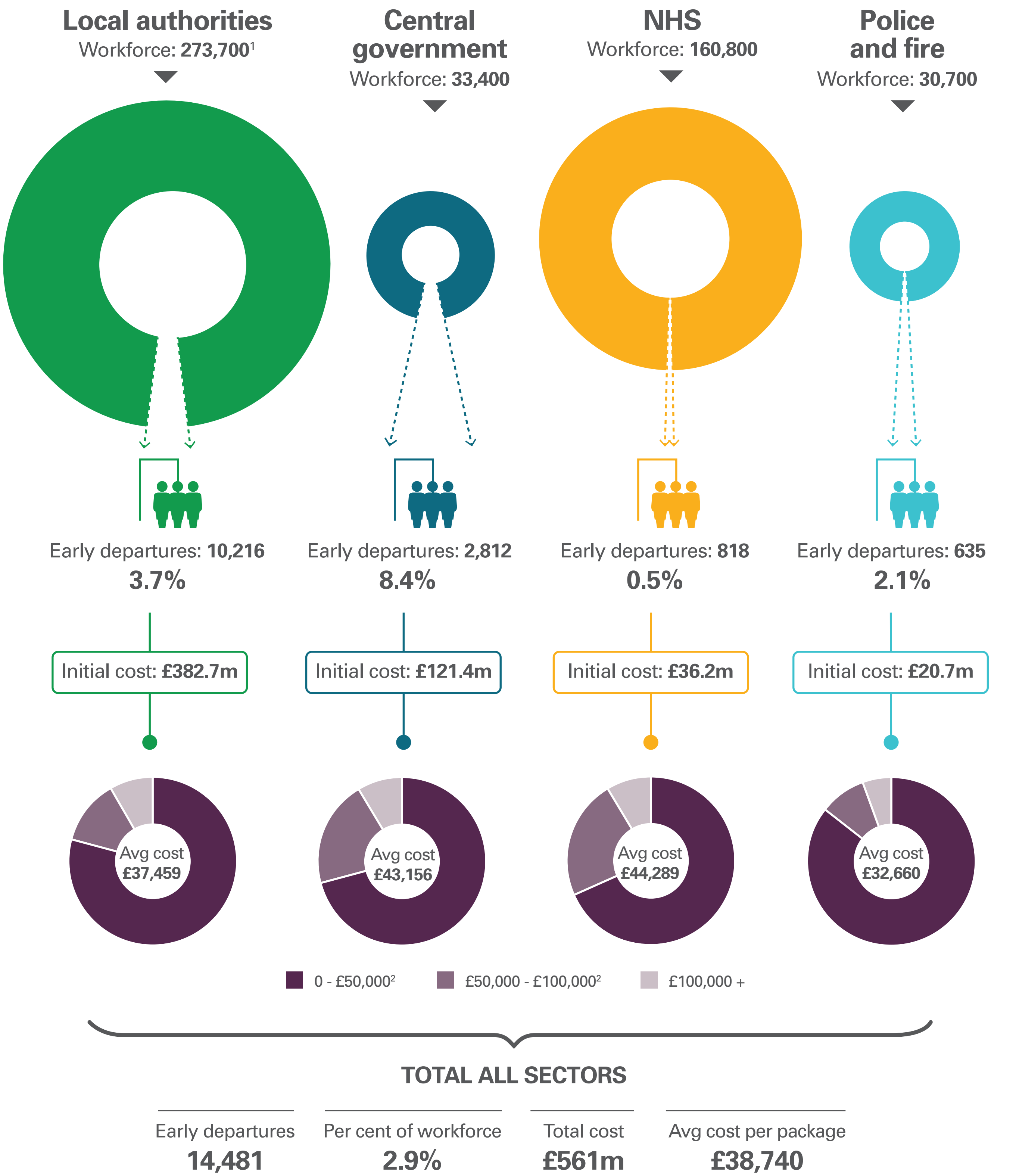
18. Proportionately, central government organisations have made greatest use of early departures, with 8.4 per cent of staff leaving under some form of package during 2010/11 and 2011/12. This sector is very diverse, with a wide range of Scottish Government directorates, NDPBs and other agencies. As a result, it is difficult to identify any common pattern among these organisations. However, many of these organisations have undergone significant restructures or mergers, such as Education Scotland and the Care Inspectorate.

19. There has also been some variation in the cost of early departure packages. As indicated in Exhibit 2, the vast majority of individual packages have an average cost of less than £50,000. But about 8.3 per cent of packages had an average cost over £100,000, representing over 40 per cent[2] of the total expenditure on early departure packages. This can reflect a number of factors, such as the number of years service by individuals and their final salary.

20. There are also some differences between the sectors in the average cost of packages. The average cost of NHS and central government packages, at £44,289 and £43,156 respectively, is significantly higher than the costs of local government and police and fire packages. This is likely to reflect a greater focus

over 14,000 public sector staff accepted some form of early retirement or redundancy, at an initial overall cost of £561 million

Exhibit 2
Early departures by sector in 2010/11 and 2011/12



Notes:
1 Workforce figures as at Q1 2010 (headcount).
2 Local authorities and police and fire figures are measured £0 - £60,000 | £60,000 - £100,000.

Source: 2011/12 audited annual accounts; Scottish Government employment statistics on reducing the number of higher-paid managers in these sectors. The NHS and Scottish Government, for example, have a target to reduce their numbers of senior managers by 25 per cent by 2015.

21. It is likely that Scotland's public sector will continue to use early departure schemes in order to help reduce workforce numbers. Further education colleges, for example, are facing a significant programme of mergers which will lead to reductions in the overall numbers employed. Similarly, the creation of national police and fire and rescue services, replacing regional organisations, will most likely lead to reductions in the number of support staff and senior officers.

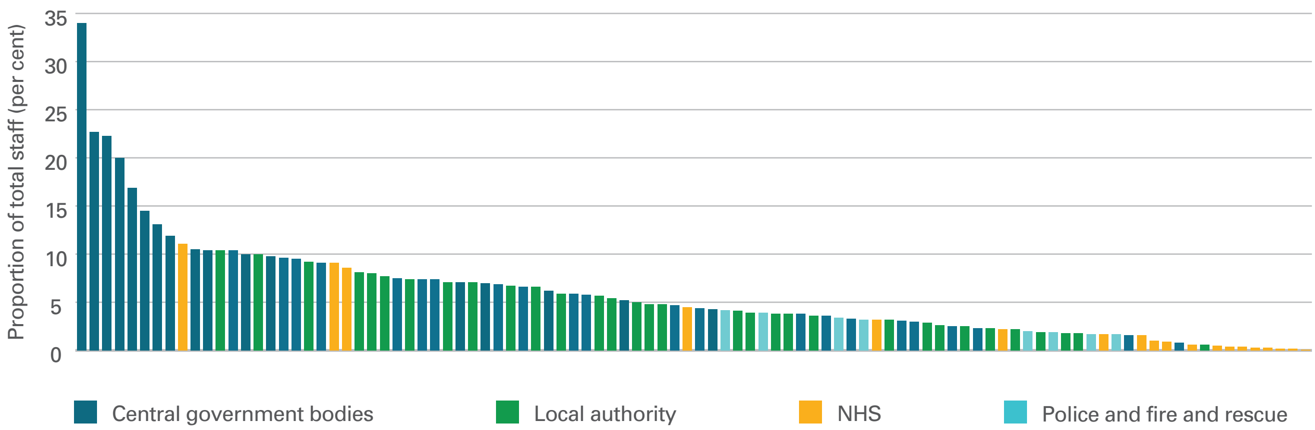
There is significant variation between individual organisations in the use of early departures and in their average costs

22. At an organisational level, there is an even greater variation in the proportion of staff taking some form of early departure (Exhibit 3). Some organisations have made little or no use of early departures over the years 2010/11 and 2011/12. In other organisations, such as Creative Scotland, Education Scotland and Skills Development Scotland, over 20 per cent of the workforce left under some form of early departure package. This reflects the differing circumstances of individual organisations and the stage they have reached in restructuring their workforce. It can also reflect the size of the workforce in these organisations: a few people leaving a small organisation can represent a significant proportion of its workforce.

Exhibit 3

Early departures by organisations in 2010/11 and 2011/12

There are significant variations in the proportion of staff leaving organisations through some form of early departure scheme (see Appendix 2 for more details).



Source: 2011/12 audited annual accounts; Scottish Government employment statistics; and NHS Scotland employment statistics

23. There are also striking variations in the average cost of departure packages of individual organisations (Exhibit 4). There can be good reasons for this. For example, over the two years 2010/11 and 2011/12, the highest average cost packages were made by the Scottish Funding Council and Scottish Enterprise. This, at least in part, reflects a planned restructuring of their management teams and a need to reduce the number of senior and relatively highly paid managers.

Exhibit 4

Average cost of early departure

The average cost of departure deals varies significantly between organisations (see Appendix 3 for more details).

Source: 2011/12 audited annual accounts

Part 3

The principles of best practice

24. Early departure schemes are an important tool for public organisations. They are not a way of rewarding staff and should not be seen as an entitlement. But they can provide a cost-effective way of managing overall employee numbers and costs. This can be particularly important in times of budget cuts or public sector mergers, where there is a need to implement relatively quick changes in the workforce.

25. But there is a price to pay. There is a risk that some organisations are unaware of the true costs of early retirements or redundancies to revenue budgets or to pension funds. Decisions made in response to short-term pressures can lead to long-term costs.

26. Public organisations face a range of different circumstances, both in terms of their financial position and the need to restructure their workforce, and in terms of the funding of their pension schemes. However, there are a number of principles of good practice which can help all public sector organisations achieve value for money. These are discussed below and listed in more detail at Appendix 4.

early departure schemes can provide a cost-effective way of managing overall employee numbers and costs

Early departure schemes should be driven by a long-term workforce strategy, rather than by short-term budget cuts

27. In the short term, organisations can turn to early departure schemes as a way to achieve budget cuts. However, early departure schemes should be driven by the strategic needs of organisations, shaped by service needs and local and national policy decisions. This more considered approach should try to ensure that schemes and decisions are based on planned restructures and skill needs.

28. There is a risk that the timescale within which budgetary decisions are currently made can compromise the quality of decision-making by enforcing rapid, reactive decisions in the few months between the end of the calendar year and the beginning of the next financial year. If more time was available for such major decisions, it would allow better analysis, consultation and communication within organisations and between the employer and the pension fund.

29. Organisations may, for example, identify the need to reduce staff numbers in a particular department or at certain grades and should tailor their early departure schemes accordingly. The audit report for Argyll & Bute Council, for example, notes that the council has a 'workforce planning framework in place which informs a five-year workforce planning strategy. All staff reductions have taken place as part of an integrated approach to transformation/modernisation. All service reviews have addressed workloads, job descriptions and have detailed implementation plans associated with them.'

30. In addition, organisations should ensure that proposals on restructuring their workforce take into account future needs and are sustainable. There is little point in spending money on departure schemes, only to spend more money on recruiting new staff to fill these vacant posts.

31. The public sector's approach to early departure schemes has steadily evolved. While there may have been an initial focus on short-term savings, there is some evidence to suggest that greater consideration is now being given to longer-term workforce planning. For example, some organisations are tailoring early departure schemes, aiming them at specific departments or jobs where they are planning to make reductions. At NHS Greater Glasgow, proposed early departures must demonstrate how they support the organisation's programme of service redesign, as well as showing why any planned payment represents value for money.

Organisations should consider alternatives to early departures

32. Early departure schemes should not be the only option considered when facing budget cuts. They can lead to savings. But they can also reduce the effectiveness of organisations, with the loss of experienced staff and specialist skills which may take years to replace. These long-term non-financial costs may outweigh any short-term savings made.

33. Organisations should, for example, consider the possibility of redesigning services and retraining staff and redeploying them in other roles. They should also take into account the impact of natural turnover, with staff reaching retirement age or moving on to other jobs.

34. Some organisations do not make widespread use of early departure schemes. Aberdeen City Council's audit report, for example, highlights that 'there is no major programme of workforce reduction required to balance the budget'. Angus Council's audit report notes that the organisation 'has not been in the position of having to offer voluntary early release schemes in order to secure significant long-term cost savings'. The report identifies that the council 'is on track to reduce the workforce…through natural wastage, vacancy management and ad hoc voluntary redundancies and early retirements'. Similarly, at NHS Tayside, the annual audit report notes that the board 'will consider savings through natural turnover and redeployment'.

35. Organisations can also make use of other ways to reduce staffing numbers. At the Crown Office and Procurator Fiscal Service, for example, the annual audit report highlighted that the organisation also had 'a significant reduction in the number of agency, temporary/contract staff and trainees employed'.

Organisations should have clear and up-to-date policies and procedures, setting out their approach to early departures

36. Organisations should have clear policies and procedures for the use of early retirements, ill-health retirements, and compulsory redundancies. These should be regularly reviewed and updated, to help ensure that they are based on accurate management information on which to base decisions and monitor trends. Organisations should also consult with trade unions or staff representatives to help ensure that they are seen as fair and reasonable. Policies and procedures should be approved by board members.

37. In general, organisations have clear and up-to-date policies and procedures for their early departure schemes. Where these are not in place, this is generally because the organisations are seeking other ways of reducing the size of their workforce through, for example, natural turnover or restrictions on overtime.

38. There are examples where organisations could have a clearer and more consistent approach when applying their early departure policies. Scottish Enterprise's annual audit report, for example, states that the organisation 'used the 2011/12 Selective Voluntary Severance (SVS) scheme in a targeted way and therefore did not formally communicate the scheme to all staff or update their policy, which dates from 2009 and is available to staff via the intranet.' The report also identifies that 'in some circumstances the compensation payable under the terms of Scottish Enterprise's contractual severance scheme were now more than available under the recently revised Civil Service Compensation Scheme. As such the scheme did not currently meet all of the guidance set out in the revised Scottish Public Finance Manual'. The scheme was approved by the Scottish Government and payments were in line with contractual obligations. The Scottish Government also noted that, for future schemes, Scottish Enterprise should make efforts, through its normal staff engagement process, to review the terms of its compensation schemes for severance, early retirement and redundancy so as to meet the guidelines in the SPFM.

39. Organisations can also vary the terms offered to different grades of staff. This may be justified by a greater need to reduce numbers at certain levels. But, without clear and transparent policies, it can leave organisations open to accusations of inconsistency, for example if an organisation implements revised schemes each year to target sections of their workforce, and offers more favourable incentives to managers than was available to other staff.

Early departure proposals should be supported by business cases, demonstrating that they represent value for money

40. Senior managers and board members need to be fully aware of the costs and benefits when making decisions. Before approving any early departures, organisations must ensure that they represent a good use of public money. Any additional costs associated with incentives such as 'added years' or lump sums, should be offset by savings in subsequent years.

41. Business cases, setting out proposals for early departures, should be based on the full additional costs. These should include the costs to pension funds which are recharged to the employer – sometimes known as the 'strain on the fund' and 'capitalised added years' costs – as well as the costs charged to their own revenue accounts. They should not, however, include costs which were due to be paid as part of a normal retirement.

42. There may be circumstances where it makes sense for the costs of individual departures to be met by the organisation's central budget, for example, where they form part of an overall corporate policy to reduce the numbers of managers at a certain grade. In general, however, costs should be charged to the budgets of the departments which expect to make savings from the early departures.

43. There should be controls over the potential re-employment of individuals who have received an early departure deal or have chosen to retire early. Strathclyde

Fire & Rescue's decision to re-employ its chief fire officer, immediately after he took early retirement, was the subject of a report by the Accounts Commission and attracted much media attention and criticism. And similar decisions have been taken in recent years by other fire and rescue and police services. Even where there are some savings, for example in superannuation contributions, organisations need to think about public perceptions. Dumfries & Galloway Council, for example, has recently announced an intention to place restrictions on the future recruitment of individuals who have accepted any form of early departure.

44. Similarly, posts which are vacated by an individual taking an early departure package should not subsequently be filled by new recruitment at the same cost. If posts are to be filled by lower graded or lower paid staff, this should be reflected in any business plans and the assessment of value for money.

45. In terms of payment in lieu of notice, organisations should plan to avoid such payments being required. It is, however, acknowledged that such arrangements may be unavoidable in exceptional circumstances, such as contractual entitlement. However, where staff start alternative employment before the notice period has expired, the payment in lieu should be reduced accordingly.

46. Scotland's public sector organisations routinely calculate payback periods, the number of years before the initial costs are met by savings, before agreeing to early departures. But the work we have carried out suggests that there is significant variation in the payback periods that are used. For schemes that we examined, the overall payback periods ranged from between one and three years.

47. There is even greater variation in the payback periods used to justify individual packages. This can be due to the incentives provided in these packages, particularly the number of 'added years' (Appendix 1). Some pension schemes allow local authorities to offer up to ten added years. In the schemes we examined, the number of added years offered ranged from zero to six and two-thirds. Organisations are not obliged to offer 'added years' and they need to have a clear rationale for their use.

48. There can, of course, be different pressures on organisations. Where there are mergers, for example, some can have a more pressing need to reduce staff numbers and therefore a greater willingness to wait longer until early departure costs are repaid. However, the longer the payback period, the greater the risk that the anticipated savings will not be realised. Organisations need to ensure that the payback periods they are using are justified and represent value for money.

49. There can also be some inconsistency in the costs which are included in these payback calculations. Central government organisations generally account for exit costs in full, in the year of agreement. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Similarly, councils should include capitalised added years costs where added years have been awarded. This is the additional cost of providing added years, which the pension fund pays before recharging the former employer. However, these costs are not always fully taken into account. In Fife Council, for example, the annual audit report noted that 'capitalised costs had been excluded when calculating the future "payback periods" for individual exit packages'. This may have affected decisions on the value for money of individual packages and overstated the savings that will be made from the council's workforce reduction programme.

Councillors or board members should provide independent scrutiny of early departure schemes and formally approve packages for senior managers

50. Senior managers and board members need to be fully aware of the costs and benefits when making decisions. Councillors and non-executives do not necessarily need to be kept informed on the details affecting every individual departure deal. But they do need to approve and maintain oversight of early departure schemes and assure themselves that they are delivering the planned savings and represent value for money.

51. Councillors or board members can provide an important independent check on early departure proposals, and should formally approve the departure of senior employees. This is particularly important for senior managers, who may be responsible for designing the terms and conditions of exit schemes. It will help ensure that decisions affecting senior managers conform with the organisation's policies and procedures, and provide some additional assurance to the public where large sums may be involved.

52. In general, councillors or board members approve and are kept informed about the planned costs and benefits of proposed early departure schemes. Detailed decisions on the packages for individual members of staff are, correctly, delegated to chief executives or other senior managers. But councillors or board members generally approve policies and are kept informed about matters such as 'added years' or other incentives, the proposed number of staff involved, the planned overall costs, and the anticipated savings.

53. There can, however, be less consistency in how councillors or board members review the proposals affecting senior managers. For example, in some local authorities, approvals for early departures for senior officers are delegated to the chief executive. In others, councillors are kept fully informed about the costs and savings of the overall scheme, but not provided with separate information on the packages affecting senior managers. There is also an example of proposals affecting senior managers being discussed informally with the leader of the council, but not considered formally by a wider committee.

54. Organisations should ensure that they do not commit to generous exit packages when appointing staff, and that councillors or board members approve all exit packages for senior employees. At West Dunbartonshire Council, for example, the annual audit report includes reference to the departure package of the former chief executive. The chief executive was employed on a five-year fixed-term contract which expired during 2011/12. The contractual entitlement resulted in an 'added years' pension enhancement of eight years and 236 days. The auditors highlighted a lack of transparency in the decision-making process, as 'the council was not afforded the opportunity to review the final settlement terms which…would have been consistent with good practice'.

Compromise agreements should be clear about which employment rights are being waived and should not be used to limit public accountability

55. Employers are able to offer additional payments to encourage individuals to accept voluntary redundancy or early retirement. These are sometimes known as *ex gratia* payments. In accepting the additional payments, individuals can be asked to sign compromise agreements. These are, in effect, a way of reaching an out-of-court settlement and avoiding the costs of employment tribunals. The agreements can help manage the risk and financial implications of an early departure.

56. Compromise agreements are legally binding contracts between an employer and employee. Once signed the employee waives some employment rights in return for benefits as set out in the agreement. The agreement prevents the employee from pursuing any litigation based on claims, for example of unfair dismissal or equalities arising from their employment and its termination.

57. The use of compromise agreements has attracted significant public interest, with fears that they can be used to silence whistleblowers. The Scottish Government has recently emphasised that confidentiality clauses should only be used appropriately. It is essential that in reaching compromise agreements, public sector organisations adhere to the principles of transparency and accountability. Organisations must also understand any restrictions in terms of what employment rights have been waived by the employee.

58. Payments made under compromise agreements, or *ex gratia* payments, are not subject to the same degree of public disclosure as other early departure payments. Organisations should not use these instead of other incentives, such as 'added years', in order to avoid public accountability.

59. Organisations must also ensure that compromise agreements are administered correctly to avoid claims from employees and former employees. Aberdeenshire Council's annual audit report, for example, notes that 'significant provisions may be required to reflect the costs of compensation for equal pay claims for staff who have not yet signed compromise agreements and who have progressed a tribunal claim and costs in relation to early retirement/redundancy costs where agreements have been reached prior to the year end'.

Organisations should monitor that the planned savings in early departures have been achieved and use this to help shape future proposals

60. Having carried out a programme of early retirements and redundancies, organisations should conduct a review to check that the expected benefits were delivered. Senior managers and board members should receive information on the number of staff that have taken some form of early retirement, the initial costs of these decisions, and a comparison of the planned and actual savings. This information should be used to help shape any future programmes of early retirements or redundancies.

61. Organisations should monitor the savings generated from their early departure schemes and compare these with the planned savings. In some cases, however, this monitoring is carried out by senior managers and not reported to councillors or board members. The auditors at Falkirk Council, for example, reported that, while councillors were 'advised of the cost of compensatory payments through budget monitoring reports, they have not been informed of the most recent numbers, costs and savings attached to the voluntary departure arrangements'. Glasgow City Council reported departures for the whole workforce but did not have separate arrangements for senior employees. In January 2013, however, it was reported to the Finance & Audit

Scrutiny Committee that the chief executive had agreed to keep elected members informed of any early release or voluntary departure proposals affecting executive directors or assistant directors.

Organisations should report openly about their use of early departures and the extent to which they have delivered savings

62. Public organisations should be open about their use of public money to fund early retirements and redundancies. Since 2011/12, almost all of Scotland's public sector organisations are required to provide some information in their annual accounts on early departures. Typically, this provides details on the overall initial costs and the number of staff involved. The only exceptions are further education colleges, where there is currently only a limited requirement for any disclosure in their accounts. There is no obvious reason for this.

63. However, there is scope for organisations to go beyond their formal accounting requirements, which focus purely on the initial costs of early departures. Information can be available in committee papers or provided as a result of FOI requests. But very few organisations publish details on the actual savings that have been made from early departure schemes. This would provide a more balanced picture of early departures and allow the public to assess value for money.

64. In general, there is an expectation that organisations should be open about their use of public funds. However, they can sometimes be reluctant to publish details of individual agreements. The requirements of the Data Protection Act can be seen as preventing organisations being fully open about specific packages. However, this is not necessarily true. For example, NHS National Services Scotland agreed to the disclosure of a director's remuneration package, despite a confidentiality agreement being in place, following consultation with legal advisers.

Endnotes

1 These figures do not include further education colleges or staff retiring early due to ill health.

2 Local authorities, police joint boards and fire and rescue joint boards combined incurred 44.0 per cent of their expenditure on early departure packages in 2010/11 and 2011/12 on exits costing over £100,000.

Appendix 1

Calculating the additional costs of early departures

The main payments or charges associated with early departures

There are many variables that need to be considered when calculating the costs of offering employees early retirement or voluntary redundancy. There are, for example, differences in the details of NHS and local government pension schemes. Employee entitlements have also decreased significantly for more recent employees. In addition, employers may choose to offer additional incentives, while others may not.

However, there are four main elements common to all public sector pension or redundancy terms:

- **Pension payments:** Employees are entitled to an annual pension. The value of this will vary depending on how many years they have worked for the organisation. It may be based on their final salary or, for more recent employees, the average salary over their career. These costs are met by a pension fund, built up throughout the person's career and funded through employer and employee superannuation payments.

- **Pension lump sum:** As well as an annual pension, employees are also entitled to a lump sum. This will be based on how many years they have worked and their salary. Again, these costs are met by an individual's pension fund.

- **Added years:** An individual's annual pension and lump sum is based on how many years they have worked for the organisation and contributed towards their pension fund. As a result, they may be reluctant to accept an early retirement and reduced pension payments. Employers can choose to offer 'added years' as an incentive to individuals, adding up to ten years when calculating their annual pension and lump sum payments.

- **Redundancy lump sum:** Where they are made compulsorily redundant, employees are entitled to statutory redundancy payments. This is based on how many years they have worked for the organisation. In addition, however, employers may choose to increase these statutory payments to encourage individuals to accept redundancy or early retirement. These incentives are sometimes known as compromise agreements or *ex gratia* payments. They are, in effect, a way of reaching an out-of-court settlement and avoiding the potential costs of employment tribunals.

The additional costs of early departures

When considering offering employees early retirement or voluntary redundancy, organisations need to assess the costs and benefits. They may have an urgent need to reduce the number of employees, but organisations need to ensure that any short-term costs are outweighed by long-term savings.

In calculating these costs, there are two fundamental principles. They should:

- only focus on the **additional costs** that are incurred by an early departure package. They should not include any lump sum or annual pension payments that an employee will be entitled to if they retire normally. These have already been funded throughout the individual's career, with employer's and employee's superannuation contributions being paid into a pension fund. Additional costs such as redundancy lump sums and the impact of 'added years', however, do need to be included. The 'added years' element should be disclosed under two headings. An **additional lump sum** charge should be included to reflect the increased lump sum the individual will receive, and a **capitalised added year** charge, which is an estimate provided by the pension fund of the cost of paying an inflated pension over the employee's remaining life

- take into account the costs commonly known as the **'strain on the fund'**. In other words, the cost to the pension fund of allowing the employee to retire early without actuarial reduction. This cost is calculated by the pension fund and is based on a range of factors including the employee's age, sex and marital status. The cost is borne by the employer under early retirement and voluntary redundancy arrangements.

Illustrative example

This example is based on an employee working in local government. It shows the main costs involved when an employee retires normally and when they accept some form of early departure package. This provides a simplified picture, ignoring, for example, recent changes in pension entitlements, in order to illustrate the main principles involved. In reality such calculations are complex and take into account a number of different actuarial and other factors. While this example is based on local government, the same principle applies to all public sector organisations.

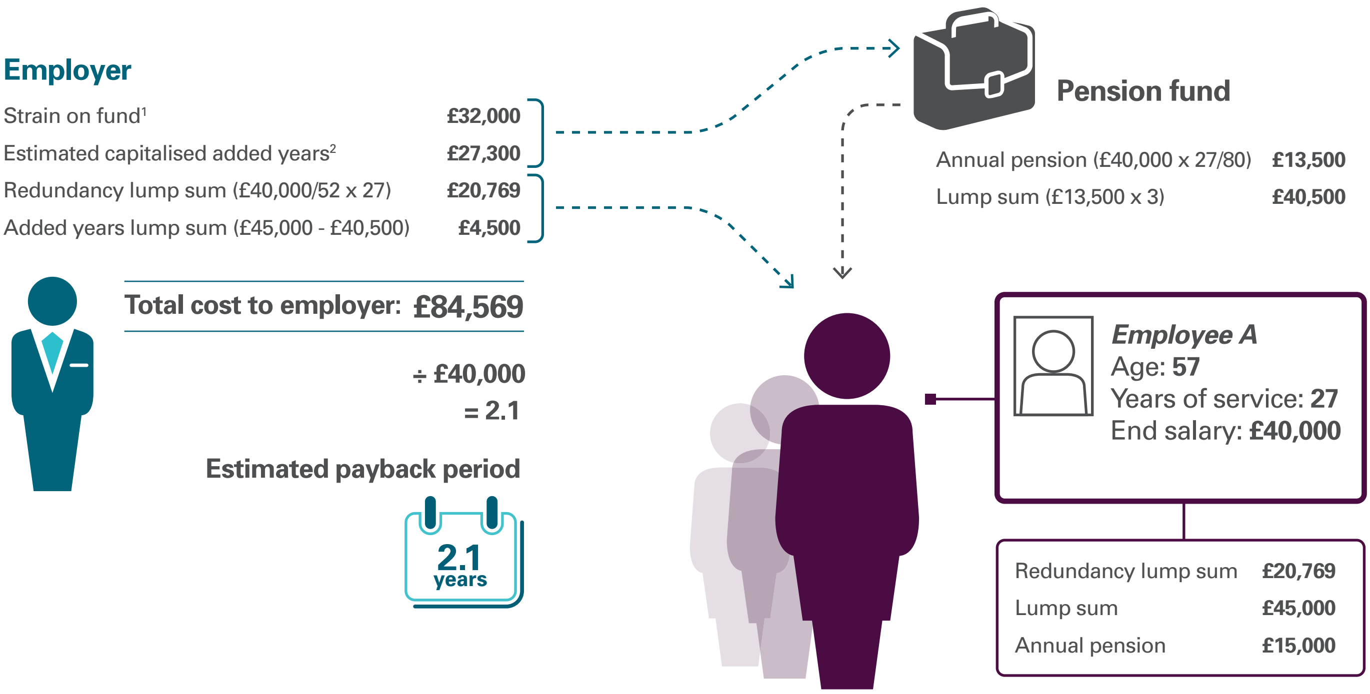
Employee A is 57 years old and currently has 27 years' service. She is due to retire at age 60 in three years' time, with a final salary of £40,000. Her pension will be based on her number of years' service, with each year contributing one-eightieth of her final salary. In addition, she will be entitled to a lump sum, calculated as three times her annual pension. In three years' time, with a total of 30 years' service, Employee A will be due to receive an annual pension of £15,000 and a lump sum of £45,000. The entire cost of this package is funded by her pension fund, built up over her career from employer and employee superannuation contributions.

In contrast, Employee A could be offered some form of early departure package. Not all public sector schemes provide additional payments. However, in this particular example, the employer has included the incentive of three 'added years' service plus a redundancy lump sum of one week's pay per year of service.

Appendix 1 illustrative example shows the payments due to Employee A and the costs met by the employer and the pension fund for this particular package. With the award of three 'additional years', she receives the same annual pension and lump sum had she worked on until she was 60. However, the cost to her

Appendix 1 illustrative example

Cost of early retirement at age 57, with 27 years' service and 3 added years



Notes:
1 Based on the cost of paying the annual pension over a longer period, and based on actuarial estimates of life expectancy.
2 The cost of adding unworked years to the length of service, and based on actuarial estimates of life expectancy.

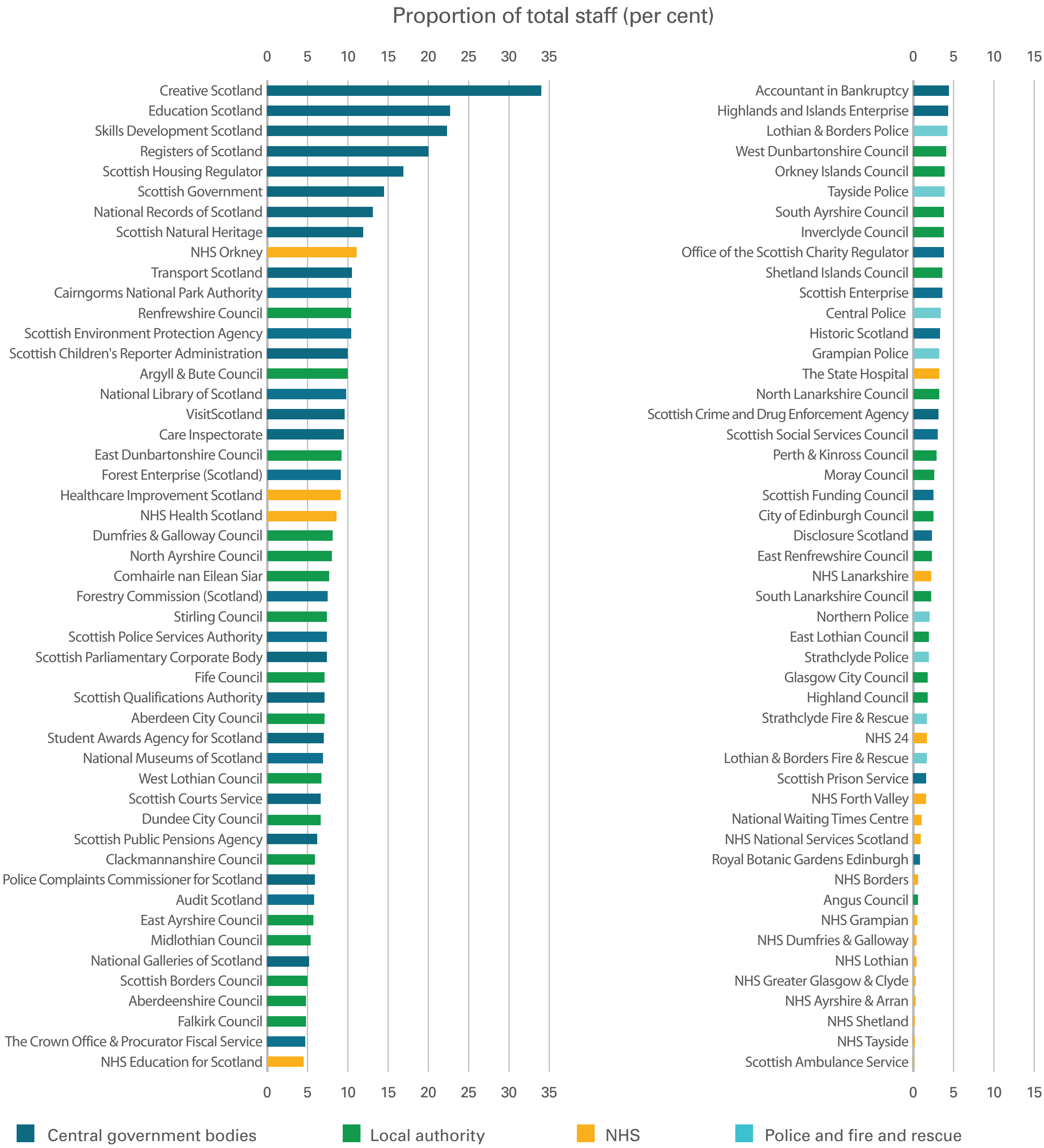
Source: Audit Scotland

pension fund is limited to the actual number of years that she has worked. The additional costs are met by the employer. The redundancy lump sum and the 'added years' lump sum are paid directly to Employee A. The costs relating to the 'strain on the fund' and the capitalised added years, which are based on actuarial estimates of life expectancy, are paid by the employer into the pension fund.

The total cost to the employer of providing this early departure package for Employee A is £84,569. Assuming that her post is not filled, the employer will now save £40,000 per year on salary costs (this is a simplification as, in reality, the employer will also save on other costs such as superannuation contributions). This would mean that, in 2.1 years, the employer will have recovered its initial outlay and will now benefit from recurring savings.

Appendix 2

Proportion of staff taking early departure

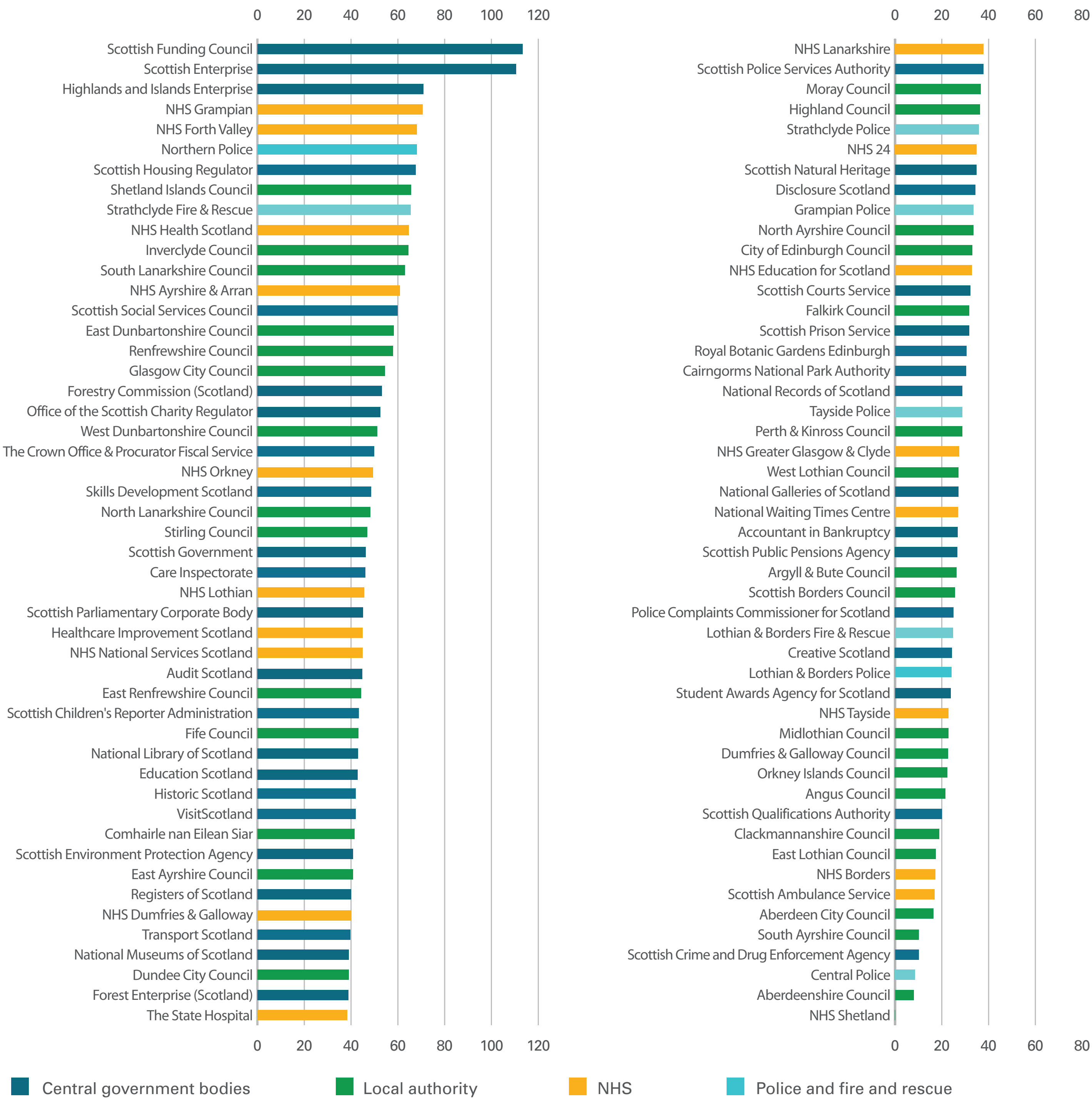


Note: The graph does not include organisations who reported no early departures, or organisations that made no disclosure.

Appendix 3

Average cost of early departure packages

Average cost per exit package (£'000)



Note: The graph does not include organisations who reported no early departures, or organisations that made no disclosure.

Appendix 4

The principles of good practice

Workforce planning

Early departure schemes should be driven by the needs of organisations, not the wishes of individuals.

Workforce and service plans should be used to help shape proposals for early departure schemes, identifying parts of the organisation or particular grades where there is greatest need for reducing the number of employees.

Organisations should ensure that they retain sufficient skills and experience before authorising individual early departures.

Option appraisal

In order to avoid unnecessary costs, alternatives to early departures should be considered. These include:

- natural turnover
- vacancy management
- reducing overtime levels
- reducing the use of agency or contract staff.

Policies and procedures

Policies and procedures for early departure schemes should be regularly updated to reflect the changing needs of organisations, the results of earlier schemes and relevant guidance.

Policies and procedures should cover issues such as:

- incentives, such as 'added years', that might be available
- criteria for the use of ill-health retirals
- restrictions on any return to employment within the organisation or sector.

Organisations should consult with trade unions or staff representatives to help ensure that they are seen as fair and reasonable.

Policies and procedures should be clearly communicated to all staff and be transparent to the public.

Policies and procedures should be consistently applied to all staff, except where the organisation’s programme is being targeted at specific grades or business areas.

Business cases

Proposals should be supported by clear business cases, showing the full additional costs of early departures and their anticipated savings.

There should be restrictions on staff who have accepted an early departure package from being re-employed by their previous employer.

Business cases should include ‘strain on the fund’ and ‘added years’ costs, borne by pension funds and recharged to employers, not just those costs directly charged to an organisation’s budget.

Business cases should take into account the costs of any replacement staff employed at lower pay scales.

Organisations should ensure they are using appropriate and justifiable payback periods.

Compromise agreements

Organisations should be clear about which employment rights they expect individuals to waive in return for *ex gratia* payments.

Compromise agreements should not be used to help silence whistleblowers and limit public accountability.

Independent scrutiny

Councillors or board members should oversee early departure schemes, ensuring that proposals represent value for money.

While there may be some need for confidentiality, proposals affecting senior managers should be subject to detailed formal scrutiny by councillors or board members.

Costs presented to councillors or board members should detail separately the costs borne by the organisation as a result of offering 'added years' (the 'added years' lump sum and capitalised 'added year' costs).

Monitoring

Senior managers should monitor progress to help ensure that planned savings are realised and review future proposals accordingly.

Senior managers should report regularly to councillors or board members, detailing the cost of early departure schemes, and providing assurance that business cases are accurate and that value for money has been achieved.

Openness

Organisations should be open in their annual reports and accounts about the costs of early departures and the savings they have generated.

Managing early departures from the Scottish public sector

This report is available in PDF and RTF formats, along with a podcast summary at: www.audit-scotland.gov.uk

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0845 146 1010 or info@audit-scotland.gov.uk

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ACCOUNTS COMMISSION – MANAGING EARLY DEPARTURES FROM THE SCOTTISH PUBLIC SECTOR:

Key Point/Checklist/ Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
The main principles of good practice for early departure schemes				
Workforce planning				
Are early departure schemes driven by the needs of the Council and not the wishes of individuals?	Yes	This has been done up to now through the Service Review Programme and in future will be considered as part of the new Service Prioritisation process.		
Are workforce and service plans used to help shape proposals for early departure schemes, identifying parts of the organisation or particular grades where there is greatest need for reducing the number of employees?	Yes	As above		
Does the Council ensure that they retain sufficient skills and experience before authorising individual early departures?	No	The Council is currently piloting workforce planning and will be introduced throughout the Council. Workforce planning will be integrated with the Service Prioritisation process to ensure relevant skills and experience are retained.	Ongoing - TBC	Lynn Finlay
Option appraisal				
Does the Council consider alternatives to early departures in order to avoid unnecessary costs, including: • Natural turnover • Vacancy management • Reducing overtime levels • Reducing the use of agency or contract staff	Yes	Council considers all of the stated methods of avoiding early departures to avoid unnecessary costs.		
Policies and procedures				
Are policies and procedures for early departure schemes regularly updated to reflect the changing needs of the Council, results of earlier schemes and relevant guidance?	Yes	Policies and procedures are reviewed annually and agreed with Trades Unions. The Policy on Discretions applied is reviewed in line with changes to the statutory redundancy provision and Pension Scheme Regulations.	In place	Lynn Finlay
Do Policies and procedures cover issues such as: • Incentives, such as 'added years', that might be available • Criteria for the use of ill-health retirals • Restrictions on any return to employment within the Council	Yes	Policy on Pension Discretions details incentives/enhancements. Criteria for the use of ill health retirals is driven by an Occupational Health Doctor approved by the pension scheme.		

Key Point/Checklist/ Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
		There is no restriction on any return to employment within the Council other than employees who have received a redundancy payment cannot return, in any capacity, within a 4 week period		
Does the Council consult with trade unions or staff representatives to help ensure that they are seen as fair and reasonable?	Yes	Trades union representatives are invited to take part in the service review process and are part of the project team examining options.		
Are policies and procedures clearly communicated to all staff and transparent to the public?	Yes	Displayed on the Council's Hub which can be accessed via Council PCs. The Redundancy Policy and Pension Discretions policy will be made available on the Council's website.	Implemented 30 June 2013	 Aileen McCosh
Are policies and procedures consistently applied to all staff, except where the Council's programme is being targeted at specific grades or business areas?	Yes	Policies clearly state that they apply to all employees of the Council.		
Business Cases				
Are proposals supported by clear business cases, showing the full additional costs of early departures and their anticipated savings?	Yes	Service Review Process states business case and costs/savings are considered before approval by the Head of Strategic Finance/Executive Director.		
Are there restrictions on staff who have accepted an early departure package from being re-employed by their previous employer?	No	If they start back within 4 weeks of their termination date then they have to pay back the redundancy payment. Otherwise no restrictions.		
Do business cases included 'strain on the fund' and 'added years' costs, borne by pension funds and recharged to employers, not just those costs directly charged to the Council's budget?	No	The business case only includes the employee post saving.		
Do business cases take into account the costs of any replacement staff employed at lower pay scales?	Yes	Service Review Process states business case and costs/savings are considered before approval by the Head of Strategic Finance/Executive Director.		
Does the Council ensure they are using appropriate and justifiable payback periods?	Yes	Policy on pension discretions states that payback period is 3 years.		
Compromise agreements				
Is the Council clear about which	Yes	All compromise agreements are		

Key Point/Checklist/ Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
employment rights they expect individuals to waive in return for *ex gratia* payments?		dealt with by the council's legal department.		
Are compromise agreements used to help silence whistleblowers and limit public accountability?	No	There is a confidentiality clause but not to silence whistleblowers and limit public accountability.		
Independent scrutiny				
Do Councillors oversee early departure schemes, ensuring that proposals represent value for money?	Yes	Council approves the Policy and any departure needs to be approved by Council		
While there may be some need for confidentiality, are proposals affecting senior managers subject to detailed formal scrutiny by Councillors?	No	Same process as all other employees as detailed within this document.		
Do costs presented to Councillors detail separately the costs borne by the Council as a result of offering 'added years' (the added years' lump sum and capitalised 'added year' costs)?	No	Where they do not meet the 3 year payback it would require the full council approval.		
Monitoring				
Do Senior managers monitor progress to help ensure that planned savings are realised and review future proposals accordingly?	Yes	Implementation is reported via the Corporate Improvement Board.		
Do Senior managers report regularly to Councillors, detailing the cost of early departure schemes, and providing assurance that business cases are accurate and that value for money has been achieved?	Yes	Where the cost or saving has been inaccurate or undeliverable then this will be reported to Council, otherwise it is assumed that business cases were accurate, savings have been removed and value for money achieved.		
Openness				
Is the Council open in their annual reports and accounts about the costs of early departures and the savings they have generated?	Yes	There is an exit packages note within the annual accounts which details the cost of early departures and the number of FTE. As part of the budget pack, the savings and FTE reduction are noted.		

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Improving community planning in Scotland

AUDIT SCOTLAND

Prepared for the Accounts Commission and the Auditor General for Scotland
March 2013

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).

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.

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

She 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.

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.

Contents

Introduction

Introduction

1. Community planning is the process by which councils and other public bodies work together, with local communities, businesses and voluntary groups, to plan and deliver better services and improve the lives of people who live in Scotland.

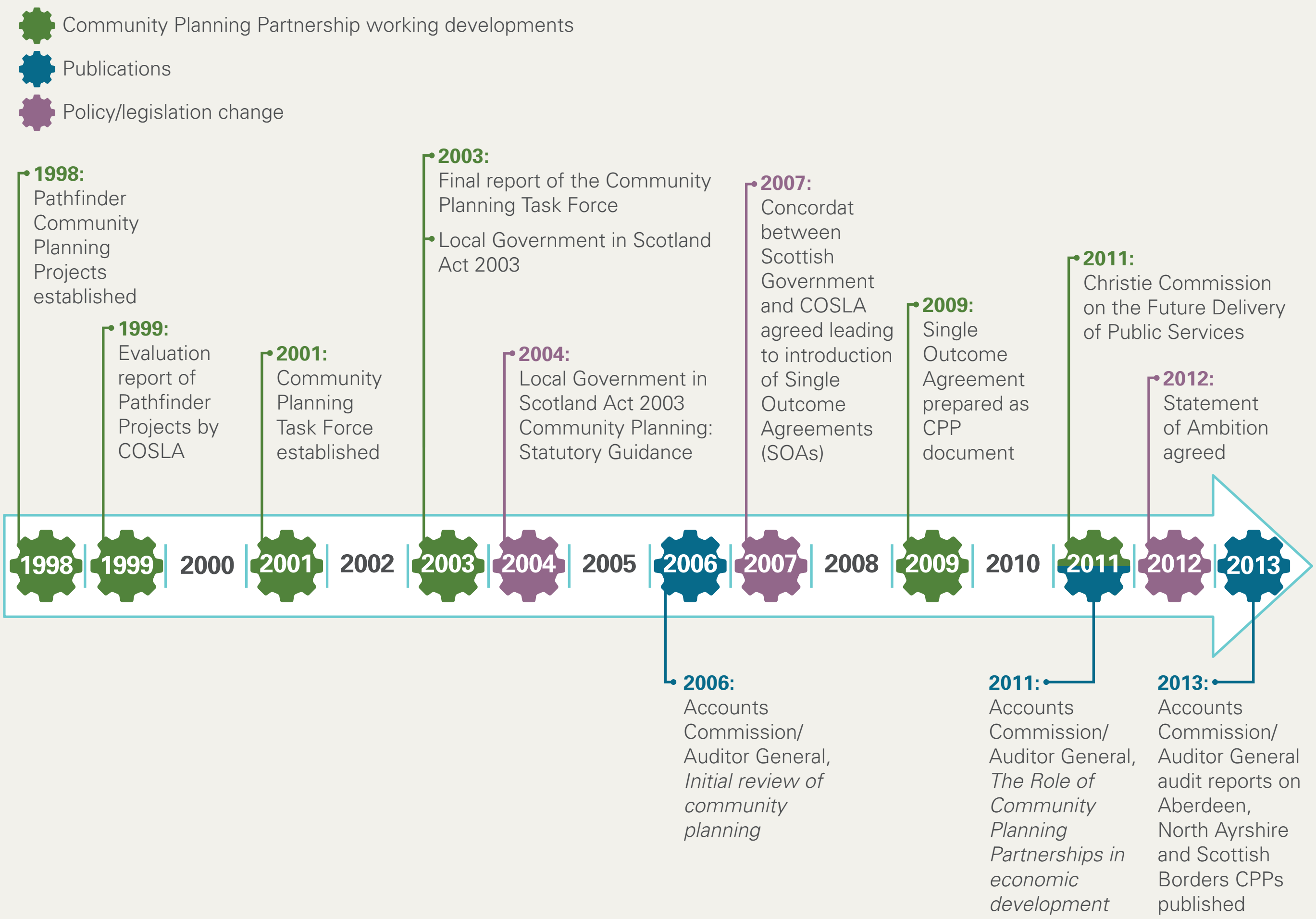
2. It was given a statutory basis by the Local Government in Scotland Act 2003 (the Act) (Appendix 1). That Act, and the later statutory guidance, sought to establish community planning as the key means of leading and coordinating partnership working and initiatives at the regional, local and neighbourhood level.[1] It should add value by:

- providing a local framework for joint working
- building a culture of cooperation and trust
- improving public services
- making the best use of public money.

3. Community planning has gone through a series of changes and developments since its introduction in the late 1990s. The main developments are shown in Exhibit 1.

4. Between 2011/12 and 2014/15, the Scottish Government's spending will fall by 5.5 per cent (£1.5 billion) allowing for inflation.[2] Reductions of this scale are a significant challenge for the Scottish public sector. The Christie Commission report[3] on the future of public services highlighted the need for a new, more radical,

Exhibit 1
Main milestones in the development of community planning in Scotland



Source: Audit Scotland

1 *The Local Government in Scotland Act 2003 – Community Planning: Statutory Guidance*, Scottish Executive, Edinburgh, 2004.
2 *Scottish Spending Review 2011* and *Draft Budget 2012-13*, (Table 6.02 – Departmental Expenditure Limits, applying the following deflators: 2012/13 = 2.5 per cent; 2013/14 = 2.7 per cent; 2014/15 = 2.7 per cent), Scottish Government, September 2011.
3 *The Commission on the Future Delivery of Public Services*, Christie Commission, June 2011.

collaborative culture throughout Scotland's public service. It called for a much stronger emphasis on tackling the deep-rooted, persistent social problems in communities across the country to enable public bodies to respond effectively to these financial challenges.[4]

5. The Scottish Government and the Convention of Scottish Local Authorities (COSLA) reviewed community planning and Single Outcome Agreements (SOAs) in 2012. They then published their Statement of Ambition.[5] This sets out high expectations for community planning and puts the community planning process at the core of public service reform by:

- taking the lead role in securing integrated public services
- focusing more on potential problems and identifying ways to prevent them happening
- ensuring public bodies continue to improve the ways in which they manage and provide services
- achieving better outcomes for communities, such as better health and lower crime
- providing the foundation for effective partnership working, within which wider reform initiatives will happen.

6. The Statement of Ambition is clear that significant changes to improve community planning are needed to respond to the challenges of reducing public finances while demand for services increases. Community Planning Partnerships (CPPs) also need to be equipped to reduce the stark variations in outcomes experienced by different communities and implement a significant public service reform agenda.

7. The conclusions in this report draw on the three recent audits of CPPs in Aberdeen, North Ayrshire and Scottish Borders. The report is also based on our wider audit work on partnerships over a number of years. These range from our initial review of community planning in 2006[6] and our *Review of Community Health Partnerships* in 2011,[7] to the most recent audit of the role of CPPs in economic development.[8]

8. This report is designed to make a constructive contribution to the debate about how community planning in Scotland can, and should, be improved. It does not seek to provide 'the answer' to resolving all of the challenges that community planning in Scotland faces. Rather, it uses our collective experience of auditing community planning and partnership working to contribute towards how community planning in Scotland can be improved.

4 Ibid.
5 *Review of Community Planning and Single Outcome Agreements: Statement of Ambition*, Scottish Government and COSLA, March 2012.
6 *Community planning: an initial review*, Accounts Commission and the Auditor General for Scotland, 2006.
7 *Review of Community Health Partnerships*, Accounts Commission and the Auditor General for Scotland, June 2011.
8 *The role of Community Planning Partnerships in economic development*, Accounts Commission and the Auditor General for Scotland, 2011.

Summary

Summary

There is now a renewed focus on community planning which provides a clear opportunity to deliver a step change in performance. This will require strong and sustained shared leadership

9. Partnership working is now generally well established and many examples of joint working are making a difference for specific communities and groups across Scotland. But overall, and ten years after community planning was given a statutory basis, CPPs are not able to show that they have had a significant impact in delivering improved outcomes across Scotland.

10. Our audit work in recent years has found shortcomings in how CPPs have performed. These are widespread and go beyond individual CPPs. Community planning was intended as an effective vehicle for public bodies to work together to improve local services and make best use of scarce public money and other resources. Barriers have stood in the way of this happening. All community planning partners needs to work together to overcome the barriers that have stood in the way of this happening. For example, shifting the perception that community planning is a council-driven exercise, and not a core part of the day job for other partners.

11. The need for change has been recognised and there is now a renewed focus on community planning nationally and locally. The Scottish Government and COSLA's Statement of Ambition sets out an ambitious and challenging improvement agenda for community planning. The Scottish Government and CPP partners must show strong and sustained shared leadership to deliver these improvements. If CPPs are to be at the core of public service reform then the Scottish Government will need to align its resources and policy and performance frameworks in ways that reflect that ambition. This means ensuring that health boards and other public bodies are held to account for their contribution to CPPs and for the development and delivery of new SOAs.

12. CPPs have not been clear enough about the key priorities for improvement in their area. SOAs have tended to be summaries of existing planned actions, covering all national outcomes, without clearly focusing on things that matter most for the local area. Too often, everything has seemed to be a priority, meaning that nothing has been a priority. CPPs have not clearly set out how local partnership working is making a distinctive and additional contribution to improving public services and improving outcomes for local people.

13. Community planning has had little influence over how the significant sums of public money available, for example to councils and the NHS, are used. Governance and accountability arrangements for community planning have been weak. Much work is needed to improve planning and performance management by CPPs. Individual partner organisations have not been routinely or robustly held to account for their performance as a member of the CPP. As a result, there are no consequences for not participating fully. Nor are the incentives sufficient to change behaviours. Resolving this accountability deficit is one of the keys to improving how CPPs perform and ensuring better outcomes for local communities.

14. One of the aims of community planning was to help reduce social inequality. However, stark differences in outcomes for different groups still persist in Scotland. The reasons for many of these inequalities are complex and deep rooted, affected by many social, economic and environmental factors. It is in these complex areas that CPPs can make a real difference if they focus their efforts and bring to bear the full weight of their combined resources, skills and expertise.

15. There is an increasing emphasis on CPPs planning and delivering services in preventative ways: that is, to prevent problems from arising. This is a long term and challenging process. The new SOA guidance to CPPs[9] requires all new SOAs to include a specific plan for prevention that details what partners are collectively doing and spending on prevention and how the partnership will evidence its progress in:

- making a decisive shift to prevention
- improving outcomes
- reducing future need
- controlling costs and releasing savings.

16. The guidance also highlights national outcomes that have significant scope to reduce inequalities. Together these should help progress to be made in the area of prevention.

17. There is a risk that wide-ranging reforms of public services in Scotland creates tensions between national and local priorities for change. Significant changes are under way aimed at integrating health and social care services, creating national police and fire services and regionalising colleges, all of which are important community planning partners. It is essential that those who lead and manage local public services work together to ensure that they are providing public services in ways that make sense locally, while delivering the stated intention of the reforms. Equally, the Scottish Government has a key role to play by:

9 *Single Outcome Agreements – Guidance to Community Planning Partnerships*, Scottish Government and COSLA, December 2012.

- ensuring 'joined-up' approaches to reform across government
- clearly and consistently setting out how it expects services to be provided in an integrated way
- streamlining policy guidance and arrangements for measuring performance across different parts of the public sector, and making sure they are consistent with each other.

18. At present, it is not clear how important aspects of the community planning review and health and social care integration developments are being integrated. For example, how policy guidance on governance and accountability arrangements is being coordinated and how performance reporting requirements will be aligned.

19. The Statement of Ambition sets out high expectations and a challenging programme of improvements for CPPs. It is clear that there is an appetite among CPPs for progressing this agenda. To implement the Statement of Ambition effectively, several important conditions for success will be needed.

- **CPPs** need to focus more clearly on where they can make the greatest difference in meeting the complex challenges facing their communities. They need to make their SOAs a true plan for the areas and communities that they serve. They also need to show clearly how they are using the significant public money and other resources available to CPP partners to target inequalities and improve outcomes. SOAs need to specify what will improve, how it will be done, by whom, and when.
- **CPPs** need to ensure that all partners align their service and financial planning arrangements with community planning priorities. This means ensuring that budget setting and business planning decisions by CPP partners, such as councils and NHS boards, take full account of community planning priorities and SOA commitments.
- **CPPs** need to significantly improve their governance and accountability, and planning and performance management arrangements by:
  - successfully mobilising resources towards agreed goals and ensuring best use of public resources
  - showing that partnership working is making a significant difference in improving services, driving the move towards prevention, and delivering better outcomes for communities
  - clarifying roles and responsibilities for elected members, non-executives and officers
  - ensuring that CPP decision-making is reflected fully within the governance structures of all partners.
- **The Scottish Government** should ensure that the links between the various strands of its public service reform agenda are clearly articulated and well understood by all parts of Government and public services. For example, how the strategic oversight relationship between CPPs and Health and Social Care Partnerships, as set out in the Statement of Ambition, should operate in practice. This is key to supporting CPPs deliver on the Statement of Ambition expectation that they should have strategic oversight of, and be at the centre of, all public service reform.
- **The National Community Planning Group** has an important role in providing visible leadership and support for community planning in Scotland. That will mean:
  - maintaining the pace of change in community planning reform
  - ensuring that CPPs are provided with appropriate training and support to enable them to deliver on the ambitious changes expected of them
  - promoting the effective sharing of good practice. For example, in relation to partnership governance.

Part 1. How well are Community Planning Partnerships doing?

How well are Community Planning Partnerships doing?

There are many examples of good joint working, with evidence of some of these delivering improvements at a local level

20. An important emphasis of the Statement of Ambition is for CPPs to strengthen joint working between partners. CPPs have a role to promote and share good practice, for example, about local initiatives, preventative services, and pooling resources.

21. There are many examples of good partnership working across Scotland, often with a strong preventative focus. These include:

- **Economic development:** The Glasgow Works Partnership Group aims to reduce the number of residents in Glasgow who are not in work. It was established in 2006 and between 2008 and 2011, received around £23.5 million of funding to deliver its employability programme which supported over 21,000 individuals. Almost 4,500 people gained full-time employment, 2,000 gained a qualification and 1,500 entered further or higher education.[10]

- **Health Inequalities:** The Mobile Alcohol Intervention Team aims to reduce alcohol misuse among under-16s in Fife. It increases awareness of the consequences of alcohol misuse and provides guidance on responsible drinking. The police, NHS Fife and Clued Up (a voluntary substance misuse organisation) worked in partnership, each having a clearly defined role and responsibilities. Between April 2011 and March 2012, the programme worked with 94 young people who were misusing alcohol, 64 took part in follow-up assessments and of these 41 per cent reported that they had reduced their alcohol use.[11]

- **Community Health Partnerships (CHPs):** NHS Forth Valley and Clackmannanshire Council established an integrated mental health service in 2003 before the Community Health Partnership was established. Having a pooled budget has helped the partners to radically change how they provide services by creating a single referral process for people to access the service. They have also been able to reshape their workforce by changing the skill mix of staff.[12]

- **Improving public services:** The Marr Community Planning Group brings together representatives from the community and from Aberdeenshire community planning partners. The group aims to identify communities' needs in the Marr area and work together to address these, or to help support people deal with them. Over 50 per cent of the members are community representatives. Achievements include a new dental facility in Huntly and the community management of Braemar Castle.[13]

- **Health and social care:** The Cheviot programme in the Scottish Borders aims to ensure individuals can live safely in the community for longer, reducing the need for hospital or residential care. Scottish Borders Council and NHS Borders are reshaping health and care services. The day service has been redesigned with the voluntary sector funded to provide three rural social centres. Joint working means a new day service for people with learning disabilities is now being provided at Kelso Hospital.[14]

- **Community healthcare:** Aberdeen partners have secured £24 million capital funding to develop a community healthcare village. This will accommodate a range of diagnostic and treatment services within a single location. This is to enable people to receive care in a community setting rather than in the city's main hospital complex. Health, social work and police will be based in the new centre providing a range of services.[15]

- **Community safety:** The Multi-Agency Problem Solving Group in North Ayrshire works closely with local people to identify areas for preventative action. Partners can then target problem issues to improve local outcomes. Areas for potential joint action are identified through the Safer North Ayrshire Partnership. Partners summarise their views and knowledge about the area and contribute to developing a plan for action. Action plans are structured in phases. These include an intensive week of enforcement activity and a visual audit to identify environmental issues such as graffiti, vandalism and fly-tipping. Partners then develop a local plan to address these. The group has used mobile youth centres and portable sports facilities as diversionary activities and youth workers have worked with young people to encourage them to take part in local activities. Residents say the group's work has made a noticeable difference in local communities.[16]

10 *The role of Community Planning Partnerships in economic development*, Accounts Commission and the Auditor General for Scotland, 2011.
11 *Health inequalities in Scotland*, Accounts Commission and the Auditor General for Scotland, December 2012.
12 *Review of Community Health Partnerships*, Accounts Commission and the Auditor General for Scotland, June 2011.
13 *The Commission on the Future Delivery of Public Services*, Christie Commission, June 2011.
14 *Community planning in Scottish Borders*, Accounts Commission and the Auditor General for Scotland, March 2013.
15 *Community planning in Aberdeen*, Accounts Commission and the Auditor General for Scotland, March 2013.
16 *Community planning in North Ayrshire*, Accounts Commission and the Auditor General for Scotland, March 2013.

22. One of the challenges facing CPPs will be finding ways of translating effective local initiatives into new ways of working that can be delivered at scale across Scotland. Much of this joint working has been in response to specific funding opportunities, such as change funds,[17] or has occurred through one or more partners identifying opportunities for improvement. Other important partnership developments, such as the introduction of Community Health and Care Partnerships (CHCPs), have come about because of legislative change.[18]

23. The introduction of community planning has helped to create a culture that now supports joint working. But, we have found that much of the local joint working that takes place is not being led by CPPs and its links with local improvement priorities set out in SOAs are not always clear. This means that CPPs are unable to demonstrate that they are learning the lessons from what worked well locally and applying them to their future partnership working.

CPPs cannot show clearly that they have made a sustained and significant difference in improving outcomes for their communities

24. Many factors that affect performance and outcomes are beyond the control or influence of CPPs. In addition, changing behaviours within communities is complex and takes time. For these reasons it is not straightforward to attribute either improved, static or deteriorating outcomes to the actions of CPPs. It is important that CPPs are clear about their key improvement priorities, direct resources to them, and gather the right information to assess whether their actions are making a difference in improving services and delivering better outcomes for local people.

25. Since their creation most CPPs have tended to focus on the same broad themes:

- Economy and employment – working to promote economic growth, deal with the impact of the global downturn, create jobs and provide local people with employment opportunities.
- Education and life-long learning – trying to ensure that young people get the best possible education to allow them to access the job market and fulfil their potential, and working to ensure that adults and older people are able to access appropriate training opportunities.
- Health and social care – improving the overall health of the local population and trying to ensure that health and social care services work well together to support people in their homes.
- Community safety – supporting local efforts to deal with issues such as antisocial behaviour.
- Environmental sustainability – working together to improve and protect the environment.

26. Despite their efforts and activity, many CPPs are unable to demonstrate:

- how local partnership working is being targeted to key local improvement priorities
- how community planning is adding value to existing public service delivery arrangements
- whether local partnership working is making best use of public resources
- if local partnership working is leading to significant and lasting improvements in outcomes for communities.

27. Our three local CPP audit reports found that gaps in data prevented a full assessment of the effectiveness of community planning in securing improved outcomes for local communities. The available local and national data indicated mixed performance across a wide range of outcomes such as the economy, health, and community safety.

28. CPPs need to get better at directing their efforts to reducing the gap between the life experiences and outcomes of those living in the most and least deprived areas of Scotland. Stark differences in outcomes for different groups still persist in Scotland. The reasons for many of these inequalities are complex and deep rooted, affected by many social, economic and environmental factors. It is in these complex areas that CPPs can make a significant and lasting difference if they focus their efforts and make effective use of their combined resources, skills and expertise.

29. There is an increasing emphasis on preventative approaches to planning and delivering services within CPPs. The new SOA guidance to CPPs requires all new SOAs to include a specific plan for prevention that details what partners are collectively doing and spending on prevention, and how the partnership will evidence its progress in:

- making a decisive shift to prevention
- improving outcomes
- reducing future need
- controlling costs and releasing savings.

17 Change Funds are specific funding streams created by the Scottish Government to support innovation and improvement in public services, such as early years services, reducing reoffending, and improving older people's services.
18 The NHS Reform (Scotland) Act 2004 and The Community Health Partnerships (Scotland) Regulations and Statutory Guidance, Scottish Executive, 2004.

30. The guidance also highlights national outcomes that have significant scope to reduce inequalities. Together these should help progress to be made in the area of prevention.

Stronger shared leadership is key to delivering improved community planning and it needs to be supported by effective governance and accountability arrangements

31. The Local Government in Scotland Act 2003 clearly sets out the importance of shared leadership in community planning. It states that leadership should be carried out by the organisation best placed to perform this role and that partners should be encouraged to lead on appropriate themes.[19] The Scottish Government and COSLA's joint Statement of Ambition for community planning reinforces the importance of shared leadership. It emphasises that: 'CPPs should be genuine boards, with all the associated authority, behaviours and roles that this implies, for both them and constituent partners.'

32. We found inconsistent leadership across the three early CPP audits. We had particular concerns about the level and range of NHS and other national bodies' engagement with the CPP process. The Scottish Government is seeking to deal with this and has set out more clearly its expectations of how those national bodies should be involved in community planning. It also needs to take action, working with CPPs, to remove the barriers that are preventing community planning acting as a key driver of public service reform. Those barriers include complex and differing accountability arrangements for partners and tensions between a focus on local areas, that is at the core of community planning, and national policy and performance priorities with their much broader focus.

33. Further work is needed to develop the ability of CPP boards to take on their strategic leadership role. We found that, within CPP boards or executive groups, there is little challenge by partners of each other's performance even when there is clear evidence of underperformance and a failure to achieve targets. This may reflect the way in which community planning has evolved. Typically, it starts with building relationships, understanding and trust before developing a culture based on effective challenge and performance management. It means, though, that CPP boards need to develop a much stronger culture of collective challenge if they are to truly lead strategic change.

34. Greater clarity is needed about the roles that local elected politicians, non-executive board members, and officers are expected to take on as part of the community planning process. Many councillors and non-executive representatives from the NHS are unclear about their role in the CPP process. This lack of clarity is a barrier to providing effective leadership and challenge, weakening CPP governance.

35. The Statement of Ambition states that 'the unique responsibilities of CPPs require strong governance and accountability arrangements, which must complement other arrangements such as the accountability of NHS boards to ministers'. Our audit work has found that governance arrangements for CPPs are weak and there is little evidence that community planning is effectively integrated within the formal governance structures of CPP partners. This means that CPP boards have no real authority to make decisions that commit partners to action. This contributes to a more general picture of CPPs being places where issues are discussed but no real decisions are made. CPPs will only be able to make real and significant changes to public services and ensure best value for public money if the representatives sitting on boards are able to commit their organisations to the decisions that boards make.

36. The lack of a clear accountability framework for CPPs continues to be a barrier to more effective partnership working. Individual partner organisations have not been routinely or firmly enough held to account for their performance as a member of the CPP. As a result, they face no consequences for not participating fully. Nor are the incentives sufficient to change behaviours. Resolving this accountability deficit is one of the keys to improving the performance of CPPs and ensuring better outcomes for local communities. More clarity is needed within CPPs about who is accountable to whom, for what, and by when.

37. Many CPPs are reviewing their governance structures in response to the clearer expectation that the Statement of Ambition sets of effective shared leadership. Various governance models are being established. While governance structures need to reflect local circumstances it may be useful for key principles of good governance for CPPs to be identified and published as most of the current good practice guidance focuses on single entities/bodies, rather than partnerships. Over time any good practice that emerges in this area should also be made available to CPPs. This is a task that the national community planning group may wish to pursue.

19 *The Local Government in Scotland Act 2003 – Community Planning: Statutory Guidance*, Scottish Executive, Edinburgh, 2004.

Community planning has been seen as a council-driven exercise in which partners participate but do not lead or drive change

38. Community planning has tended to be seen as a council-led exercise. This reflects both the legal position of councils as the bodies with the statutory duty to initiate, facilitate and maintain community planning, and the democratic nature of councils which carries with it an important community leadership role. The fact that only councils were formally held to account for their role in community planning through the Best Value audit also helped reinforce the perception that councils were responsible for community planning.

39. Furthermore, bodies such as the NHS and Scottish Enterprise have different accountability arrangements. Together, these meant that other statutory partners have participated with varying degrees of commitment to community planning. They have not seen it as a core part of the day job.

40. The position is changing. We have found evidence of community planning becoming more of a shared enterprise due to the clearer and more explicit expectations from the Scottish Government in the Statement of Ambition and through the National Community Planning Group. This now needs to be reinforced by establishing a clear set of expectations for how the NHS and other national bodies should take part in community planning that can be underpinned by statutory duties as part of the Community Empowerment and Renewal Bill.

41. Changing legislation does not necessarily change behaviours, so further work will be needed across government to send consistent messages to public sector leaders in the NHS, non-departmental public bodies (NDPBs) and agencies. These messages should describe the important role that they must play in supporting community planning, making it clear that it should be part of their core approach to leading and managing their businesses.

Single Outcome Agreements have not been clear enough about the key improvements that community planning aims to deliver for the area. They have tended to act as a summary of existing planned actions covering all national outcomes rather than setting out a clear plan for the communities that each CPP serves

42. The development of SOAs since 2009/10 has improved the range and quality of information gathered to support the community planning process. However, we found that SOAs do not clearly set out the key improvements that community planning is seeking to deliver for the area. In many cases, because everything has been a priority, nothing has been a priority. SOAs tend to act as a summary of existing planned actions covering all national outcomes rather than setting out a clear plan for improving the local area. In addition, national priorities in areas such as NHS performance (and HEAT[20] targets) have diluted the extent to which SOAs have truly focused on things that matter for the local area.

43. SOAs have generally lacked a clear focus on the added value of CPPs and partnership working and tend to focus on process and inputs. They do not explain clearly enough the improvements in outcomes that community planning, and partnership working more generally, is seeking to achieve.

44. CPPs have recognised these difficulties and over time have been refining and streamlining their SOAs. While some have reduced the number of priorities, many partners still believe that there are still too many and that partnership working is spread too thinly across too many fronts. Priorities still do not reflect the key issues and challenges that partnership working needs to addressed locally. Performance measures and targets are clearer and more specific in different parts of the country. More effective arrangements need to be established to ensure that all CPPs can learn from each other and share best practice.

45. Since they were introduced in 2008 SOAs have been reviewed by the Improvement Service, COSLA and the Scottish Government.[21, 22, 23] These reviews highlighted several challenges in improving the local outcomes approach, including the need for better information about performance.

46. Revised SOA guidance was issued jointly by COSLA and the Scottish Government in 2012. It was based on the expectations of community planning that the Statement of Ambition set out.[24] CPPs are currently drafting their new SOAs. They are due to be submitted as draft documents to the Scottish Government by 1 April 2013 with a deadline for the SOAs to be agreed with the Scottish Government by 28 June 2013.

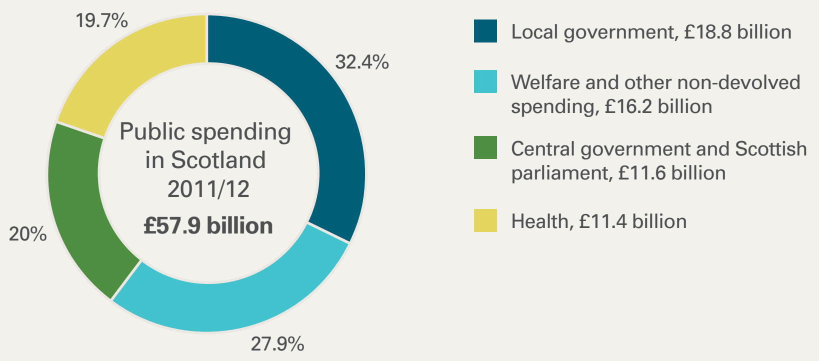
Community planning has had little influence over how mainstream public sector budgets and other resources are used to date

47. The 2003 Act was clear that, to take part effectively in community planning, partners had to identify and allocate the funding and other resources necessary to achieve agreed outcomes. More recently,

20 HEAT: (H)ealth improvement, (E)fficiency and governance improvement, (A)ccess to services, (T)reatment appropriate to individuals.
21 Interim report from local government on the first phase Single Outcome Agreements in 2008-09, prepared by the Improvement Service on behalf of COSLA and SOLACE.
22 *Single Outcome Agreement Overview Commentary – Progress in 2008-09*, Scottish Government, February 2010.
23 *Local Matters: Delivering the Local Outcomes Approach*, Scottish Government and COSLA, 2011.
24 *Single Outcome Agreements – Guidance to Community Planning Partnerships*, Scottish Government and COSLA, December 2012.

the Statement of Ambition stated that CPPs 'must have a clear understanding of respective partner contributions, how total resources will be targeted to deliver the priorities and how partners will be held to account for delivery'.

Exhibit 2
Total public spending in Scotland



Source: Audit Scotland

48. The pressures on Scotland's public finances are the greatest in living memory, but overall resources remain significant. The total devolved public sector in Scotland employs over 400,000 staff (full-time-equivalents)[25] and the main community planning partners in Scotland (councils, NHS boards, police and fire and rescue) have a significant combined annual budget. The Department for Work and Pensions (DWP) also contributes significantly to public spending, including income support, housing benefit, council tax benefit and state pension. Total public spending in Scotland (including DWP spending) is almost £60 billion (Exhibit 2). If CPPs effectively targeted these resources towards agreed improvement priorities, as the Statement of Ambition anticipates, then over time they should make progress in dealing with the complex challenges facing Scottish society.

49. Our audit work has found many examples of local, jointly funded projects. These projects are important. But, they are at the margins of public services and the short-term nature of the funding can create difficulties when thinking about applying change over much wider services. There is little evidence of CPPs using mainstream resources including money, people and buildings to support the agreed outcome priorities that are set out in SOAs. Barriers to sharing resources and integrating service can exist. For example, often changes that would require investment by one organisation can benefit other public bodies. But, there is little incentive for them to make those changes at a time of increasing budgetary pressures. Improving public services therefore needs to have a 'whole-system' approach where costs and benefits are shared between partners. But, organisational boundaries and financial regulations can get in the way of making change of that kind.

50. If CPPs are to achieve the aspirations set out in the Statement of Ambition, a significant change is needed in their influence over how public resources are used. We have found that CPP partners are only in the very early stages of developing shared asset plans. We also found there is little evidence of the development of shared staff development strategies.

CPPs need to get better at managing performance

51. Strongly and effectively managing the performance of partnership working and the contribution of individual partners is an essential component of an effective community planning process. The 2003 Act sets out the need for CPPs to:

- monitor progress against agreed outcomes
- use that monitoring to improve local arrangements for planning and providing services to deliver better outcomes.

52. The Statement of Ambition strongly emphasises the importance of CPPs monitoring performance over time to ensure public services continuously improve and better outcomes are achieved for local communities.

53. Weaknesses in performance management arrangements within CPPs have been a regular finding in our previous audits of community planning. It remained a common feature in our three recent CPP audit reports. Even those CPPs that have established a performance management framework are not yet using it to drive improvement. SOA targets are often focused on processes not outcomes and effective performance management is also hindered by inconsistencies in the data that are available locally and nationally.

54. Public performance reporting (PPR) is an important aspect of public accountability. PPR by CPPs is improving, but remains very underdeveloped. Improving how

25 Quarter 3 figures, 2012 (local government: 410,500, NHS: 131,800, total central government: 35,400, FE colleges: 10,600). *Quarterly Public Sector Employment Series*, Scottish Government, Office for National Statistics.

CPPs communicate with, involve, and are accountable to local communities will be one of the ways of making community planning more relevant to the communities it is designed to serve. As part of that process, CPPs will need to significantly improve their performance management arrangements. This means gathering and reporting clear and consistent performance data that describes how outcomes have improved due to their actions.

Community planning takes account of a wide range of consultation activity, but there is a long way to go before services are truly designed around communities and the potential of local people to participate in, shape and improve local services is realised

55. We found a strong commitment by CPPs to engage with and involve communities and there are many examples of individual CPP partners consulting communities. This reflects the broadly positive findings of our initial community planning audit in 2006. In some CPPs, consultation also takes place through the CPP itself.

56. But CPPs need to do further work to show more consistently how their consultation activity is influencing community planning priorities and leading to better outcomes for local people.

57. The Community Empowerment and Renewal Bill anticipates more participation by citizens in line with the expectations of the Statement of Ambition. This includes identifying solutions to local problems, and being involved in taking decisions about investing in services or local facilities, or withdrawing from them. CPPs may consider buying or commissioning local services rather than providing them directly themselves. In doing this CPPs should take account of the ability of local communities and the third sector groups such as voluntary organisations and charities to provide the service.

58. Many CPPs are rethinking how they consult with local communities through neighbourhood planning structures or area forums. The aim of this is to tailor services around a clear understanding of local issues by involving local communities in identifying local issues and deciding how best to respond to them. However, much of the focus is still on consultation and getting people involved. There is a long way to go before services are truly designed around communities and the potential of local people to participate in, shape and improve local services is realised.

The Scottish Government has re-emphasised the central role that community planning should play in driving the reform of public services. But the broader public service reform agenda does not appear to be well 'joined up' when viewed from a local perspective

59. Scottish ministers have a statutory duty to promote and encourage community planning when discharging any of their functions. This includes promoting and encouraging the process of community planning as the over-arching framework for improving how public services are planned and provided (Appendix 2).[26]

60. Our initial review of community planning in 2006 found that CPPs were finding it difficult to achieve their potential in meeting local needs. This was due to the wide range of national policy initiatives and because these were not integrated and lacked prioritisation. The fragmented nature of Scottish Executive funding streams was also creating an administrative burden for CPPs.[27] Our more recent audit of the role of CPPs in economic development found that five years on many of the problems identified in 2006 persisted.[28]

61. The Scottish Government is making efforts to raise the profile of community planning across its various departments and agencies. It has asked NHS boards to consider the new guidance on SOAs alongside the guidance on NHS local delivery plans and has set a corporate expectation for all public bodies to engage with CPPs and deliver SOAs.[29]

62. When SOAs were introduced, the Scottish Government assigned responsibility for liaising with individual CPPs to a number of its most senior managers. This 'location director' role was intended to provide a direct link between each CPP and the Scottish Government to:

- build and maintain strong links with local partners
- challenge Scottish Government's partners on their delivery.

63. CPPs found the location director role helpful during the early stages of implementing the SOA process. However, we found that the extent to which they were challenging CPPs varied. We also found that the turnover of staff in those roles had affected the opportunity for CPPs and location directors to establish effective working relationships.[30] More generally, there was a lack of clarity about the role.

64. The Scottish Government is committed to raising the profile and clarifying what it expects of the location director role. The Minister for Local Government and Planning has emphasised to location directors

26 Section 16(8) of the Local Government in Scotland Act 2003.
27 *Community planning: an initial review*, Accounts Commission and the Auditor General for Scotland, 2006.
28 *The role of Community Planning Partnerships in economic development*, Accounts Commission and the Auditor General for Scotland, 2011.
29 Paul Gray. Director-General Governance and Communities, letter to all Local Authority Chief Executives, NHS Chief Executives, Chief Executives of Public Bodies, the Chief Constable and Chief Fire Officer, University and College Principals, Third Sector Interfaces, 11 February 2013.
30 *The role of Community Planning Partnerships in economic development,* Accounts Commission and the Auditor General for Scotland, November 2011.

their important role in building strong relations and acting as an important conduit between CPPs and the Government. This is in light of the expectations that the Statement of Ambition places on both CPPs and the Scottish Government. He has asked location directors to provide strong but constructive challenge to CPPs throughout the development of the new SOAs and in their continuing engagement with local partners.[31]

65. The Scottish Government is currently involved in a wide-ranging programme of public service reform. This includes reviewing community planning, integrating health and social care services, establishing national police and fire services, college regionalisation, and community empowerment. Several of these developments, such as health and social care integration and the review of community care planning, share a common focus on partnerships, place and integrating services. Others, such as police and fire reform have a significant national dimension. Others still, such as college regionalisation, have a regional focus. This complex network of reforms may present challenges in establishing local community planning arrangements that are the foundation within which wider reform initiatives will happen in line with the expectations of the Statement of Ambition. Overall, Scottish Government public service reform developments do not appear to be well 'joined up' when viewed from a local perspective.

66. The Statement of Ambition states that CPPs do not have to take direct responsibility for the delivery of outcomes or integration of services where specific fit-for-purpose arrangements are already in place or are being developed. The proposals to integrate health and social care services are cited as a particular case in point. CPPs need though to have a strategic overview of any such arrangements and assure themselves that they are robust and appropriately joined-up, based on the principle that community planning and SOAs must be core to the implementation of proposals for the integration of health and adult social care services. These principles provide a framework within which local CPP and H&SCP governance arrangements can be established.

67. Aligning community planning and health and social care integration is essential if public resources are to be used to best effect and appropriate links made with the broader community planning service integration and improvement agenda. It is important that each CPP assures itself that the proposed arrangements for health and social care integration in their area:

- reflect local circumstances and priorities
- are clear about the respective roles and responsibilities of the CPP and H&SCP
- will improve the quality of care and outcomes for older people
- will deliver improved value for money.

68. While this is a local decision, national guidance and planned legislation will influence local approaches. But, at present, aspects of the community planning review and health and social care integration developments are not clear. For example, how, in practical terms, CPPs should exercise their strategic oversight of health and social care integration and what should happen where there is either underperformance by the H&SCP or disputes over priorities.

CPPs have not been subject to comprehensive external scrutiny to date. External scrutiny bodies are committed to taking forward developments in a 'joined-up' way, identifying opportunities for aligning and streamlining activity

69. The primary responsibility for improving services lies with the organisations that provide them. However, external scrutiny can also be a catalyst for improvement, influencing the behaviours and culture of providers and leading to improvements in how services are delivered. Audit, inspection and regulation also has an important role in providing assurance to the public, ministers, parliament and others about the quality and effectiveness of public services, and is an important element of the public sector accountability framework.

70. The Accounts Commission and the Auditor General for Scotland have audited partnerships and community planning over a number of years.[32] Until recently though, CPPs have not had comprehensive external scrutiny. Only councils were held to account for their role in community planning through the Best Value audit. The focus of that audit was largely on the management arrangements and processes that support community planning, not on the impact and effectiveness of CPPs in securing better outcomes for their communities. The absence of a comprehensive audit and inspection framework for CPPs contributed to weaknesses in the overall accountability framework for community planning.

31 Derek Mackay, MSP. Correspondence to Pat Watters, CBE, Chair of National Community Planning Group, 31 January 2013.
32 *Community planning: an initial review (2006), Review of Community Health Partnerships* (2011), *The role of Community Planning Partnerships in economic development* (2011), Accounts Commission and the Auditor General for Scotland.

71. There have been a number of recent scrutiny developments requested by Scottish ministers that have a specific focus on partnership working and outcomes:

- The request that the Accounts Commission lead development work, with the Auditor General for Scotland and other scrutiny partners, on how CPPs might be held to account for their performance and helped to deliver better outcomes. This development work led to our three early audits of CPPs in Aberdeen, North Ayrshire and Scottish Borders. These have focused on how effectively the CPPs have:
  - agreed clear improvement priorities for their area
  - established effective governance and accountability arrangements
  - shown effective shared leadership
  - delivered better outcomes for local communities.
- The Care Inspectorate's joint inspections of children's services focus on how well local public bodies are working together to deliver effective outcomes for children and young people.
- The Care Inspectorate and Healthcare Improvement Scotland's development of an approach to inspecting health and care services for older people. This will consider the effectiveness of local partnership working.

72. These developments reflect requirements from Scottish ministers about the level of independent assurance that they expect on services that protect vulnerable people, and on the effectiveness of CPPs as key drivers of public service reform. These new arrangements, have a shared interest in how CPPs are performing and in partnership working more generally. However, the scope that ministers are proposing for them creates the risk that CPPs may be subject to a complex and overlapping set of external scrutiny arrangements.

73. The scrutiny bodies that have been charged with taking forward these developments are committed to doing so in a 'joined-up' way, identifying opportunities for aligning and streamlining activity and eliminating potential duplication. That work has begun through the Strategic Scrutiny Group[33] and will need ministers' support.

33 The Local Government Scrutiny Coordination Strategic Group was established in 2008 to support the Accounts Commission in 'facilitating and coordinating… scrutiny relating to the corporate and strategic role of local government' at the request of the Cabinet Secretary for Finance and Sustainable Growth. This group includes the Accounts Commission, Audit Scotland, Education Scotland (ES), the Care Inspectorate (CI), Scottish Housing Regulator (SHR), Her Majesty's Inspectorate of Constabulary for Scotland (HMICS), Her Majesty's Fire Service Inspectorate in Scotland (HMFSI) and Healthcare Improvement Scotland (HIS). The Scottish Government, COSLA and SOLACE are also represented on the group.

Part 2. What needs to be done to improve performance?

What needs to be done to improve performance?

Community planning in Scotland stands at a crossroads. All those involved must now demonstrate shared leadership and ensure that community planning is an integral part of the day-to-day work of all CPP partners

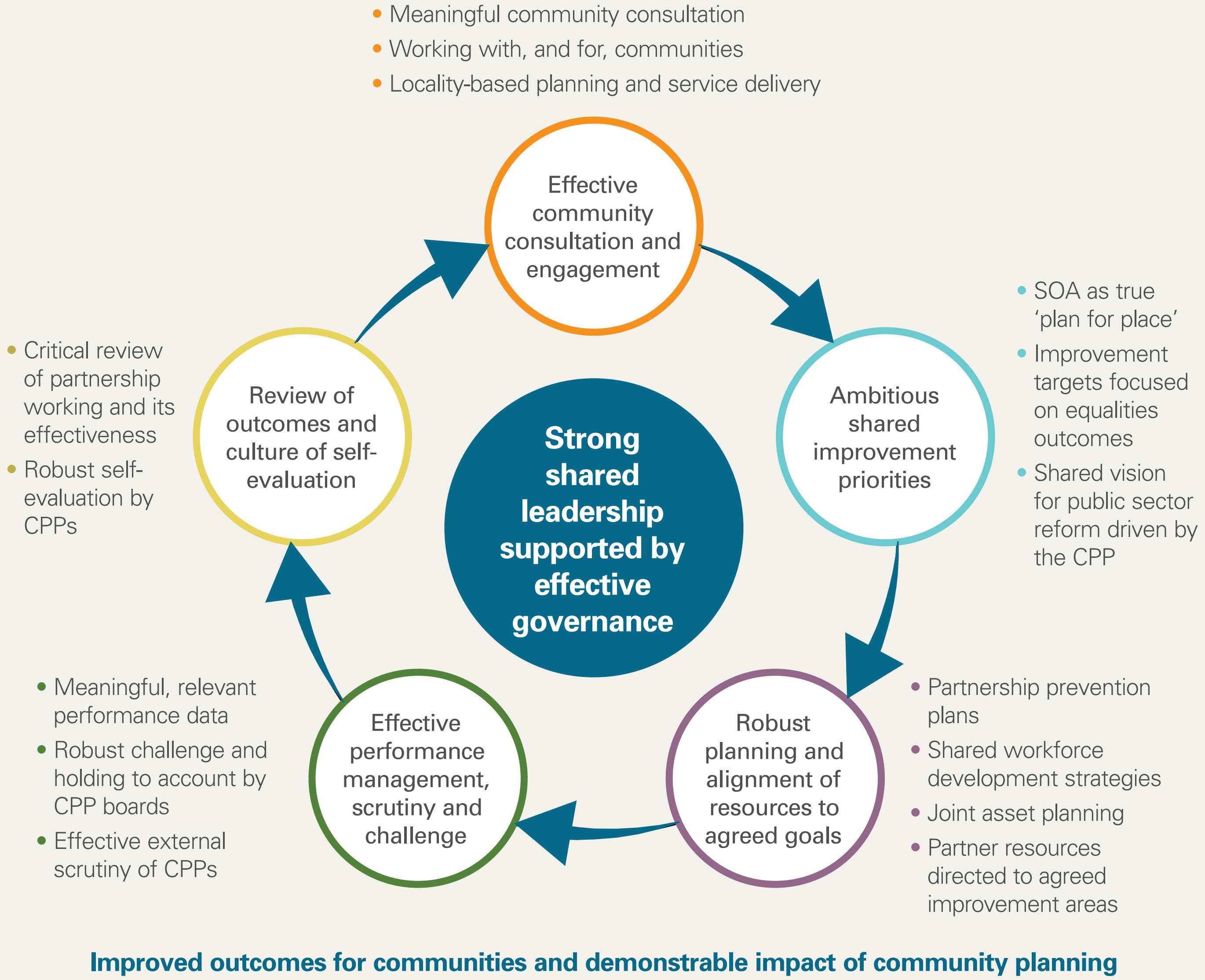
74. The Statement of Ambition is clear that significant changes to improve community planning are needed to meet the challenges of reducing public finances at a time when:

- demands on public services are increasing
- complex public service reforms are under way.

75. The Scottish Government and COSLA have been clear that the status quo for community planning is not an option. Making the changes needed for community planning to implement the improvements set out in the Statement of Ambition will require sustained national and local leadership. Improvements need to be made quickly, but everyone involved needs to be realistic about the scale of the challenges and the long-term nature of some of the changes that are needed.

76. Community planning is at a crossroads. This offers a significant opportunity to establish a system of leadership, governance and performance that ensures continuous improvement in community planning (Exhibit 3). This will not be easy. Barriers stand in the way, and this virtuous cycle will only be

Exhibit 3
A virtuous cycle of continuous improvement in community planning



Source: Audit Scotland

achieved through a level of sustained leadership that is significantly stronger than we have seen to date.

77. The National Community Planning Group, which was established in June 2012, has a key role to play by:

- providing clear political leadership and encouraging innovation and change
- setting clear expectations for all CPPs
- ensuring that CPPs receive the support they need to improve both their skills and performance.

78. There are five areas for improvement that all parties should focus on to improve community planning in Scotland. These are:

- creating stronger shared leadership
- improving governance and accountability
- establishing clear priorities for improvement and using resources more effectively
- putting communities at the heart of community planning and public service reform
- supporting CPPs to improve their skills and performance.

79. For these improvements to happen, changes need to be made at national and local level. Here we set out a series of recommendations directed at those in a position to make these changes happen.

Strong shared leadership

- **CPPs:** Community planning needs to become a truly shared enterprise, rather than a council-led exercise. This will mean changes in behaviour and more effective engagement and participation by partners, both executive and non-executive. CPPs need to start acting as true leadership boards, setting a stretching ambitious programme for change and holding people to account for delivering them.
- **The National Community Planning Group** has an important role in providing visible leadership and support for community planning in Scotland. It needs to effectively challenge local and national politicians and public sector leaders to maintain the pace of change in community planning reform.
- **The Scottish Government** should ensure that the links between the various strands of its public service reform agenda are clearly articulated and well understood by all parts of Government and public services. In particular, how, in practical terms, the strategic oversight relationship between CPPs and Health and Social Care Partnerships should operate.

Governance and accountability

- **CPPs** need to significantly improve their governance and accountability, and planning and performance management arrangements by:
  - successfully mobilising resources towards agreed goals
  - showing that partnership working is making a significant difference in improving services and delivering better outcomes for communities
  - clarifying roles and responsibilities for elected members, non-executives and officers
  - ensuring that CPP decision-making is reflected fully within the governance structures of all partners.
- **CPPs** need to assure themselves that the proposed arrangements for health and social care integration in their area:
  - reflect local circumstances and priorities
  - are clear about the respective roles and responsibilities of the CPP and H&SCP
  - will improve the quality of care and outcomes for older people
  - will deliver improved value for money.
- **The Scottish Government** needs to implement effectively the ambition in the SOA guidance, to ‘hold health boards and other public bodies to account for their contribution to CPPs and for the delivery and development of new SOAs’. This means using all of the levers available to it, including

aligning and streamlining national policies and performance management arrangements to focus more explicitly on local areas and outcomes. It also needs to ensure that appropriate arrangements are put in place to bind all CPP partners and their resources effectively to shared improvement priorities.

Clear priorities for improvement and use of resources

- **CPPs** need to focus more clearly on where they can make the greatest difference in meeting the complex challenges facing their communities. They need to make their SOAs a true plan for the areas and communities that they serve. They need to show how they are using the significant public money and other resources available to CPP partners to target inequalities and improve outcomes. SOAs need to specify what will improve, how it will be done, by whom, and when.

- **CPPs** need to ensure that partners align their service and financial planning arrangements with community planning priorities. This means ensuring that budget setting and business planning decisions by CPP partners such as councils and NHS boards take full account of community planning priorities and SOA commitments.

- **The Scottish Government** needs to clarify how CPPs' contributions to supporting improvements in relation to its national priorities (economic recovery and growth; employment; early years; safer and stronger communities, and reducing offending; health inequalities and physical activity; outcomes for older people) will be assessed and progress reported at national level.

Community engagement and empowerment

- **The Scottish Government** needs to clearly articulate its expectations of effective community engagement by CPPs in its forthcoming Community Empowerment and Renewal Bill legislation.

- **CPPs** need to extend and improve their approach to engaging with communities if the potential of local people to participate, shape and improve local services is to be realised.

Improvement support and capacity building

- **The Scottish Government and COSLA** need to work together to more clearly set out what successful community planning looks like, sharing good practice and supporting improvement at local level. A comprehensive programme of training and support for public sector leaders and front-line staff will be needed, drawing on the work already under way by the Improvement Service as part of the community planning reform programme.

- **The National Community Planning Group need to** ensure that CPP boards are provided with appropriate training and support to enable them to deliver on the ambitious changes expected of them. It also needs to ensure that appropriate arrangements are put in place for promoting the effective sharing of good practice. For example, in relation to partnership governance.

- **CPPs** need to establish effective self-evaluation arrangements that will allow them to target their local improvement activity (leadership, governance, service delivery, etc) appropriately and demonstrate continuous improvement in their operation. They also need to establish effective arrangements for learning and sharing good practice with each other.

- **The Improvement Service and the Scottish Government** need to work together to offer support to CPP boards to help them provide effective leadership and scrutiny of performance. This may involve offering support and guidance to public sector leaders in managing change across organisations. Support in improving the use of national and local data for both planning and performance management purposes may also be needed.

Appendix 1

Community planning in Scotland (excerpt from Local Government in Scotland Act 2003)

Community planning was given a statutory basis by the Local Government in Scotland Act 2003 (the Act). Under the Act:

- Councils have a duty to initiate, facilitate and maintain community planning.
- NHS boards, the police, the fire and rescue services, and the enterprise agencies (Scottish Enterprise and Highlands and Islands Enterprise) have a duty to participate in community planning. This duty was later extended to Regional Transport Partnerships.[1]
- CPPs are required to engage with communities, report on progress, and publish information on how they have implemented their duties and how outcomes have improved as a result.
- Scottish ministers, through the Scottish Government and its agencies, have a duty to promote and encourage community planning.
- Councils can invite other bodies such as colleges, higher education institutions, business groups, voluntary organisations and community groups to take part in community planning, although these are not statutory partners.

All councils have established a Community Planning Partnership (CPP) to lead and manage community planning in their area. CPPs are not statutory committees of a council, or public bodies in their own right. The structure of CPPs and the areas they cover vary considerably, depending on the size and geography of the council area, socio-demographic factors, the local economy and local political priorities. They do not directly employ staff or deliver public services. Under Section 19 of the Act, it is possible for the CPP to establish the partnership as a legally distinct corporate body. Some CPPs have considered this option but, to date, none has sought ministerial approval to do so.

Statutory guidance, issued in 2004, set out clear expectations of CPPs in terms of their legal duties, joint planning and performance management, resource alignment and community engagement.[2] The purpose of the guidance was to ensure that CPPs were clear about how public bodies need to work together to provide better public services and to highlight the requirement that communities are genuinely engaged in the decisions made on public services which affect them.

1 Transport (Scotland) Act 2005.
2 *The Local Government in Scotland Act 2003 – Community Planning: Statutory Guidance*, Scottish Executive, Edinburgh, 2004.

Appendix 2

The role of Scottish ministers in community planning in Scotland (excerpt from community planning statutory guidance 2004)

Scottish ministers have a duty to promote and encourage community planning when discharging any of their functions.[3] The community planning statutory guidance sets out what this duty entails. Scottish ministers will be expected to:

- promote and encourage the process of community planning as the key overarching framework to improve the planning and provision of services
- take into account the views of the collective Community Planning Partnerships in setting policy priorities, particularly on those issues requiring a joined-up approach between a number of bodies
- develop mechanisms within the Executive[4] and its agencies to ensure:
    - that they are joined-up in developing policies and performance frameworks and indicators
    - that they are joined-up in communicating to agencies and/or Community Planning Partnerships the means of delivering these policies, whether this is through strategies and plans, sponsorship of its NDPBs or specific projects, funds and initiatives.

3 Section 16(8) of the Local Government in Scotland Act 2003.
4 The Scottish Executive is now known as the Scottish Government.

Improving community planning in Scotland

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ARGYLL AND BUTE COUNCIL **AUDIT COMMITTEE**
CHIEF EXECUTIVE **21 JUNE 2013**

AUDIT SCOTLAND NATIONAL REPORTS
HEALTH INEQUALITIES IN SCOTLAND and IMPROVING COMMUNITY PLANNING IN SCOTLAND

1 INTRODUCTION

1.1 This paper updates the Audit Committee on progress in relation to the two Audit Scotland National Reports on Health Inequalities and Improving Community Planning.

2 RECOMMENDATION

2.1 That the Audit Committee notes the content of the report and notes that a further management report will be brought to the Audit committee in September 2013.

3 DETAIL

3.1 The Argyll and Bute Community Planning Partnership (CPP) has recently agreed a new structure and new governance arrangements that put more emphasis on leadership and the roles of partners across the CPP network. This approach aligns closely with the Statement of Ambition set out by the Scottish Government and COSLA and is reflected in the Audit Scotland national report on community planning.

3.2 The Scottish Government issued guidance to Community Planning Partnerships on the development of Single Outcome Agreements (SOAs), and significant emphasis has been placed by the Argyll and Bute Community Planning Partnership on the development of a new 10 year SOA. The national guidance for SOAs specifically refers to the need for health inequalities to be addressed.

3.3 In December 2012, Audit Scotland published a report entitled, ‘Health Inequalities in Scotland’. The report highlights that whilst overall health has improved over the past 50 years, deep-seated inequalities remain. The national report came with a checklist for completion. The Audit committee requested that responses to the checklist in the report be discussed with the CPP to create a unified response with these reported to the June Committee. An initial response to the checklist was prepared by the council and circulated to CPP members for consideration. The joint response was considered in draft but not presented to the CPP Management Committee. The information collated as part of the response is being critically reviewed as a mechanism for informing the preparation of the new Argyll and Bute Single Outcome Agreement, which is currently in draft format.

3.4 The process of compiling the Argyll and Bute SOA was affected significantly by the publication of the 2011 census in March 2013. Although the trend of depopulation was anticipated, its scale was not. The results show that Argyll and Bute has the highest rate of depopulation in Scotland and the highest old age dependency ratio. Argyll and Bute also exhibited the greatest departure from the inter census trend information in many areas, particularly in relation to population decline and number of households.

3.5 A complete review of the strategic outcomes in the SOA is now underway, with close discussion taking place with colleagues in Scottish Government, and across the partnership. Consultation has taken place with elected members and a proposed SOA will be presented to council on 27 June.

3.6 The specific consideration of health inequalities will be a key element of the new Single Outcome Agreement and will comply with the recommendations set out in the guidance from the Scottish Government on SOAs and the guidance set out in the Audit Scotland National Report on Health Inequalities.

3.7 A further, fuller report on Community Planning and Health Inequalities in respect of the Audit Scotland National reports will be presented to the Audit Committee in September, once the CPP has finalised the 10 Year Single Outcome Agreement.

4 CONCLUSION

4.1 Changes to the management, leadership and governance structures of Argyll and Bute's Community Planning Partnership, along with unanticipated census results have required a full review of the draft Single Outcome Agreement and the position regarding how the partnership tackles health inequalities. These will be reported in detail to the Audit Committee in September.

5 IMPLICATIONS

Policy	The SOA sets the context for council and partner policy on delivering outcomes.
Financial	None
Personnel	None
Legal	The council has a duty to facilitate community planning.
Equal Opportunities	None
Risk	None
Customer Service	None

Jane Fowler, Head of Improvement and HR

Agenda Item 8

ARGYLL & BUTE COUNCIL **AUDIT COMMITTEE**
STRATEGIC FINANCE **21 JUNE 2013**

INTERNAL AUDIT ANNUAL REPORT 2012 - 2013

1. SUMMARY

Internal Audit has the responsibility to provide to the Audit Committee with an Annual Report that comments on the duties and audits undertaken by the section throughout the financial year. The annual Internal Audit report and the allocation of expended audit days for 2012 – 2013, are attached in Appendix 1 and 2.

2. RECOMMENDATION

2.1 That the Internal Annual Audit Report for 2012 - 2013 is approved.

3. DETAILS

3.1 The objective of the report attached in Appendix 1 and 2, is to advise members of Internal Audit standards, current practices and comment on the performance of Internal Audit throughout the financial year 2012 - 2013.

3.2 Further comment on Internal Audit performance is given within the report for:-

- Financial & Control Audits;
- Business Systems;
- Corporate Performance Audits;
- Corporate/Service Plan;
- Special Investigations/Contingency; and.
- Other Areas.

3.3 The attached report also provides for the Audit Committee, Internal Audit data regarding performance on its service delivery for 2012 – 2013 as reported in Pyramid.

3.4 The Assessment of Audit days expended for the 2012 – 2013 Annual Audit Plan is provided in Appendix 2.

4. CONCLUSION

The Annual Audit Plan for 2012/13 has been completed. Quarterly progress reports were provided to the Audit Committee detailing plan amendments. Internal Audit will continue to compile an Annual Report on its audit plan, responsibilities, activities and delivery.

5. IMPLICATIONS

5.1 Policy: None

5.2 Financial: None

5.3	Legal:	None
5.4	HR:	None
5.5	Equalities:	None
5.6	Risk:	None
5.7	Customer Service:	None

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216) 11 June 2013.

Argyll & Bute COUNCIL

Internal Audit - Annual Report

2012 - 2013

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DRAFT

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1. FOREWORD

The annual audit plan for 2012/13 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code'). As well as complying with the Code, Internal Audit has complied with its Mission Statement and Terms of Reference, both of which have previously been approved by the Audit Committee and are outlined below.

2. MISSION STATEMENT

"To contribute to the achievement of Argyll and Bute Council's mission and strategic objectives by providing assurance to the Council that financial and operational controls and arrangements for Best Value are functioning efficiently and effectively, and that the significant risks to the organisation are being managed."

3. TERMS OF REFERENCE

Internal Audit is responsible for advising all levels of management and the Council (through its Audit Committee), on the Council's systems of internal control. It is a review activity which continuously reinforces line management's responsibility for effective internal controls. Internal audit supports:

- Management's organisational objectives; and
- The Audit Committee's need for overall assurance on the quality and cost effectiveness of risk management systems and internal controls.

4. REPORTING RESPONSIBILITIES

The reporting responsibilities of Internal Audit are:

Section 95 Officer/Head of Strategic Finance
Internal Audit reports directly to the Head of Strategic Finance who is also the Section 95 Officer and holds bi-weekly meetings to discuss the effectiveness of the system of internal control operated within the Council and Internal Audit performance against plan.

Chief Executive
Internal Audit has a dotted line responsibility to the Chief Executive with monthly meetings held covering progress of the annual audit plan, issued reports and areas of concern.

Audit Chairman
Internal Audit has a dotted line responsibility to the Audit Chairman; discussions take place on a regular basis covering progress of the Annual Audit Plan, issued reports and areas of concern.

Audit Committee
Internal Audit prepares and facilitates reports for the Audit Committee and in 2012/13; the following report areas were presented:

External and Internal Audit Annual Plans	Corporate Performance
External and Internal Audits	Risk Management
Audit Scotland/Commission National Reviews	Business Continuity
National Fraud Initiative Exercise	Key Council Issues

External Audit
It is the responsibility of Internal Audit to co-ordinate its activities with External Audit and in 2012/13 Audit Scotland sought to place reliance on the following areas of internal audit work:

Non Domestic Rates	Trade Receivables
Council Tax	Financial Ledger
Payroll	Treasury Management
Trade Payables and Purchasing	Capital Accounting

Under the Code of Audit Practice, External Audit will place reliance on the work of internal audit in the following areas:

- Performance Management Arrangements; and
- Statutory Performance Indicators.

Auditee
Internal Audit in 2012/13 maintained contact with Executive Directors and Heads of Service individually and through Departmental Management Teams (DMTs) and the Strategic Management Team (SMT), throughout the financial year. Internal Audit provided management with an independent and objective opinion on their controls and risks, recommending changes where appropriate through dialogue, audit reporting with graded recommendations set out in an agreed action plan.

In 2012/13, Internal Audit altered its approach from agreeing all audit scope and objectives prior to commencement of the financial year to just before an audits commencement. Management has been supportive of this change as it has improved definition, engagement and control performance.

5. AUDIT PLAN 2012/13

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government, the annual plan for 2012/13 was presented to the Audit Committee in March 2012; the plan was compiled from an analysis covering four key headings as set out in the table below.

1.	Materiality – An assessment of financial data;
2.	Risk – Assessment of operational, strategic and reputational damage;
3.	Control Effectiveness - Assessing external and internal reviews and reports;
4.	Performance Management – Assessing corporate, service and improvement plans.

The output from the analysis exercise was verified with Executive Directors and Heads of Service individually and through meetings with Departmental Management Teams (DMTs) and the Strategic Management Team (SMT). Thereafter, a final draft audit plan was presented to both the SMT and Audit Committee for approval.

In addition, the audit plan included contingency days for special investigations, reporting recommendation implementation and national fraud initiative work.

6. GOVERNANCE & INTERNAL CONTROL STATEMENT 2012/13

The Customer Services Department annually test Council compliance with the Code of Corporate Governance. The Code requires the Council to have in place appropriate management and reporting arrangements. The role of Internal Audit is to be satisfied that the Council approach to Corporate Governance is adequate and effective. It does this through reviewing the evidence collected by Governance and Law.

In addition, Internal Audit reviews the results of its own internal financial control audits and the reports of External Audit. These audit reports are reviewed along with departmental internal control statements prepared and signed by the Executive Directors.

Once the above review work is done a draft joint statement is presented to the Strategic Management Team (SMT) and the Audit Committee for review at their annual meeting in June. The statement once approved is then forwarded for signing by the Council Leader, Chief Executive and Head of Strategic Finance. The draft joint statement of governance and internal control is the subject of a separate report to the Audit Committee.

7. PROGRESS OF THE ANNUAL AUDIT PLAN 2012/13

A total of 55 audit areas were planned for the financial year and these were allocated within the categories set out below:

Audit Plan by section 2012 - 2013	Planned	Actual
Financial Control Audits	18	20
Business Systems Audits	15	12
Corporate Performance Audit Areas	16	16
Corporate & Service Plans	6	6
Total	**55**	**54**

In addition special investigation, recommendation implementation reporting and national fraud work was undertaken. In 2012/13, adjustments were made to the annual plan and these have been reported to the Audit Committee on a quarterly basis.

In April 2012, there were 18 planned Financial Control Audits outlined in the audit plan, a further three audits were included from the Business Systems section of the audit plan due to their pertinence. This brought the total financial audits to 21. At the end of the financial year twenty audits had been undertaken with one audit Car Allowances and Subsistence suspended then deferred till 2013/14 due to systems developmental issues.

At the commencement of the audit plan there were 15 Business Systems audits planned. As noted above three were transferred to the Financial Control audit plan section. Of the remaining 12 all were undertaken.

Corporate Performance audit work was undertaken in 2012/13 and covered both Statutory Performance Indicators and Best Value 2 performance. In total sixteen audit areas were planned and all were reviewed. Two reports were prepared one reporting on the audit of the Councils Statutory Performance Indicators and one main report bringing all of the best value audit work together.

The only area of the plan where audits were not defined was for Corporate and Service Plans. The database used to prepare the Annual Audit Plan identified and ranked service specific audit areas. In discussion with both Executive Directors and Heads of Service a total of six audit areas were agreed with final reports issued.

Contingency audit days were set out within the Annual Audit Plan to cover special investigations, External and Internal Audit Follow-up reporting of agreed recommendations and National Fraud Initiative (NFI) work. The table below provides an overview of days expended.

Audit Plan by section 2012 - 2013	Planned	Actual	Variance
Special Investigations	50	74	+24
External and Internal Reporting	80	66	-14
National Fraud Initiative (NFI)	39	49	+10

The planned days for Special Investigation work was estimated to be 50 days which was a reduction from 2011/12 when 100 days were estimated but only 33 were expended. The 50 day allocation was expended early in 2012/13 when staff was transferred to support investigations work. An additional 24 days was then required to cover another investigation which was reported the Audit Committee in September and December 2012. Additional days were brought in from other areas in the audit plan and the Audit Committee was advised accordingly through quarterly audit plan progress reports. External and Internal Audit recommendation follow-up days came in under estimate with departmental service key contacts providing timely responses on recommendation implementation by management. The NFI exercise was completed incurring 10 additional days from planned due to final reporting work; however, the Council efforts were noted in the Audit Scotland National Report for the 2011/12 exercise.

Resource Allocation 2012/13

The 2012/13 audit plan was based on five full time posts with the total available days for direct audit work of 909 days after deductions for non direct audit work and public and annual leave, etc. One of the Accountants posts was not filled until September 2012 and in December 2012 one member of the internal audit team left, this resulted in a shortfall of one hundred and seventy days from planned audits day total of nine hundred and nine. To redress the shortfall one hundred and fifty eight days were obtained from contractors. The table below supports the above paragraph.

Audit Day Analysis	Total
Audit Days Planned March 2012	909
Accountant post vacant till Sept 2012 and Staff Leaver Dec 2012.	(170)
Contract Auditors days for shortfall	158
Days expended	**897**

Appendix 2, details the audits undertaken by Internal Audit for the financial year 2012/13.

Audit Opinion
Based on audit work carried out in 2012/13 by Internal Audit, I am of the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, reasonable assurance can be taken that the systems of governance and internal control are operating effectively.

The review of corporate governance undertaken by internal audit has indicated that the systems for governance are operating effectively, and a Draft Joint Governance and Internal Control Statement has been produced. The Draft Statement will be presented to the Strategic Management Team (SMT), Audit Committee and Executive. With specific regard to internal control, audit reports have indicated certain matters which are currently being addressed by management, and my opinion on the Council's systems is based on those recommendations being satisfactorily implemented.

In conclusion, the Annual Audit Plan for 2012/13 has been completed. The Governance Group who oversees the governance process has accepted the assurance provided by Internal Audit, and the Strategic Management Team (SMT) and the Audit Committee is asked to accept the same assurance, based on the audit work completed in 2012/13.

8. ANALYSIS of 2012/13

The amended audit plan has been completed and in particular:

- Quarterly reports have been prepared for the Audit Committee advising of progress with the Annual Audit Plan;

- Reports covering External and Internal Audit recommendation implementation follow up have been provided to DMTs, SMT and Audit Committee.

- In 2012/13 following discussion with departmental Executive Directors and Heads of Service the process for agreeing audits was updated to agreeing audit timings in advance with audit scope and objectives agreed prior to the commencement of an audit. This process change has received support from management.

- In 2012/13 Internal Audit held monthly meetings with both the Head of Strategic Finance and Chief Executive to discuss audit plan progress, audit reports and recommendations.

- The Audit Committee receive final internal audit report extracts after issue to management for action.

- Two audit areas within the audit plan went over estimated days. One was Statutory Performance Indicators (SPIs) where information was supplied incomplete for one set of performance indicators and additional days were required to test data validity. The second was National Fraud Initiative (NFI) where additional days were incurred for data evaluation work for final submitted data;

- Joint audit work was completed between Internal Audit and Audit Scotland; and

- Analysis of returned client questionnaires in 2012/13 indicates that an average approval score of 3.7 was achieved by Internal Audit. The target for the section is to achieve 3 or better from the auditee who is judging the audit work undertaken as beneficial. The highest auditee approval score achievable is 4.

9. INTERNAL AUDIT PERFORMANCE

At the Audit Committee Away Day in February 2013, Members of the Audit Committee were provided with a copy of the Internal Audit - Performance Indicators (PIs) reported annually to the June committee. One additional indicator was requested and this related to the committee receiving a view from External Audit on Internal Audit performance. The new indicator results are attached in Appendix 1. They are set out under two headings:

- 6 **Input**; and
- 6 **Output** indicators.

Internal Audit will strive to maintain and improve on the quality standards achieved.

APPENDIX 2

INPUT PERFORMANCE MEASURES 2012/13

Ref	Performance Indicator	Target	Achieved 2012/13	Comment
1.	Percentage of audit work carried out by qualified and specialist staff.	65%	**Yes**	67% Achieved
2.	Issue of draft reports within 10 working days of work being completed.	10 days – 100%	**Yes**	Achieved
3.	Issue of final reports within 5 working days of management responses being received.	5 days – 100%	**Yes**	Achieved
4.	Reports display: clear opinion; action plan of prioritised recommendations and management responses; a person responsible; and date for completion.	All reports (100%) state a clear conclusion/opinion; contain an action plan, prioritised recommendations, allocated responsibility and target dates for completing recommendations.	**Yes**	Achieved
4.	Management's feedback on audit planning and fieldwork.	To achieve 'average' or better in questionnaire ratings. (i.e.: a mean score of '3' or more for each question	**Yes**	3.7 Achieved.
5.	Percentage of direct audit time	Target 81%	**Yes**	85% Achieved

APPENDIX 2

OUTPUT PERFORMANCE MEASURES 2012/13

Ref	Performance indicator	Target	Achieved 2012/13	Comment
1.	Audit operational plan to be submitted to the audit committee by 31 March each year.	31 March of each year (100%)	**Yes**	Achieved.
2.	Follow-ups to be performed within one year of the audit-taking place.	100% of recommendations followed up in following year	**Yes**	Achieved.
3.	Completion of the Annual Audit Plan subject to variations agreed by Audit Committee.	100%	**Yes**	Achieved.
4.	Recommendations accepted compared to recommendations made.	Fundamental/High – 100% Material/Medium – 100% Minor/Low – 100%	**Yes**	Achieved.
5.	Internal audit costs are within budget (including in-year budget variations)	Total costs were within budget.	**Yes**	Achieved.
6.	External audit comment on internal audit performance.	External audit places reliance on internal audit.	**Yes**	Achieved.

APPENDIX 2

Assessment of Audit Days: 2012/13 Annual Plan

AUDIT WORK SCHEDULE AS AT 31 March 2013	Last audited	Risk ranking	Original Estimated Audit Days 2012/13	Revised Estimated Audit Days 2012/13	Actual Audit Days 2012/13	Balance
FINANCIAL CONTROL AUDITS					.	
Cash Income and Banking	2010	2	15	15	15	0
Creditor Payments	2010	3	10	10	10	0
Stock Taking / Work in Progress	2010	3	10	10	10	0
Car Allowances and Subsistence	2011	3	10	10	2	8
Government & European Grants	2010	1	20	30	30	0
Payroll	2011	2	15	15	19	-4
Debtor Accounts	2010	2	15	15	15	0
Council Tax	2010	1	20	20	20	0
Non-Domestic Rates	2010	2	15	15	15	0
Capital Accounting	2010	2	15	15	15	0
Treasury Management	2012	3	10	10	10	0
Contract Operating Leases	2012	3	10	10	9	1
Budgetary Preparation and Control	2011	1	20	20	20	0
General ledger operations	2012	3	10	10	10	0
Capital Contracts	2011	2	15	15	15	0
Tendering Procedures	2011	2	15	15	15	0
Unified Benefit System	2010	2	15	15	15	0
Procurement	2010	2	15	15	15	0
eProcurement	2010	3	10	10	10	0
ResourceLink	2011	2	15	15	15	0
Electronic Timesheets	2010	4	5	5	5	0
Section Total			**285**	**295**	**292**	**4**

APPENDIX 2

Assessment of Audit Days: 2012/13 Annual Plan

AUDIT WORK SCHEDULE AS AT 31 March 2013	Last audited	Risk ranking	Original Estimated Audit Days 2012/13	Revised Estimated Audit Days 2012/13	Actual Audit Days 2012/13	Balance
BUSINESS SYSTEMS AUDITS						
Planning/Building Standards	2010	2	15	15	15	0
Environmental Health	2011	3	10	10	10	0
Customer Service Centre	2010	3	10	10	10	0
Leisure Management System	2010	3	10	10	10	0
IKEN Case Management	2010	4	5	5	5	0
Library Management System	2011	4	5	5	5	0
Licensing	-	4	5	5	5	0
Fleet Management	2010	3	10	10	10	0
Care First	2010	2	15	15	15	0
Comino	2011	3	10	10	10	0
Roads Costing System	2010	3	10	10	9	1
Pyramid Performance Management	2011	4	5	5	5	0
Section Total			**110**	**110**	**109**	**1**

APPENDIX 2

Assessment of Audit Days: 2012/13 Annual Plan

AUDIT WORK SCHEDULE AS AT 31 March 2013	Last audited	Risk ranking	Original Estimated Audit Days 2012/13	Revised Estimated Audit Days 2012/13	Actual Audit Days 2012/13	Balance
CORPORATE PERFORMANCE AUDITS						
Statutory Performance Indicators (SPIs)	2011	2	**15**	**15**	**25**	**-10**
Asset Management Partnerships	2011	1	**20**	**20**	**18**	**2**
Procurement	2010	1	**20**	**20**	**15**	**5**
Information Management	2011	2	**15**	**15**	**14**	**1**
Governance and Accountability	2010	2	**15**	**15**	**13**	**2**
Financial Management	2010	2	**15**	**15**	**12**	**3**
People Management	2010	3	**10**	**10**	**8**	**2**
Risk Management	2010	3	**10**	**10**	**9**	**1**
Sustainability	2010	3	**10**	**10**	**10**	**0**
Equality	2010	4	**5**	**5**	**5**	**0**
Performance Management	2010	4	**5**	**5**	**5**	**0**
Efficiency	2010	4	**5**	**5**	**5**	**0**
Public Performance Reporting	2011	4	**5**	**5**	**5**	**0**
Partnerships	2012	4	**5**	**5**	**5**	**0**
Community & Customer Engagement	2011	4	**5**	**5**	**5**	**0**
Customer Focus	2011	4	**5**	**5**	**5**	**0**
Section Total			**165**	**165**	**157**	**8**

APPENDIX 2

Assessment of Audit Days: 2012/13 Annual Plan

AUDIT WORK SCHEDULE AS AT 31 March 2013	Last audited	Risk ranking	Original Estimated Audit Days 2012/13	Revised Estimated Audit Days 2012/13	Actual Audit Days 2012/13	Balance
CORPORATE/SERVICE PLANS						
Customer Services – Corporate Governance	2011	1	**15**	**15**	**15**	**0**
Community Services – Payroll	2011	1	**20**	**20**	**19**	**1**
Community Services – Cash & Income Banking	2011	1	**20**	**20**	**20**	**0**
Chief Executive's Unit – Procurement	2010	1	**10**	**10**	**10**	**0**
Development & Infrastructure Services – Piers & Harbours	2011	1	**35**	**35**	**34**	**1**
Corporate	2011	1	**80**	**45**	**44**	**1**
Section Total			**180**	**145**	**143**	**2**
Overall Audit Section Total			**740**	**715**	**700**	**15**
Special investigations contingency			**50**	**75**	**74**	**1**
Other Areas						
Follow-up External & Internal Audit Management Letter Points	2011		**80**	**70**	**66**	**4**
NFI	2011		**39**	**39**	**49**	**-10**
Inverclyde Charity & Trust Accounts	2011		**0**	**10**	**8**	**2**
Section Total			**119**	**119**	**123**	**-4**
TOTAL			**909**	**909**	**897**	**12**

Agenda Item 9

ARGYLL & BUTE COUNCIL | **AUDIT COMMITTEE**
STRATEGIC FINANCE | **21 JUNE 2013**

ANNUAL REPORT BY AUDIT COMMITTEE 2012 - 2013

1. SUMMARY

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government (the Code) a draft annual Audit Committee report has been prepared. The report from the Chairman and Vice Chair summarises the work of the Audit Committee during the year and outlines its view of the Council's internal control framework, risk and governance arrangements. The draft annual report is 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 Audit Committee in 2012/13 continued to focus its efforts on effectively discharging its functions and responsibilities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance of 2004 entitled "Audit Committee principles in local authorities in Scotland: a guidance note". Members of the Audit Committee received initial training from CIPFA centred on their roles and responsibilities; this was supported by literature which expanded on CIPFA guidance note principles.

3.2 In 2012/13, the Audit Committee role sought assurance that the Council's internal control framework, risk and governance arrangements were being controlled and effective. It did this through receipt and review of reports and requesting where considered useful clarification from officers.

3.3 The Audit Committee has as over the years developed its role and will look to continue to develop its effectiveness in 2013/14.

4. CONCLUSIONS

The Draft Annual Audit Committee Report is attached in Appendix 1 with a draft copy of the committee's Terms of Reference for approval,

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Legal:	None
5.4	HR:	None

5.5	Equalities:	None
5.6	Risk:	None
5.7	Customer Service:	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216). 23 May 2013

ANNUAL REPORT BY AUDIT COMMITTEE CHAIR and VICE CHAIR FINANCIAL YEAR 2012/13

Introduction

As Chair of the Audit Committee, I can report that the Audit Committee in 2012/13 continued to focus its efforts on effectively discharging its functions and responsibilities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance of 2004 entitled “Audit Committee principles in local authorities in Scotland: a guidance note”. Members of the Audit Committee received initial training from CIPFA centred on their roles and responsibilities; this was supported by literature which expanded on CIPFA guidance note principles.

The Audit Committee met quarterly throughout the financial year i.e. March, June, September, and December; the meetings were attended by the Head of Governance and Law, the Head of Strategic Finance, the Chief Internal Auditor, Audit Scotland along with Council Officers as and when requested to attend.

In 2012/13, the following Councillors served on the Audit Committee; Gordon Blair, Maurice Corry, Iain MacDonald, Duncan McIntyre and Aileen Morton. In respect of the Chair and Vice Chair posts there were changes. The previous Chair, Ian Ross stepped down in September 2012 and I, Martin Caldwell assumed the role of Chair with Sheila Hill appointed as Vice Chair and who brings added experience to the committee.

Summary of the work of the Audit Committee during 2012/2013

The Audit Committee role is to ensure that the Council’s internal control framework, risk management and governance arrangements are being controlled and are effective. It does this through the following mechanisms:

Receipt and Review of Reports

During 2012/13 the Audit Committee received reports covering:

- External and Internal Audit Annual Plans;
- Quarterly Progress Reports on Internal Audit Plan;
- External and Internal Audit Reports;
- Audit Recommendation Implementation Reports;
- Risk Management and Business Continuity Strategy Reports;
- Corporate Performance Audit Report;
- Council’s Assurance & Improvement Plan;
- Treasury Management Assurance Report;
- Audit Scotland/Accounts Commission National Reports;
- Managing Absence;
- National Fraud Initiative Reports;
- Performance Management; and
- Annual Accounts – Financial Statements.

The Audit Committee has, after reviewing the reports submitted to it, the right to request updates. This is done where it has concerns about issues arising from the reports. The format is to request management to prepare reports and attend the Audit Committee in person to provide clarification and further explanation of particular aspects of their report. In 2012/13 the Audit Committee after reviewing the above submitted reports requested report updates from management. This approach afforded the Audit Committee the opportunity to directly ask management key questions and receive assurances. In addition, the Audit Committee robustly challenged management when agreed audit recommendation implementation dates were missed.

Audit Scotland in March 2013 presented their Annual Audit Plan setting out their approach to the audit of the Council, reflecting their statutory duties and risk based approach. The Audit Plan was considered by the Audit Committee and accepted. Internal audit also presented their Annual Audit Plan for 2013/14 which was approved.

Systems of Risk Management

It is the role of the Audit Committee to gain assurance on the adequacy of the system of internal controls and being assured on the adequacy of the system of risk management. The role of the Audit Committee is to test the adequacy of the arrangements in place to manage risk. The Audit Committee in 2012/13 received quarterly risk management reports and these showed continued progress by the Council in the development and regular review of risk management systems. The Audit Committee has agreed to maintain its focus on seeking assurance on the development of adequate systems of risk management.

In 2012/13 the Audit Committee received update reports covering the Council's progress in imbedding Business Continuity within departments and services. Throughout 2012/13 the Audit Committee requested and received reports setting out in particular the progress of services in completing recovery plans. In 2013/14 the Audit Committees will maintain its vigilance over the on-going development of Business Continuity across all services.

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 2011/2012, together with an Improvement Plan were presented and reviewed at the June 2012 Audit Committee meeting. The draft Statement of Governance & Internal Control was also reviewed and approved for inclusion in the Annual Accounts, subject to External Audit feedback.

The draft Statement of Governance & Internal Control was informed by the:

- Work of Officers within the Council;
- Work of External and Internal Audit;
- Statements of Governance or Internal Control provided by external bodies;
- External review and inspection reports (in particular the LAN report); and
- Recommendations from the Audit Committee.

This process will continue with the presentation of these documents to the June 2013 Audit Committee.

Terms of Reference

The current Terms of Reference follow the guidance outlined by the CIPFA and is presented annually for discussion and approval. At the Audit Committee Away Day in February 2013, members undertook a review of the section headings:

- Audit Activity;
- Regularity Framework;
- Financial Accounts and Governance; and
- Delivery Achievement Monitoring.

Members concentrated their attention on the last section after receiving a short review of the Performance Review and Scrutiny (PRS) Committee Terms of Reference by their Chairman. Subsequently the members decided that in respect of the PRS the Audit Committee ToR should be amended with two of the items listed under 'Delivery Achievement Monitoring' being removed. They recognised also that there will be common areas of overview with each committee approaching the subject from its distinctive perspective.

As a result an updated ToR has been prepared and is set out in Appendix 1 for discussion and approval. Once approved by the Audit Committee it will go forward for Council approval.

Self-Assessment

This year the Audit Committee self-assessment day focused on looking at the challenges the Council will face over the coming years. The first key issue was the identification of the strategic risks facing the Council. Members cited a number of risk areas but the agreed three priorities were demographic change, infrastructure and the economy. The Audit Committee agreed to focus on the alignment in risk management systems between the key risks set out in the Strategic Risk Register and the corporate and operational plans of the Council. The Audit Committee defined its role as that of commissioning assurance through reviewing and questioning the process and evidence surrounding risk control measures.

Following this discussion the Audit Committee reviewed and amended its own work plan for the coming year making changes that supported the decision to place greater emphasis on the strategic risks faced by the Council. Other topics covered by the Audit Committee included Corporate Governance, Committee Training, Audit versus Scrutiny, Regulation, Legislation and Assurance Challenges. As Chair I extended an invitation to the Chair of the Performance Review and Scrutiny (PRS) Committee to attend and provide the Audit Committee with his views on areas of linkage and support between the two committees. This allowed the Audit Committee to review and amend its Terms of Reference (ToR) in order to complement the work and ToR of the PRS.

Conclusion

Based on the reports received and reviewed by the committee and the follow up work requested, 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 2012/13.

Throughout 2012/13 the Audit Committee evolved and agreed a framework of reporting which allows it to undertake appropriate assessment of the Council's progress in addressing identified issues covering risk, governance and internal control. With a solid base established in this regard, the Committee has moved to a more pro-active posture on the Council's operations.

The Audit Committee's draft ToR which guides its activities has been updated to complement the development of the PRS and Member comments and is presented to the June committee for review and approval. Thereafter the ToR will be presented to the full Council for inclusion in the Council Constitution.

The Audit Committee has an established framework for performance improvement which allows it to formally audit and undertake a self-assessment of its own efficacy. Audit Committee performance has been aided through the expertise available from its Members during 2012/13. This will be further enhanced through the development of individual training programmes for Members in 2013/14. The Audit Committee has over the years developed its role and will look to continue to develop its effectiveness in 2013/14.

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ARGYLL and BUTE COUNCIL 2013 - 2014
Audit Committee – Terms of Reference

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 –

Constitution
The Council has established a committee to be known as the Audit Committee.

Key Activities
- 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 including the level of assurance it can give over the Council's corporate governance arrangements internal control and risk management system; and to consider other specific Internal Audit reports.
- To consider the External Auditor's Annual Audit Plan, 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, External Audit and third parties where appropriate;
- To consider the performance of Internal and External Audit;
- To facilitate training to support the role of Audit Committee Members;
- To develop a culture of compliance within the Council to ensure the highest standards of probity and public accountability;
- To support best practice in the financial administration of the Council;
- 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;
- There should be a least one meeting a year, or part thereof, where the Audit Committee meets the Internal and External Auditors separately from management;
- The Committee will prepare an annual work plan setting out meeting dates for the financial year and anticipated internal audit, external audit and management reports expected to be covered at each meeting; and
- The Committee shall prepare an annual report to the Council covering its activities and key findings each year. This report will be considered at the Council meeting that agrees the External Auditor's annual audit letter

Regulatory Framework
- To maintain an overview of the Council's Constitution in respect of contract procedure rules, and financial regulations;
- To monitor and seek assurance with regard to risk control measures through the review of the effectiveness of risk management systems 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 controls.
- To monitor the Council's compliance with the Public Interest Disclosure Act and the Bribery Act in the discharge of its functions.

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 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.

Other Monitoring

- To assess the effectiveness of 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; 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.
- The Chief Executive will attend one meeting per annum to report on how the Council is addressing its key strategic risks and other matters of interest.

ARGYLL & BUTE COUNCIL **AUDIT COMMITTEE**
STRATEGIC FINANCE **21 JUNE 2013**

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2013 - 2014

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit as at 24 May 2013. 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 2013 - 2014.

3. BACKGROUND

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2013 –2014, 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.

3.3 Out of 18 audits listed under Financial Control, one is complete and one has started. Of a planned 310 direct audit days 24 have been expended. This provides 286 direct audit days for the remaining audits.

3.4 Out of nine audits listed under Business Systems, three have started. Of a planned 170 direct audit days 6 have been expended. This provides 164 direct audit days for the remaining audits.

3.5 A total of 215 days have been set aside in the audit plan for Corporate/Departmental Service Plan audit work. As at 24 May 2013, 26 days have been expended on audit work.

3.6 A total of 120 direct audit days were set out in the annual internal audit plan for Other Areas. As at 24 May 2013, a total of 20 days have been expended to date as outlined in Appendix 1.

4. SUMMARY OF AUDIT ACTIVITIES FOR 2012 - 2013

4.1 Appendix 1, shows that a total of 77 direct audit days have been expended as at 24 May 2013. As noted above the annual Internal Audit Plan 2013 – 2014 is underway. The direct audit days expended to date is in line with that of the same period in 2012- 2013.

5. CONCLUSION

Progress has been made with the audit plan for 2013 – 2014.

6. IMPLICATIONS

6.1	Policy:	Update on audit plan for 2013 – 2014.
6.2	Financial:	The audit plan is based on budgeted provision.
6.3	Personnel:	None
6.4	Legal:	None
6.5	Equal Opportunities:	None
6.6	Risk	None
6.7	Customer Services	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216) 29 May 2013.

APPENDIX 1

Assessment of audit days: 2013-2014 strategic plan

AUDIT WORK SCHEDULE AS AT 24 MAY 2013	Last audited	Risk ranking	Original Estimated Audit Days 2013-14	Revised Estimated Audit Days 2013-14	Actual Audit Days 2013-14	Balance
FINANCIAL CONTROL AUDITS					.	
Complete						
Stock and Work in Progress	2012/13	2	15	15	12	3
Started						
Cash & Income Banking	2012/13	1	20	20	12	8
Not Started						
Procurement	2012/13	1	20	20	0	20
Budgetary Preparation and Control	2012/13	1	20	20	0	20
Government & European Grants	2012/13	1	20	20	0	20
Tendering Procedures	2012/13	1	20	20	0	20
Treasury Management	2012/13	1	20	20	0	20
Capital Contracts	2012/13	1	20	20	0	20
Resource Link/Payroll	2012/13	1	20	20	0	20
Council Tax	2012/13	1	15	15	0	15
Non Domestic Rates	2012/13	2	15	15	0	15
Debtor Accounts	2012/13	2	15	15	0	15
Universal Credit	2012/13	2	15	15	0	15
Capital Accounting	2012/13	2	15	15	0	15
Contract Operating Leases	2012/13	2	15	15	0	15
Creditor Payments	2012/13	2	15	15	0	15
General ledger operations	2012/13	2	15	15	0	15
Car Allowances & Subsistence	2012/13	2	15	15	0	15
Section Total			**310**	**310**	**24**	**286**
BUSINESS SYSTEMS AUDITS						
Complete						
Started						
IT Strategy	-	1	20	20	1	19
Data Protection	2010	1	20	20	1	19
Fleet Management	2012/13	2	15	15	4	11
Not Started						
Pyramid Performance Management	2012/13	1	20	20	0	20
Care First	2012/13	1	20	20	0	20
Leisure Management System	2012/13	1	20	20	0	20
Roads Costing System	2012/13	1	20	20	0	20
Uniform System	2012/13	1	20	20	0	20
Customer Service Centre	2012/13	2	15	15	0	15
Section Total			**170**	**170**	**6**	**164**

CORPORATE & DEPARTMENT AUDITS						
Complete						
Customer Services - School meals	-	1	10	10	20	-10
Started						
Customer Services - Corporate Governance Statement	2012/13	1	15	15	5	10
Chief Executive's Unit - Print & Design	2011/12	1	20	20	1	19
Not Started						
Corporate	-	1	55	55	0	55
Corporate	-	1			0	0
Corporate	-	1			0	0
Community Services - Outwith Authority Placements	-	1	25	25	0	25
Community Services - Health & Safety (Leisure)	-	1	15	15	0	15
Community Services - Allocating ASN Assistants Process	-	1	10	10	0	10
Development & Infrastructure Services - Section 75 Planning Obligations	-	1	15	15	0	15
Development & Infrastructure Services - Marine Services	2012/13	1	15	15	0	15
Development & Infrastructure Services - Parking	-	1	10	10	0	10
Customer Services - Business Continuity	2012/13	1	15	15	0	15
Chief Executive's Unit - Community Engagement	2012/13	1	10	10	0	10
Section Total			**215**	**215**	**27**	**188**
Actual Direct Audit Time			**695**	**695**	**57**	**638**
Special investigations contingency			100	100		100
					0	
					0	
Section Total			**100**	**100**	**0**	**100**
Other Areas						
Inverclyde Charity & Trust Accounts	2012/13		0	0	1	-1
Follow-up External & Internal Audit Management Letter Points	2012/13		80	80	10	70
NFI	2012/13		40	40	8	32
Section Total			**120**	**120**	**20**	**100**
TOTAL			**915**	**915**	**77**	**838**

ARGYLL & BUTE COUNCIL | **AUDIT COMMITTEE**
STRATEGIC FINANCE | **21 JUNE 2013**

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2013 – 2014.

1. SUMMARY

Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. Set out below are the results from a review performed by Internal Audit for recommendations due to be implemented by 30 April 2013.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and approved by the Audit Committee.

3. DETAILS

3.1 The process requires departmental Executive Directors assigning a 3rd tier officer to act as the sole contact for the follow up of both external and internal recommendations. The contact role involves updating both the Executive Directors and internal audit on progress with agreed department recommendation implementation.

3.2 Appendix 1 is a statistical summary of all agreed recommendations arising from both External and Internal Audit reports by department. Detailed is the number of recommendations due as at 30 April 2013, the number implemented, the number of agreed future recommendations and their status, i.e. on course etc.

3.3 Appendix 2 provides a summary of all outstanding recommendations from both External and Internal Audit reports by department and service. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous missed implementation dates reported to the Audit Committee, management comment and Pyramid status.

3.4 Appendix 3 provides a summary of all recommendations from both External and Internal Audit reports by department and service that are due after 30 April and not on track to achieve the agreed implementation dates. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous missed implementation dates reported to the Audit Committee, management comment and Pyramid status.

4. CONCLUSIONS

Implementation of all recommendations will continue to be monitored by

Internal Audit.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Legal:	None
5.4	HR:	None
5.5	Equalities:	None
5.6	Risk:	None
5.7	Customer Service:	None

For further information please contact Ian Nisbet of Internal Audit on (01546 604216)
11 June 2013

APPENDIX 1

SERVICE SUMMARIES

RECOMMENDATIONS DUE 01 FEBRUARY 2013 - 30 APRIL 2013

SERVICE	Complete	Delayed but rescheduled	Total
ADULT CARE	4		**4**
CHILDREN & FAMILIES		1	**1**
COMMUNITY & CULTURE		1	**1**
CUSTOMER & SUPPORT SERVICES	22	1	**23**
ECONOMIC DEVELOPMENT		1	**1**
ROADS & AMENITY SERVICES	2		**2**
STRATEGIC FINANCE	12	1	13
TOTALS	**39**	**5**	**45**

RECOMMENDATIONS DUE AFTER 30 APRIL 2013

SERVICE	Complete	On Course	Total
ADULT CARE	1		**1**
CUSTOMER & SUPPORT SERVICES		6	**6**
ROADS & AMENITY SERVICES		1	**1**
STRATEGIC FINANCE		10	**10**
TOTALS	**1**	**17**	**18**

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Recommendations Overdue 30 April 2013

ACTION PLAN NO:	WEAKNESSES IDENTIFIED: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
DEPARTMENT	**CHIEF EXECUTIVE'S UNIT**				
SERVICE	**STRATEGIC FINANCE**				
REPORT NAME	**REVIEW OF CAPITAL ACCOUNTING 2009-10**				
4	There is a need to consider each asset class and the effect of the change in basis of accounting. In particular infrastructure assets require consideration from both a policy basis (renewals accounting or replacement cost?) and reconciling existing historical cost records with individual roads, bridges, retaining walls, piers etc. In addition the management accounting implications of the use of assets and their charge for use should be reviewed. **MEDIUM**	The AMSB should ensure that the process is included in its timetable and programme for 2010/11.	31 March 2011 31 March 2013 **31 May 2013**	The infrastructure code will not be a requirement until 2018, but when it comes into force we will pick up the recommendation as part of the implementation.	**Superseded** Head of Strategic Finance
REPORT NAME	**REVIEW OF TREASURY MANAGEMENT**				
1	The Treasury Management Practices (TMP) document has been updated and re-issued August 2012 but includes a number of tables and references which are not complete. **MEDIUM**	The TMP document should be reviewed and revised to ensure all tables and references are appropriate and complete.	30 April 2013 30 May 2013 **31 July 2013**	The TMPs will be updated to reflect any changes recommended by the Performance Review and Scrutiny Committee's review of the Annual Treasury Strategy.	**Delayed but rescheduled** Finance Manager, Corporate Support
DEPARTMENT	**COMMUNITY SERVICES**				
SERVICE	**CHILDREN & FAMILIES**				
REPORT NAME	**REVIEW OF GLENCRUITTEN HOSTEL**				
3	The reporting structure within Glencruitten Hostel is shared between Social Work and Education and at times Internal Audit found it difficult to establish where the clear lines of responsibility lay. **MEDIUM**	Clear lines of responsibility should be drawn up in terms of the reporting structure for management within Glencruitten Hostel. Review Hostel Management Group	30 March 2013 **31 August 2013**	Review will be completed by August 2013.	**Delayed but rescheduled** Head of Children & Families (formerly Deputy Head Teacher - Lochgilphead High

ACTION PLAN NO:	WEAKNESSES IDENTIFIED: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:

SERVICE COMMUNITY & CULTURE

REPORT NAME REVIEW OF SPYDUS LIBRARY MANAGEMENT SYSTEM

1	Regular checks are not carried out to confirm the integrity of the database files (eg to identify possible data corruption) **MEDIUM**	Periodic checking of the back-up data should be checked for completeness and accuracy.	31 March 2013 30 June 2013 **30 September 2013**	The migration of the data to the Civica hosted platform has been delayed due to them gaining new clients in Scotland but a project plan for the work should be completed in next 2 – 3 weeks.	**Delayed but rescheduled** Library Development Officer

DEPARTMENT CUSTOMER SERVICES

SERVICE CUSTOMER & SUPPORT SERVICES

REPORT NAME REVIEW OF CAPITAL CONTRACTS

1	It was noted that 2 of the sample contracts had been authorised by an officer not included on the published schedule of authorised signatories. Investigation confirmed that the officer was approved to authorise and had been omitted from the list in error. **MEDIUM**	The published Scheme of Authorised Purchasers should be reviewed and updated.	30 April 2013 **31 July 2013**	Meetings arranged between Strategic Finance and IT staff to go over the D&I scheme and identify if it would be suitable to roll out across the Council have stalled recently due to year end pressures, but following discussions on 23 April a meeting is arranged for 2 May to agree the best way to implement a new authorised signature system.	**Delayed but rescheduled** Procurement and Commissioning Manager

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DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES

SERVICE ECONOMIC DEVELOPMENT

REPORT NAME REVIEW OF FISH LANDING DUES AND OTHER HARBOUR INCOME

6	The timber operator is continuing to get the maximum 55% discount on charges under a five year tiered agreement approved by the Strategic Policy Committee in March 2002. The continuation of this maximum discount arrangement, which conflicts with the approved tiered rate, has not been formally ratified by the Council, and is not being offered to other dry bulk commodities such as wind farm goods **HIGH**	The current discount arrangements being applied should be ratified by the Council at the earliest opportunity pending the preparation of a full business case	30 June 2012 30 April 2013 **30 June 2013**	Discussions are in progress with the ATTG over the discounted rates their members receive. A further meeting takes place in May 2013. The conclusion of these negotiations are essential prior to submitting to Council for ratification. Further, a draft report on a potential policy for discounts to other users of marine services and facilities will be presented to the Executive Director of Development and Infrastructure Services in May 2013.	**Delayed but rescheduled** Director of Development and Infrastructure/Operations Manager Marine and Airports

Recommendations Due After 30 April 2013

ACTION PLAN NO:	WEAKNESSES IDENTIFIED: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE

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ARGYLL & BUTE COUNCIL **AUDIT COMMITTEE**
STRATEGIC FINANCE **21 JUNE 2013**

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013

1. SUMMARY

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

2. RECOMMENDATIONS

2.1 The contents of this report are to be noted.

3. DETAILS

3.1 As at May 2013, final reports for 8 audits undertaken in the financial year 2012/13 are presented to the Audit Committee for review. There is one report for the financial year 2013/14.

3.2 The attached reports contain both the Executive Summaries and Action Plans which detail those recommendations where Internal Audit in agreement with management has classified the findings either high or medium. Recommendations classified as low have been removed.

4. CONCLUSION

The contents of this report will be followed up by internal audit.

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) 7 June 2013

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Internal Audit Reports
Audit Committee – June 2013

List of Internal Audit Reports for Audit Committee

Internal Audit Reports 2012 – 2013				
	REPORT TITLE	**DRAFT ISSUE DATE**	**FINAL MANAGEMENT RESPONSE**	**FINAL ISSUE DATE**
1.	Budget Monitoring & Control	12 April 2013	23 April 2013	23 April 2013
2.	Payroll	8 May 2013	17 May 2013	21 May 2013
3.	ResourceLink	8 May 2013	17 May 2013	21 May 2013
4.	Unified Benefit System	9 May 2013	13 June 2013	14 June 2013
5.	Council Tax	9 May 2013	13 June 2013	14 June 2013
6.	Non-Domestic Rates	9 May 2013	13 June 2013	14 June 2013
7.	Sundry Debtors	9 May 2013	13 June 2013	14 June 2013
8.	Cash & Income Banking	9 May 2013	13 June 2013	14 June 2013
Internal Audit Reports 2013 – 2014				
1.	Stock Year-end 2012/13	23 May 2013	10 June 2013	13 June 2013

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

Chief Executive's Unit
Revenue Budget Monitoring and Control

March 2013

1. INTRODUCTION

1.1 As part of the annual audit plan for 2012/13 internal audit undertook a review of the Revenue Budget Monitoring and Control process. Internal audit noted that a revised budget monitoring process was introduced for the 2012/13 financial period.

1.2 In the financial year 2012/13 a new risk matrix was assigned to each cost centre or group of cost centres, and depending on the scoring of that cost centre the level of engagement with the budget holder was derived i.e. monthly, bi monthly, 6 monthly.

1.3 In addition, budget holders are no longer required to fill in comments regarding variances against their cost centres and return them to Strategic Finance. Instead it is the responsibility of budget holders and finance contacts to engage with one another, be it via face to face meetings, telephone calls or e-mails, etc. These engagements should be recorded on an engagement log which would detail any actions required or not as the case may be.

1.4 The Council has a policy to carry forward funding into the following financial year via the mechanism of ear marked reserves. This policy agreed by SMT allows for funding using ear marked reserves in six situations namely.

- Unspent Grant
- Unspent third party contributions
- Unspent budget within the devolved management of resources scheme of delegation for schools
- Chord
- Where Council has previously agreed to ear mark a general fund balance for a particular purpose
- Existing Legal commitments

1.5 Internal audit are cognisant of the fact that the whole budget monitoring system is undergoing further review and development and that there will be working groups set up to ascertain whether the new changes have been effective and indeed what other changes should be implemented. Consequently the thrust of the audit was to concentrate on whether the new procedures laid out have been implemented as stated above.

2. AUDIT SCOPE AND OBJECTIVES

2.1 An Audit Agreement Document (AAD) was prepared and forwarded to the Financial Managers for their agreement. The Agreement set out the main objectives of the audit approach and scope. The following areas were agreed to be looked at:

- To assess the risk matrices associated with the Councils cost centres with a view to reasonableness

- To review the existing budget monitoring procedures and assess whether it provides budget holders with the necessary information required to monitor and control income and expenditure;

- To review the ear marked reserves carried forward and to ensure that proper business cases have been prepared and that they meet the criteria as laid out in Council Policies.

- Recommendations from the 2011/12 audit report have been implemented.

3. RISK ASSESSMENT

3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:

SR16: Failure to have a robust internal control process and system;
RA03: Inaccurate management information.

4. CORPORATE GOVERNANCE

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

5. Main Findings

5.1 A new risk matrix has been assigned to each cost centre or group of cost centres. Internal audit reviewed the 10 factors used to assign risk to the cost centres and consequently what level of engagement should follow, and found that they gave a result consistent with budget monitoring output reports.

5.2 Strategic Finance was found to be properly engaging with budget holders but that the recording mechanism for the engagement varied between departments.

5.3 The timetable to reflect the various steps in the monthly revenue budget monitoring does not reflect the new procedures.

5.4 The payroll report forwarded to budget holders should include a cost centre description field.

5.5 Ear marked reserves as at January 2013 were reviewed to ensure that they fell within the criteria laid out in Council policies. For those balances where a business case was required to justify the ear marking, Internal Audit reviewed the business cases to ensure that they met the criteria laid out per the Strategic Management Team (SMT) policy document.

6. RECOMMENDATIONS

6.1 Three recommendations were identified as a result of the audit. The recommendations have the following priority ranking, one medium and two low. The recommendations are shown in the action plan attached at Appendix 2 and have been compiled with the co-operation and agreement of senior management.

6.2 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 they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management, if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.

6.3 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 high, medium or low. 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 it if 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

7.1 It is Internal Audits view that based on the findings of the audit that there are sufficient controls in place to ensure that relevant and detailed financial monitoring reports are made available to budget holders and that ear marked reserves as at 31 March 2012 meet the criteria laid down by Council.

7.2 Recommendations arising from the audit work should be implemented by the nominated responsible officer(s) 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

8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:

- Finance Managers
- Departmental Accounting staff
- Budget Holders

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

8.3 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	AGREED ACTION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	The timetable for budget monitoring still reflects the various processes specific to last year's procedures.	Medium	The timetable be updated to reflect the new budget monitoring procedures.	**Finance Manager Corporate Support**	**Implemented**

Internal Audit Report

Chief Executives – Improvement & HR

Review of Payroll

March 2013

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Payroll as part of the 2012/13 Internal Audit programme.

In 2012/13, responsibility for Payroll transferred from Customer Services to the Chief Executives Unit, Improvement & HR. The specific objective of the audit was to test the robustness of new processes in place in respect of HR and Payroll.

Payroll Costs for 2011/2012 were as follows:

	Salary	Ers NI	NI Recovery	NI	Pension
Pay01	20,936,478.72	1,122,969.55	63,024.90	1,059,944.65	2,190,689.56
Pay06	2,977,365.77	224,379.12	0.00	224,379.12	499,164.78
Pay07	50,859,109.28	3,396,095.82	236,678.86	3,159,416.96	7,422,670.53
Pay10	35,518,768.87	2,782,136.37	117,695.76	2,664,440.61	5,006,592.28
Pay11	1,554,000.89	98,465.35	13,056.53	85,408.82	169,033.82
Pay15	1,057,626.44	22,760.22	3,063.06	19,697.16	48,960.19
	112,903,349.97	**7,646,806.43**	**433,519.11**	**7,213,287.32**	**15,337,111.16**

A severe weather event in March 2013 in the Kintyre area resulted in ResourceLink server access issues at Witchburn Road in Campbeltown. As a result and in agreement with management the audit work for Payroll was curtailed. However, key control areas were reviewed.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure that:

- Human Resources and Payroll functions are adequately segregated;
- Access to the Payroll system is restricted to appropriate staff;
- Departments periodically undertake checks to confirm the validity of the employees listed on the Council Payroll;
- Only employees with valid contracts commence employment;
- Relevant documentation is completed, available for inspection and authorised prior to payment of salary.

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. The area identified was:

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

It was found that:

- Human Resource and Payroll functions are adequately segregated;
- Access to the Payroll system is restricted. ResourceLink users are given appropriate access rights to Payroll as required by their job description;
- Departments undertake periodic checks to confirm the validity of the employees listed on the payroll. Payroll reports are provided by Strategic Finance to Budget Holders as part of the budget monitoring process;
- There are examples of employees without a valid contract commencing employment;
- Examples were found where relevant authorised documentation had not been completed prior to commencement of employment.

6 RECOMMENDATIONS

Three recommendations were identified as a result of the Audit. One is of high priority and two of low 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 Head of Improvement & HR.

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 high, medium or low. 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 it if 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 adequate procedures in place to ensure segregation of duties are being maintained and that only authorised users can access the payroll modules within ResourceLink.

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 HR and Payroll 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.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	Through audit enquiry and by reviewing recorded data it was found that a number of employees were in post without the knowledge or agreement of HR and without Payroll being advised. The audit established that this had occurred through departmental management allowing candidates to commence employment ahead of the HR processes being competed. Consequently, candidates were found to be in post without the issuance of a contract, or a contract being signed.	High	The current practice of allowing employees to commence in post without the knowledge of HR and Payroll must stop with immediate effect. An instruction should be issued to all Executive Directors that they must ensure that their management comply with HR guidelines for new employee commencement. A review should be undertaken to ensure compliance to HR guidelines in terms of recruitment.	**Head of Improvement & HR**	**31 May 2013**

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Argyll & Bute COUNCIL

Internal Audit Report

Chief Executives - Improvement and HR

Review of Resourcelink

March 2013

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Resourcelink as part of the 2012/2013 Internal Audit programme.

The specific objective of the audit was to test the robustness of new processes in place in respect of Human Resource (HR) and Payroll.

The Key System Information 2011/2012 is as follows:

DATA	TOTAL
No of ResourceLink Users	115
Total Number of Employees	5597
Total Number of FTE	4420

The Kintyre Peninsula in March 2013 experienced a severe weather event which resulted in ResourceLink server access issues at Witchburn Road, Campbeltown. As a result and in agreement with management the ResourceLink audit work was curtailed. However, key control areas were reviewed.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure:

- Set up of hierarchy structures is appropriate and up to date;
- Data is input accurately and in a timely manner;
- Data is checked for accuracy and authorised; and
- There is adequate segregation of duties in relation to creating new employees and authorisation to input to payroll.

3 RISK ASSESSMENT

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

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

- The setup of hierarchy structures is currently under review to ensure that it is up to date, reflecting the changes within the Council Management structure;
- Data is input accurately and in a timely manner;
- Data is checked for accuracy and authorised; and
- There is adequate segregation of duties in relation to creating new employees and authorisation to input to Payroll.

6 RECOMMENDATIONS

Two recommendations were identified as a result of the audit one is of high priority and the other is of low 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 Head of Improvement & HR.

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 high, medium or low. The definition for each classification is 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 it if 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 processes in place in terms of ResourceLink. Further work is required to ensure that all systems and processes are compliant with Real Time Information reporting being introduced by Her Majesty Revenues and Customs (HMRC).

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 HR 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. 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
2	The introduction of RTI will enforce the timeous recording of contractual (New starter, Leaver, Post Change, Hours change) and timecard information (all timesheet pay data to include basic hours, overtime and Expenses) on Resourcelink. Critical to the accurate submission of Real Time Information to HMRC is the timeous notification of all contractual changes – ie New Starts, Leavers and Post Changes. All contractual input must now be processed onto Resourcelink within the pay period where the contractual change applies.	High	Managers will have a responsibility to inform HR without delay of all contractual and timecard information relating to their staff. An instruction should be issued to all Executive Directors that they must ensure that their management comply with HR guidelines in terms of any new processes introduced by HR. This will ensure that we meet our legislative requirements and will also ensure that the Council does not incur financial penalties from HMRC.	Head of Improvement & HR	31 May 2013

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Argyll & Bute COUNCIL

Internal Audit Report

Customer and Support Services

Unified Benefits
Department of Work and Pensions Guidance
Counter Fraud Compliance

March 2013

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Unified Benefits - Benefit Fraud Team as part of the 2012 - 13 Internal Audit programme.

The government estimates that up to £3 billion pounds is lost to benefit fraud each year. This means that £120 of tax payers' money goes directly to those who commit fraud, when it should be going to families and individuals in need. It is therefore important that the Benefit Fraud Team is meeting the standards and guidelines set out by the Department Work and Pensions (DWP).

Benefit Fraud is a large part of the overall level of fraud control in Argyll and Bute, the Council's aim is to reduce and then eliminate Benefit Fraud. Fraudulent overpayments identified in Argyll and Bute 2011 / 2012 as £149,456.41p.

2 AUDIT SCOPE AND OBJECTIVES

The scope of this review is limited to the Questionnaire devised from the Good Practice Guide published on the Department of Work and Pensions (DWP) website relevant to the operation of a Benefit Fraud Team. The questionnaire was completed during discussion with the Unified Benefits -Benefit Fraud Manager with supporting evidence provided.

The broad objectives of the review were to ensure that DWP compliance is being achieved as set out in the DWP Good Practice Guide under the following sections:

- Quality fraud referrals are received and acted upon;
- Risk profiling of referrals is appropriate;
- Suitable action is taken on referrals;
- Fraud Investigators Code of Conduct is followed; and
- An Anti-Fraud Policy is available and up-to-date.

3 RISK ASSESSMENT

As part of the audit process the Risk Register was reviewed to identify any areas that needed to be included within the audit.

All areas identified within the Risk Register were included within the questionnaire used to undertake this audit, including; Leadership; New Legislation/Regulations; Resources and Anti-fraud Policy.

4 CORPORATE GOVERNANCE

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

5 MAIN FINDINGS

The objective of this review was to ascertain whether the Unified Benefits – Benefit Fraud Team were following the DWP Good Practice Guidance covering Counter Fraud Activities. It was found the team is following DWP guidance and the report by section covers how the team is meeting them.

6 RECOMMENDATIONS

No recommendations were identified as a result of the audit.

7 AUDIT OPINION

The auditor is satisfied that the Benefit Fraud Manager has answered the questionnaire in an appropriate manner.

Based on the findings we can conclude that best practice as identified by the DWP is in place and the team is operating well.

8 ACKNOWLEDGEMENTS

Thanks are due to the Fraud Manager for 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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Internal Audit Report

Revenues Team

Internal Audit Review of Income: Council Tax

May 2013

1 INTRODUCTION

As part of the annual audit plan for 2012/13 internal audit undertook a review of Council Tax functions and its activities. An internal audit review of Income was undertaken that considered the activities of the Revenues Team, which is led by the Revenues Supervisor who reports to the Revenues and Benefits Manager, both of whom are based at Witchburn Road, Campbeltown.

With regards to Council Tax responsibilities, the Revenues Supervisor is supported by the Council Tax Support Officer and Council Tax Team Leader. The staff in the Council Tax Assessment Unit (9 FTE) report to the Council Tax Team Leader and the unit is supported by Clerical Assistants (Scanning) (1 FTE).

Appendix 3 shows the position of staff with Council Tax responsibilities within the Revenues Team structure. Council Tax positions are highlighted in light grey whilst the Corporate Debt Recovery Team, which is responsible for pursuing the recovery of overdue Council Tax accounts, is highlighted in dark grey.

The monthly collection statistics for 2012/2013 Council Tax year at 31 December 2012 showed the following:

Gross Council Tax Billed	£55,186,708
Total Net Billed	£41,847,730
Total Collected*	£35,832,327

*This is a collection rate of 85.63%, which compares to 85.51% at 31/12/2011. This is up on last year as at December.

As at 9 January 2013 Council records identified that there are 47,216 domestic properties subject to Council Tax.

As at 31 January 2013 the total amount of outstanding Council Tax debt (1993/94 – 2012/13) being pursued by the Sheriff Officers was £12,998,398.49.

The annual Council Tax target, 1 June to 31 May each year, for the Sheriff Officers collections is £2.9m. In the 6 month period, 1 June to 30 November 2012, £1,534,336 of Council Tax bad debt was collected. As at 31 December 2012, the projected collection rate for the year, 1 June 2012 to 31 May 2013, was 108.97% (£3,160,150).

2 AUDIT SCOPE AND OBJECTIVES

This is the first year of a 3 year cycle of income audits. The scope of this audit was to undertake a high level review and assess the adequacy of controls in place to ensure that the Revenues Team identify, bill, collect and account for Council Tax income owed to the Council on a timely basis.

Testing was undertaken to assess the effectiveness of the present operational controls. The intended approach is for internal audit to undertake substantive testing over the next 2 years that will cover Welfare Reform changes as they occur.

3 RISK ASSESSMENT

As part of the audit process the risk register was reviewed to identify any risks that potentially impact on the audit. The following risks were identified.

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

4 CORPORATE GOVERNANCE

No corporate governance issues were identified during the audit.

5 MAIN FINDINGS

The only major issue identified during the review relates to members of the public being able to access restricted areas due to a broken internal security door. Although the likelihood of an incident is low, the potential consequences represent a significant legal, financial and reputational risk to the Council.

It is clear from interviews with staff and observation of the various teams at work that the Revenues Team is a close knit group that comprises experienced and capable staff with sufficient collective knowledge and ability to deliver the Council's requirements.

Whilst some members of staff have significant experience and need little guidance, it is also important that documented guidance is current and complete to ensure that new and less experienced staff members are familiar with their responsibilities.

6 RECOMMENDATIONS

One high and two low recommendations were identified during the audit.

The recommendations are detailed in the action plan attached at Appendix 2, which has been compiled with the co-operation and agreement of the Revenues Supervisor and Revenues & Benefits 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 an achievable implementation date and will be required to provide a reason to the Audit Committee for failure to implement within the agreed timescales. Where management decides not to implement a recommendation it must evaluate and accept the risk 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 high, medium or low. 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 it if 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 of the audit review we are satisfied that there are adequate controls and procedures in place to ensure that the Revenues Team identify, bill, collect and account for Council Tax income on a timely basis.

The recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. A recommendation 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 Revenues Team for their co-operation and assistance at all stages of 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.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Due to a broken internal security door it is possible for members of the public to gain access to restricted areas.	High	The broken internal security door should be fixed to prevent public access. .	**Revenues and Benefits Manager**	**Complete**

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Internal Audit Report

Revenues Team

Internal Audit Review of Income: Non-Domestic Rates

May 2013

1 INTRODUCTION

As part of the annual audit plan for 2012/13 internal audit undertook a review of Income that considered the activities of the Revenues Team, which is led by the Revenues Supervisor who reports to the Revenues and Benefits Manager. Both are based at Witchburn Road, Campbeltown.

With regards to Non-Domestic Rates (NDR) functions and activities, the Revenues Supervisor is supported by the NDR/Sundry Debt Administrators (2 FTE) and their direct reports, the NDR/Sundry Debt Agents (3 FTE).

NDR functions and activities are mainly undertaken by designated NDR/Sundry Debt Administrators (2*0.5 FTE) and NDR/Sundry Debt Agents (2 FTE) with cover provided to/from the other administrator and agent with core sundry debt responsibilities as required.

Appendix 3 shows the position of staff with NDR responsibilities within the Revenues Team structure. NDR positions are highlighted in light grey whilst the Corporate Debt Recovery Team, which is responsible for pursuing the recovery of overdue NDR accounts, is highlighted in dark grey.

The monthly collection statistics for the 2012/2013 NDR year at 31 December 2012 showed the following:

Gross NDR Billed	£37,252,254
Total Net Billed ^	£28,739,734
Total Collected *	£24,286,648

^ After deducting £7,762,042 (Reliefs), £709,889 (Empty Properties) and £40,587 (Deferment carried forward).

*This was a collection rate of 84.51%, which compares to 86.33% at 31/12/2011. The slightly lower collection rate percentage as at December 2012 is reflective of current business and economic circumstances

2 AUDIT SCOPE AND OBJECTIVES

This is the first year of a 3 year cycle of Income audits. The scope of this audit was to undertake a high level review and assess the adequacy of controls in place to ensure that the Revenues Team identify, bill, collect and account for NDR income owed to the Council on a timely basis.

The intended approach is for internal audit to undertake substantive testing over the next 2 years.

3 RISK ASSESSMENT

As part of the audit process the risk register was reviewed to identify any risks that potentially impact on the audit. The following risks were identified.

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

4 CORPORATE GOVERNANCE

No corporate governance issues were identified during the audit.

5 MAIN FINDINGS

The only major issue identified during the review relates to members of the public being able to access restricted areas due to a broken internal security door. Although the likelihood of an incident is low, the potential consequences represent a significant legal, financial and reputational risk to the Council.

Our general conclusion, based on interviews with staff and observation of the various teams at work, is that the Revenues Team is a close knit group that comprises experienced and capable staff with sufficient collective knowledge and ability to deliver the Council's requirements.

The review identified that the introduction of Business Improvement Districts (BID) has impacted on the workload of the NDR staff. We feel that it is important that the Council assesses the associated resource implications and takes appropriate steps to manage the situation.

An area that we feel could be improved is that of NDR management information. Sheriff Officer related information was difficult to interpret whilst some of the Pyramid information was not found to be current or complete.

6 RECOMMENDATIONS

Five recommendations, one high, three medium and one low, were made as a result of the audit.

The recommendations are detailed in the action plan attached at Appendix 2, which has been compiled with the co-operation and agreement of the Revenues Supervisor and Revenues & Benefits Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendation should be implemented in accordance with the agreed action plan. Management have set an achievable implementation date and will be required to provide a reason to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement a recommendation it must evaluate and accept the risk 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 high, medium or low. 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 it if 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 audit findings we conclude that there are adequate controls and procedures in place to enable the Revenues Team to identify, bill, collect and account for NDR income owed to the Council on a timely basis

The recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. A recommendation 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 Revenues staff for their co-operation and assistance at all stages of 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. 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	Due to a broken internal security door it is possible for members of the public to gain access to restricted areas.	High	The broken internal security door should be fixed to prevent public access. .	**Revenues and Benefits Manager**	**31 July 2013**
2	NDR/Sundry Debt job descriptions do not include a reference to Business Improvement District (BID) activities. This is a recent development and it was evident from the amount of phone calls witnessed during the audit visit that this initiative is increasing the workload of NDR staff.	Medium	NDR staff job descriptions should be updated to include BID related activities. The potential impact of the BID initiatives on the NDR workload should be assessed with appropriate action taken to ensure that sufficient resources and training is made available to support the NDR section whilst limiting the impact on core NDR/sundry debt workload	**Revenues and Benefits Manager**	**30 September 2013**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	The Council monitors the bad debt position and the performance of the Sheriff Officers each month. However, the information provided relating to the monthly statistics was difficult to follow and it appeared that some of the figures/calculations were incorrect.	Medium	The Corporate Debt Recovery Team should consider revising the current NDR Sheriff Officer reports to make them easier to follow. They should consider adopting the Council Tax spread sheet format for recording and monitoring the NDR bad debt position and/or include a summary cover sheet. As a minimum the NDR Sheriff Officer reports should report the following: • Outstanding bad debt position (per year and in total) • The amount of NDR collected in the year to date by the Sheriff Officers • The projected 'bad debt' NDR collection rate for the year	**Revenues and Benefits Manager**	**30 SEPTEMBER 2013**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			• Collection performance against the Sheriff Officer's target		
5	NDR information recorded in Pyramid is not current.	Medium	Performance and management information recorded in Pyramid should be updated on a regular basis to ensure that the information remains current. Measures that are no longer considered relevant should be deleted from the system in order that NDR performance is not misreported or misrepresented.	**Revenues and Benefits Manager**	**30 SEPTEMBER 2013**

Internal Audit Report

Customer and Support Services

Internal Audit Review of Income: Cash / Revenues Team

May 2013

1 INTRODUCTION

As part of the annual internal audit plan for 2012/13 a review of Income was undertaken that considered the activities of the Revenues team, which is led by the Revenues Supervisor who reports to the Revenues and Benefits Manager. Both are based at Witchburn Road, Campbeltown.

The Revenues team is mainly responsible for the collection of Council Revenues (Council Tax, NDR and Sundry Debt) and all related back office activities. It is part of the Customer and Support Services section, which sits within the Customer Services department.

The Revenues team was restructured following a service review in June 2012. The team comprises 26.5 FTE posts and is split into distinct sub-teams covering:

- Council Tax
- Non-Domestic Rates (NDR)
- Sundry Debts
- Cash
- Corporate Debt Recovery

With regards to Cash responsibilities, the Revenues Supervisor is supported by the Cash Team Leaders (2 * 0.5 FTE) who are supported by the Accounting Assistants (2 FTE) and the Clerical Assistant.

Appendix 3 shows the Revenues team structure and the position of the sub-teams within it. The Cash sub-team is highlighted in grey.

This report covers the activities and functions of the Cash staff and general observations relating to the Revenues team.

2 AUDIT SCOPE AND OBJECTIVES

This is the first year of a 3 year cycle of Income audits. The scope of the audit was to undertake a high level review of the Revenues team and assess the adequacy of controls in place to ensure that the Revenues team identify, bill, collect and account for income due to the Council on a timely basis.

The intended approach is for internal audit to undertake substantive testing over the next 2 years.

3 RISK ASSESSMENT

As part of the audit process the risk register was reviewed to identify any risks that potentially impact on the audit. The following risks were identified.

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

4 CORPORATE GOVERNANCE

No corporate governance issues were identified during the audit.

5 MAIN FINDINGS

Two major issues have been identified concerning members of the public being able to gain access to the main Revenues office and the lack of a in-house recovery plan for Revenues, to be followed in the event of service disruption. Whilst the likelihood of either issue arising is low the potential impact of either occurring merits both issues being classed as high priority.

It is clear from interviews with staff and observation of the various teams at work that the Revenues team is a close knit group that comprises experienced and capable staff with sufficient collective knowledge and ability to deliver the Council's requirements.

6 RECOMMENDATIONS

Two recommendations were identified during the audit, one high and one 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 Revenues and Benefits Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendation should be implemented in accordance with the agreed action plan. Management have set an achievable implementation date and will be required to provide a reason to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement a recommendation it must evaluate and accept the risk 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 high, medium or low. 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 it if 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 of the audit review we are satisfied that there are adequate controls in place to ensure that the Revenues section identify, bill, collect and account for income due to the Council on a timely basis.

The recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. A recommendation 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 Revenues staff for their co-operation and assistance at all stages of 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.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	During the internal audit visit it was also possible for members of the public to gain entry to the main Revenues office as the door at the Reception area was not locked. Although the likelihood of an incident occurring is low, the Council is nevertheless responsible for the safety and welfare of staff and should ensure that they are protected at all times. Given that the Revenues team is responsible for pursuing overdue payments, staff members are likely to encounter disgruntled and hostile individuals on a regular basis.	High	The door at the Reception area should be kept locked at all times unless staff members need to go through it.	**Revenues and Benefits Manager**	**Complete**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	Revenues do not have documented procedures in place to ensure that, in the event of a service disruption, the service can be recovered as quickly as possible.	Medium	Revenues should have their own internal procedure to be used in the event of a service disruption. The procedures should be kept current and tested on a regular basis.	**Revenues and Benefits Manager**	**31 August 2013**

Argyll & Bute COUNCIL

Internal Audit Report

Review of Year-End Stock

April 2013

1 INTRODUCTION

As part of our annual audit programme for 2013/14, Internal Audit undertook a review of 2012/13 year-end stock. The year-end stock review covered stores within two departments, Community Services and Development & Infrastructure Services. Internal Audit secured a copy of stock-taking procedures and undertook stock count checks at both stores.

Within Development and Infrastructure Services, there is only one store holding stock records, the Roads Lighting Store, which is located in Lochgilphead and issues stock to all areas within Argyll and Bute. All other purchases are ordered as required and booked directly to jobs.

The internal audit review of stock also covered the Integrated Equipment Service (IES) store which is a joint future agreement between Argyll and Bute Council and NHS Highland. All stock and assets for IES are purchased by Argyll and Bute Council with IES controlling stock at a number of locations. NHS Highland hosts the service and controls stock input, output and record keeping.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to:

- Ensure departmental procedures for the year-end stock-take were adequate as agreed with Internal Audit; and

- Ensure that sample count of stock held at the two stores was accurate.

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

- The audit review found that the year-end stock procedures for Development and Infrastructure were comprehensive.

- Continuous stock takes of the Roads Lighting Store have taken place and this has resulted in a significantly smaller stock variance than in previous years. The small number of variations between stock sheets and actual were within an acceptable constraint i.e. 0.24 % of total stock value.

- The stocktake at the IES depot was carried out on April 22nd later than expected due to staff not being ready on March 27th as initially agreed. A total of 25 high value stock items were chosen for agreement back to stock sheets. Of the 25, two items were unable to be reconciled back to the stock sheets representing 4.1% of total stock value.

- The physical stock layout at the IES depot in Oban was not good. The major value stock which was £61,036 is spread over some 12 containers which are rented from a local business. A number of related stock items rather than being kept in one container were found to be split across containers.

- Internal audit visited both the Blackhill Helensburgh and Moneydrain Lochgilphead depots to agree the reasonableness of the salt quantities per the stock sheets. As regards Moneydrain the Salt stock sheets tonnage estimate was within 4.7% of estimated tonnage. No estimate was carried out for the Blackhill depot due to the construction of the pile.

6 RECOMMENDATIONS

There are three recommendation of a low priority identified as a result of the audit.

7 AUDIT OPINION.

Based on the findings of the stock checks undertaken it can be concluded that the Development & Infrastructure Services, Roads Lighting Store has demonstrated that they have procedures in place for ensuring stock figures are correctly stated in the financial statements. With regard to the Community Service IES stock control, the count was of sufficient accuracy when checked back to stock sheets to lead internal audit to have the opinion that sufficient stock processes are in place to support the stock valuation.

8 ACKNOWLEDGEMENTS

Thanks are due to the following persons for their co-operation and assistance during the Audit and the preparation of the report and action plan:

- Accountant – Community Services;
- Integrated Equipment Store Manager; and
- Development and Infrastructure Staff

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.

ARGYLL & BUTE COUNCIL **AUDIT COMMITTEE**
STRATEGIC FINANCE **21 JUNE 2013**

NATIONAL FRAUD INITIATIVE (NFI) – NATIONAL EXERCISE 2012/13

1. INTRODUCTION

Audit Scotland undertakes data matching under section 26A of the Public Finance and Accountability (Scotland) Act 2000 which provides that Audit Scotland may carry out data matching exercises, or arrange for them to be carried out on its behalf. The Audit Commission's NFI team carries out this work.

This report provides the current position regarding the Accounts Commission – Audit Scotland NFI exercise for 2012/13. It details the steps recently taken by Internal Audit and services in preparation for the NFI referral matching exercise that commenced in January 2013.

2. RECOMMENDATION

2.1 The Audit Committee is asked to note the contents of this report which will be followed up by Internal Audit.

3. DETAILS

3.1 In December 2012 Internal Audit reported to both the Strategic Management Team (SMT) and Audit Committee that the requirements set out by the Accounts Commission were met.

3.2 As at 29 January 2013 the Accounts Commission, through Audit Scotland, issued the Council with both NFI match referrals and recommended filters for review and testing. These are set out in Table 1 below. The NFI matches cover the following areas:

- Housing Benefit Claimants;
- Payroll;
- Private Residential Care Homes;
- Blue Badge Parking Permits;
- Insurance Claimants; and
- Creditors.

3.3 The Creditors Section received a number of referrals and recommended filters for testing. Creditors operate a system comparable to that of the NFI. Audit Scotland agreed that the Creditors system level of testing to be reduced under NFI procedures. Recommended filter testing was subsequently reduced to 50 from 253 as set out in Table 1, with testing now complete.

3.4 With regard to Housing Benefit matches and recommended filters, the Benefits Section has commenced their review of the NFI referrals. They are in the process of comparing their real time data systems with the data received from the NFI exercise. This comparison may indicate as with the Creditors Section that they have systems that will permit the level of recommended filter testing to be reduced. However, this will only be determined in agreement with Audit Scotland.

3.5 NFI referred matches for Insurance Claimants is complete. Private Residential Care Homes and Payroll referral match testing on recommended filter matches has commenced.

3.6 Blue Badge testing was commenced in February 2013 but was halted on receipt of an email from the NFI saying that the data they had supplied regarding deceased persons may be inaccurate. The exercise will recommence on notification from the NFI that they consider their data is accurate.

4 CONCLUSION

4.1 The Council’s success with the last NFI exercise was down to co-operation between services. In particular the allocation of responsibility to officers within services was the key by which the Accounts Commission and Audit Scotland dates were met. Set out in Tables 1 and 2 are the key details pertaining to the NFI 2012/13 exercise status along with key dates for both the Accounts Commission and Audit Scotland.

APPENDIX 1

Table 1 – Responsible Officers for NFI Exercise 2012/13

Datasets	Total NFI Matches	Number of NFI Recommended Matches	Status of Testing	Responsible Officer	Target dates for completion of Matches
Housing Benefit	1296	171	Started	Counter Fraud Manager	Nov/ 2013
Creditors	7024	253	50 Complete	Creditors Supervisor	Nov/ 2013
Payroll	1940	481	Started	Payroll Supervisor	Nov/ 2013
Residential Care Homes	223	203	Started	Finance Officer	Nov/ 2013
Blue Badges	137	116	On hold	Customer Services Advisor/Registrar	Nov/ 2013
Insurance	5	0	5 Complete	Insurance Assistant	Nov/ 2013
Total	**10710**	**1309**			

Table 2 – Key Dates

Key Dates	Target Dates
Audit Scotland interim	November/December 2013
Audit Scotland will use the outcomes as at this date for the national report	Monday 31 March 2014
Audit Scotland will publish the 2014 NFI report	May 2014

For further information contact Ian Nisbet on TEL: 01546 604216. 11 June 2013.

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Agenda Item 16

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Mr Bruce West
Head of Strategic Finance
Argyll and Bute Council
Kilmory
Lochgilphead
Argyll
PA31 8RT

4 March 2013

Dear Bruce

Argyll and Bute Council
Review of the adequacy of the Internal Audit service: 2012/13

Audit Scotland's Code of Audit Practice (the 'Code') sets out the wider dimension of public sector audit. The Code requires external auditors to carry out an annual assessment of the adequacy of the internal audit function. Also, based on this assessment we plan to rely on areas of internal audit work in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit).

We have now completed our assessment of the internal audit function which is provided by the in-house Internal Audit Service. This included a review of the range and quality of work carried out by internal audit.

Overall, we concluded that the internal audit service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom and has sound documentation standards and reporting procedures in place. For our financial statements audit responsibilities we plan to place formal reliance on aspects of internal audit's work in the following areas:

- Non Domestic Rates
- Council tax
- Payroll
- Trade Payables and Purchasing
- Trade Receivables
- Financial ledger
- Treasury management
- Capital accounting

In terms of our Code responsibilities in relation to governance and performance, we also plan to review and consider internal audit work in a number of areas including:

- Performance Management Arrangements
- SPI verification work

We will continue to monitor and review completed internal audit assignments to ensure that work on which we are placing reliance has been delivered. Any failure to complete areas where formal reliance has been agreed could impact on our plan and agreed audit fee.

If you have any questions on this matter please do not hesitate to contact me.

Yours sincerely

David Jamieson
Senior Audit Manager

By email: Sally Loudon, Chief Executive
Ian Nisbet, Chief Internal Auditor
Sharon Middlemass, Best Value and Improvement Scrutiny Group, Audit Scotland