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Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Customer Services
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6 December 2013

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 13 DECEMBER 2013** at **11:15 AM**, which you are requested to attend.

Douglas Hendry
Executive Director - Customer Services

BUSINESS

8. **UPDATE ON INTERNAL AUDIT IMPROVEMENT PLAN**
   Report by Chief Internal Auditor (Pages 257 - 268)

9. **UPDATE ON STRATEGIC RISK REGISTER**
   Report by Head of Strategic Finance (Pages 269 - 284)

10. **ACCOUNTS COMMISSION STATUTORY REPORT**
    Report by Head of Strategic Finance (Pages 285 - 286)

11. **INTERNAL AUDIT CHARTER**
    Report by Chief Internal Auditor (Pages 287 - 304)

12. **INTERNAL AUDIT TERMS OF REFERENCE AND REPORT TEMPLATES - DRAFT**
    Report by Chief Internal Auditor (Pages 305 - 320)

13. **INTERNAL AUDIT RISK ASSESSMENT PROCESS**
    Report by Chief Internal Auditor (to follow)

14. **UPDATED ANNUAL AUDIT PLAN 2013/14**
    Report by Chief Internal Auditor (Pages 321 - 334)

15. **INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE**
    Report by Chief Internal Auditor (Pages 335 - 372)

16. **EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2013 - 2014**
    Report by Chief Internal Auditor (Pages 373 - 382)

17. **NATIONAL FRAUD INITIATIVE (NFI) - NATIONAL EXERCISE 2012/13**
    Report by Chief Internal Auditor (Pages 383 - 386)

AUDIT COMMITTEE

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

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, 20 SEPTEMBER 2013

Present: Martin Caldwell (Chair)

Councillor Maurice Corry
Sheila Hill
Councillor Iain MacDonald
Councillor Duncan MacIntyre
Councillor Aileen Morton

Attending: Bruce West, Head of Strategic Finance
Jim Smith, Head of Roads and Amenity Services
Patricia O'Neill Central Governance Manager
Russell Smith, Audit Scotland
David Jamieson, Audit Scotland
Fiona Mitchell-Knight, Audit Scotland
Grace Scanlon, Grant Thornton
Angela Scott, CIPFA

The Chair ruled, and the Committee agreed, to consider the reports referred to at items 10, 12, 13a, 13b and 14 of this Minute as a matter of urgency.

1. APOLOGIES FOR ABSENCE

Apologies for absence were intimated from Councillor Gordon Blair.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The Minutes of the Audit Committee of 21 June 2013 were approved as a correct record subject to the following amendments:-

Item 7 **Audit Scotland National Reports to Audit Committee 2012 – 2013**

Decision 3 to include reference to the Committee's decision to agree that the Head of Strategic Finance would bring back a report in December 2013 on how to report outcomes openly and transparently without compromising commercial sensitivity.

A further decision to read "Noted that a report regarding SOLACE benchmarking would be going to the Strategic Management Team and agreed to request an update on progress from the Head of Improvement and HR in December 2013.

4. BUSINESS CONTINUITY UPDATE

On completion of the Council's review of its Business Continuity processes a report was brought to the Audit Committee on 21 September 2012 to advise of the outcome of the review. At this meeting it was requested that a further report regarding staff taking ownership of Business Continuity Planning be brought back to the Audit Committee in September 2013 and this was now before the Committee for consideration.

Decision

Noted the terms of the report.

(Reference: Report by Executive Director – Customer Services, submitted)

5. AUDIT SCOTLAND REPORT - COMMUNITY PLANNING AND HEALTH INEQUALITIES

Audit Scotland has this year issued national reports on Improving Community Planning and Health Inequalities in Scotland. The Audit Committee considered a report in June and agreed that a further management report be submitted in September in respect of progress in relation to these two Audit Scotland national reports. This report was now before the Committee for consideration.

Decision

Noted the improvement activity set out at paragraph 3.7 and agreed that a progress report be brought to the Audit Committee in June 2014 advising on progress with the report prepared by the Head of Improvement and HR.

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

6. AUDIT SCOTLAND REPORT - 'MAINTAINING SCOTLAND'S ROADS'

On 17 May 2013 the Accounts Commission published its report 'Maintaining Scotland's Roads; an audit update on Council's progress'. The 2013 report provides details on how Councils across Scotland have responded to recommendations from the report dated February 2011 Maintaining Scotland's Roads, a follow up report. Both the 2011 and 2013 reports provide progress reports on the original document published in November 2004. A report detailing the actions this Council was taking towards the recommendations of the 2013 report was considered.

Decision

1. Noted the actions the Council was taking towards the recommendations from the 'Maintaining Scotland's Roads' report; and

2. Noted the Audit Scotland report.

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

7. AUDIT ASSURANCE ON TREASURY MANAGEMENT

A report setting out information around the arrangements in place relating to management controls and risk for treasury management was considered.

Decision

1. Noted the contents of the report; and
2. An issue in respect of the scrutiny by elected members was noted as requiring clarification.

(Reference: Report by Head of Strategic Finance dated 28 August 2013, submitted)

8. RISK MANAGEMENT UPDATE

A report setting out the next steps in taking forward the approach agreed in June for the Audit Committee to discharge its role in relation to risk management was considered. An update on general risk management activity was also provided.

Decision

The Committee:-

1. Noted the terms of the update and endorsed the next steps as outlined in the report; and
2. Commended the Officers involved with this particular piece of work in clarifying how a more developed approach and assessment of risk management (including within internal audit reports to the Committee) would be undertaken as part of the Audit Plan.

(Reference: Report by Head of Strategic Finance dated 12 September 2013, submitted)

9. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2013 - 2014

An interim report covering the audit work performed by Internal Audit as at 2 August 2013 was considered.

Decision

1. Noted progress made with the Annual Audit Plan for 2013 – 2014; and
2. Noted that contract audit days will be purchased in order to bring the plan back on track.

(Reference: Report by Head of Strategic Finance dated 11 September 2013, submitted)

10. REPORT ON PUBLIC SECTOR INTERNAL AUDIT STANDARDS

A report introducing the outcome of a review on Internal Audit which was carried out as part of the strategic development and performance improvement partnership with Grant Thornton and CIPFA was considered.

Decision

Noted the outcome of the review and endorsed the proposed improvement actions set out in the Appendix to the report.

(Reference: Report by Head of Strategic Finance dated 19 September 2013, tabled)

11. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2013 - 2014

Internal Audit documents the progress made by departmental management in implementing the recommendations made by both External and Internal Audit. A report detailing the results from a review performed by Internal Audit for recommendations due to be implemented by 31 July 2013 was considered.

Decision

Noted the contents of the report.

(Reference: Report by Head of Strategic Finance dated 14 August 2013, submitted)

12. EXTERNAL AUDIT - PROGRESS REPORT ON EXTERNAL AUDIT PLAN

Audit Scotland's Annual Audit Plan for the 2012/13 Argyll and Bute Council audit was presented to the Audit Committee on 15 March 2013. The audit plan set out the key risks facing the Council in financial year 2012/2013, the actions taken by management to mitigate these risks and the main audit outputs for the year. A report providing details of progress to date against the 2012/13 Annual Audit Plan was considered.

Decision

Noted the contents of the report.

(Reference: Report by External Auditors - Audit Scotland dated September 2013, tabled)

13. EXTERNAL AUDIT REPORTS

(a) **REVIEW OF INTERNAL CONTROLS 2012 - 2013**

Consideration was given to a report regarding a review carried out by Audit Scotland to evaluate whether the key internal controls operating within the main financial systems of the Council were adequate to enable Audit Scotland to place reliance on them when forming an opinion on the 2012/13 financial statements.

Decision

Noted the contents of the report.

(Reference: Report by External Auditors – Audit Scotland, dated 13 September 2013, tabled)

(b) **SCOTLAND'S PUBLIC FINANCES - ADDRESSING THE CHALLENGES: FOLLOW UP AUDIT**

In 2010 Audit Scotland agreed a targeted approach to following up a small number of performance audit reports each year to promote local impact. 'Scotland's Public Finances: Addressing the Challenges' published in August 2011 was the only performance audit report to be selected for targeted follow up in 2012/13. A report summarising the key findings arising from Audit Scotland's local follow up work was considered.

Decision

1. Noted the contents of the report; and

2. With regard to service reviews paragraph 27-29 noted that a report would be brought to Council which would provide information on the numbers and costs associated with early retirals including information on any subsequent re-employment.

(Reference: Report by External Auditors – Audit Scotland dated September 2013, tabled)

14. EXTERNAL AUDIT REPORT ON FINANCIAL STATEMENTS - ISA 260 LETTER

A report setting out the matters arising from the audit of the financial statements for 2012/13 that require to be reported under ISA 260 was considered.

Decision

Noted the contents of the report.

(Reference: Report by External Auditors – Audit Scotland dated September 2013, tabled)

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ARGYLL AND BUTE COUNCIL **AUDIT COMMITTEE**

CHIEF EXECUTIVE'S UNIT **13 DECEMBER 2013**

LOCAL GOVERNMENT BENCHMARKING FRAMEWORK

1 Introduction

The Local Government Benchmarking Framework has replaced the Statutory Performance Indicators as a means of improving Scotland's performance through comparison and learning across Scottish councils. Argyll and Bute Council is participating in the developing framework.

2 Recommendation

It is recommended that the Audit Committee notes the progress made with implementing the new Local Government Benchmarking Framework.

3 Detail

3.1 The National Benchmarking Project, sponsored by SOLACE and delivered through the Improvement Service, is an improved method of comparing like-for-like performance across Scotland's councils. For more than a decade, all Scotland's councils have been required to gather, audit and report performance information across a range of services. These Statutory Performance Indicators (SPIs) have informed the focus of external auditors and inspectors as well as providing the Press and public with league tables of top-performing and poorly-performing councils. Many of the SPIs are flawed or do not accurately reflect local service provision. This was acknowledged by the Accounts Commission during 2009 when they issued a new Direction, reducing the number of defined indicators from around 70 to just 25.

3.2 The Improvement Service has been working with councils to develop a new approach which has now been approved by the Accounts Commission to replace the defined indicators (SPIs). The suite of benchmarking data was presented to CoSLA in March 2013, relating to performance in 2011-12. The defined indicators (SPIs) will be replaced by the benchmarking data for 2013-14 and beyond. Thereafter, all councils will be required to publish the benchmarking data instead of the defined indicators. An extract of the Commission's 2012 Direction is attached (published in 2012, relating to the financial year 2013-14).

3.3 Representatives of Argyll and Bute Council (finance and performance) have been involved in the working groups to ensure a clear and shared understanding of the benefits and risks associated with the project.

3.4 To facilitate detailed work, all councils have been divided into Family Groups of eight similar councils. As the characteristics used for membership of these groups are diverse, two sets of benchmarking indicator have been created – People Services and Other Services. This provides for similarities in terms of e.g. geography, deprivation, relative size of budget to be taken into account.

3.5 Argyll and Bute Council is in the People Services Family Group with Angus, East Lothian, Highland, Moray, Scottish Borders and Stirling Councils. Our Other Services Family Group is with Aberdeenshire, Dumfries & Galloway, Western Isles, Highland, Orkney, Scottish Borders and Shetland Councils.

3.6 Work is progressing with our Family Groups and with the Improvement Service to develop the process of analysis that will allow councils to learn from each other. This is essentially based on detailed work around each of the 52 indicators, although we will not participate in the five housing indicators as we do not provide a housing service. The list of indicators is appended to this paper.

3.7 The results of the benchmarking process will be twofold. Firstly, the data are published centrally by the Improvement Service, allowing everyone access to these comparative indicators of local service delivery. Secondly, Family Groups of councils will analyse and compare the underlying processes for each indicator, allowing us to learn and improve together.

3.8 The data for 2010-11 and 2011-12 are available now through the Improvement service website http://www.improvementservice.org.uk/benchmarking/ and in a Pyramid scorecard. Detailed comparison by council and by Family Group provides a starting point for all councils to plan and implement improvements.

4 Conclusion

Argyll and Bute Council is participating in the Local Government Benchmarking Framework to improve services and to comply with Accounts Commission direction.

5 Implications

Policy	none
Financial	none
Personnel	none
Legal	participation in the LGBF is required by the Accounts Commission for Scotland
Equal Opportunities	none

Jane Fowler
Head of Improvement & HR

For further information:
David Clements
I&OD Programme Manager

<u>EXTRACT from the Accounts Commission for Scotland Direction 2012</u>

SCHEDULE

Corporate management

SPI 1: Each council will report a range of information, sufficient to demonstrate that it is securing Best Value in relation to:

- responsiveness to its communities
- revenues and service costs
- employees
- assets
- procurement
- sustainable development
- equalities and diversity.

Service performance

SPI 2: Each council will report a range of information sufficient to demonstrate that it is securing Best Value in providing the following services (in partnership with others where appropriate):

- benefits administration
- community care
- criminal justice social work
- cultural & community services covering at least sport & leisure, museums, the arts and libraries
- planning (both environmental and development management)
- the education of children
- child protection and children's social work
- housing & homelessness
- protective services including environmental health, and trading standards
- roads and lighting
- waste management services

SOLACE benchmark framework

SPI 3: Each council will report its performance in accordance with the requirements of the Society of Local Authority Chief Executive (SOLACE) benchmark framework – now referred to as the ***Local Government Benchmarking Framework***.

LGBF Indicators - DRAFT PROPOSED CHANGES FOR 13/14

	Data	Indicator Description
Children's Services	CHN1	Cost per Primary school Pupil
	CHN2	Cost per Secondary School Pupil
	CHN3	Cost per Pre-School Education Registration
	CHN 4	% of Pupils Gaining 5+ Awards at Level 5
	CHN5	% of Pupils Gaining 5+ Awards at Level 6
	CHN6	% of Pupils from Deprived Areas Gaining 5+ Awards at Level 5 (SIMD)
	CHN7	% Pupils from Deprived Areas Gaining 5+ Awards at Level 6 (SIMD)
	CHN8a	The Gross Cost of "Children Looked After" in Residential Based Services per Child per Week
	CHN8b	The Gross Cost of "Children Looked After" in a Community Setting per Child per Week
	CHN9	Balance of Care for looked after children: % of children being looked after in the Community
	CHN10	% of Adults Satisfied with Local Schools
	CHN11	Proportion of Pupils Entering Positive Destinations
	NEW	Outcomes for primary aged children & pre-school children
Corporate Services	CORP 1	Support services as a % of Total Gross expenditure
	CORP 2	Cost of Democratic Core per 1,000 population
	CORP3a	The percentage of the highest paid 2% employees who are women
	CORP4	The cost per dwelling of collecting Council Tax
	CORP5b 2	(Domestic Noise) Average time (hours) between time of complaint and attendance on site, for those requiring attendance on site
	CORP6	Sickness Absence Days per Employee
	CORP7	Percentage of income due from Council Tax received by the end of the year
	CORP8	Percentage of invoices sampled that were paid within 30 days

Social Work Services	SW1	Older Persons (Over65) Home Care Costs per Hour
	ADD	Adult Home Care Costs per Hour (18-64)
	SW2	SDS spend on adults 18+ as a % of total social work spend on adults 18+
	SW3	% of people 65+ with intensive needs receiving care at home
	SW4	% of Adults satisfied with social care or social work services
Culture & Leisure Services	C&L1	Cost per attendance at Sports facilities
	C&L2	Cost Per Library Visit
	C&L3	Cost of Museums per Visit
	C&L4	Cost of Parks& Open Spaces per 1,000 Population
	C&L5a	% of adults satisfied with libraries
	C&L5b	% of adults satisfied with parks and open spaces
	C&L5c	% of adults satisfied with museums and galleries
	C&L5d	% of adults satisfied with leisure facilities
Environmental Services	ENV1	Gross cost of Waste collection per premises
	ENV2	Gross cost per Waste disposal per premises
	ENV3a	Net cost of street cleaning per 1,000 population
	ENV3b	Street Cleanliness Index
	ENV4a	Cost of maintenance per kilometre of roads
	ENV4b	Percentage of A class roads that should be considered for maintenance treatment
	ENV4c	Percentage of B class roads that should be considered for maintenance treatment
	ENV4d	Percentage of C class roads that should be considered for maintenance treatment
	ENV5	Cost of trading standards and environmental health per 1,000 population
	ENV6	The % of total waste arising that is recycled
	ENV7a	% of adults satisfied with refuse collection
	ENV7b	% of adults satisfied with street cleaning

Housing Services	HSN1	Current tenants' arrears as a percentage of net rent due
	HSN2	Percentage of rent due in the year that was lost due to voids
	HSN3	Percentage of dwellings meeting SHQS
	HSN4	Percentage of repairs completed within target times
	HSN5	Percentage of council dwellings that are energy efficient
	NEW	Homelessness indicator
Corporate Services: Asset Management and Property	CORP ASSET 1	Proportion of operational buildings that are suitable for their current use
	CORP ASSET 2	Proportion of internal floor area of operational buildings in satisfactory condition

POSSIBLE ADDITIONAL INDICATORS		
PROCUREMENT	**NEW**	Social/Economic impacts of procurement activity
PLANNING	**NEW**	Value added through planning process
PEOPLE	**NEW**	HR Costs/L&D Costs/Employee satisfaction

Agenda Item 5a

ARGYLL AND BUTE COUNCIL — **AUDIT COMMITTEE**
PLANNING AND REGULATORY SERVICES — **13 December 2013**

PROTECTING CONSUMERS ACTION PLAN – PROGRESS REPORT

1. PURPOSE

1.1 On 17 April 2013, Members of the Planning, Protective Services and Licensing Committee endorsed an Action Plan to address the issues raised by the Audit Scotland report “Protecting Consumers” which considered and identified serious concerns about the future delivery of trading standards in Scotland, unless actions were taken at a national level. A large number of recommendations related specifically to trading standards, to food safety enforcement, although other areas were also raised including the profile of the services within Councils and by Elected Members.

1.2 Regular reports have been provided to the Councils Audit Committee against the agreed plan, and on the 20th November 2013, the Councils PPSL Committee considered a six month progress report. This paper summarises this current position to the Councils Audit Committee.

2. RECOMMENDATIONS

2.1 To note the considerable progress which has been made and arrangements which are in place to manage this project. Timescales for 5 activities where the timescales where unachievable for various reasons have been extended with agreement of the PPSL Committee.

2.2 To recognise that the national actions are influenced by factors outwith our direct control although we are involved in these discussions.

3. PROGRESS REPORT

3.1 We have been working at local and national levels with Partners to deliver our Protecting Consumers Action Plan. Annex A to this report provides a description of each action together with its status (on-going and on target; on-going but date to be revised; completed and not progressed) and the progress achieved as of 30th October 2013.

3.2 Members should note that we reporting the plans progress to the Council’s Audit Committee and Protective Services and Licensing.

3.3 In general terms, we are making good progress and, of the 27 actions contained within the report, we have completed 7 actions and work is on-going in a further 18. The current status is :-

Status	**Total**	**Specific Actions numbers in spreadsheet (column 3)**
Completed	7	8,9,10,12,18,21,26
On-going and on target	13	3,4,5,6,7,11,15,16,17,19,20, 22,23,
On-going and dates reviewed	5	13,14,24,25,27
Not progressed but dates rescheduled	2	1,2

3.4 I would specifically highlight the following :

(i) At a national level, we have been working with COSLA, the Improvement Service, Trading Standards Scotland, the Society of Chief Officers of Trading Standards in Scotland, and other Local Authorities, to take forward many of the national issues. There was a National Trading Standards Summit in June and we are awaiting a consultation paper on the role of COSLA and Trading Standards Scotland, which will address many of the recommendations in the report. Other matters which are common to other Local Authorities are being pursued through work with these Partners.

(ii) At a local level, we have implemented a new risk rating system for Trading Standards, a time management system, are participating in a national intelligence surveillance system which will support intelligence-driven enforcement, and have introduced a new risk-based approach to the work of Trading Standards, which allows greater local flexibility and rewards "good" traders by allowing them to move to lower risk bands by demonstrating compliance. We are also proceeding with benchmarking and developing appropriate performance measures for environmental health, trading standards, and animal health. I have been nominated to participate in the Project Group working with the Association of Public Services Excellence (APSE) to take this forward.

3.5 There are 5 actions where progress has been made although we have had to extend the date for completion and these were agreed by PPSL Committee on the 20th November 2013:

(a) **Time Recording**. We have implemented systems within Trading Standards and Animal Health, although the revised Environmental Health arrangements are not yet in place. The system has been developed and will be in place by 1 January 2014.

(b) **Raising Members' Awareness**. We agreed a plan at the May Committee and have implemented a range of measures including regular briefing to the Lead Councillor, and for COSLA Committees. However there has been a delay in arranging accompanied visits with Officers. To allow for local arrangements to be made, this was extended to 30 June 2014,

(c) **Consumer Advice**. We have been working with Argyll & Bute Citizens Advice Bureau (ABCAB) and revised the existing contract, and have improved liaison arrangements. A pilot has been undertaken whereby a 2nd stage intervention service is offered by both ABCAB and Bute Advice Centre, supported by the Councils trading standards team, to support consumers who have been unsuccessful in pursuing self-help remedies after following the advice given by the national hotline. In addition, a baseline review of advice services is ongoing to identify funding arrangements as of 1 April 2014.

(d) **Approved trader scheme.** We have identified two possible "approved trader" schemes and identified a demand with some businesses. Prior to taking this forward to Members, we are undertaking specific discussions with business to ensure that they will "sign up" to the scheme. The last element is not yet complete. To allow us to complete this and then report to Members on the available, the timescale was extended to 31 March 2014.

(e) **The rating of "unrated premises" for food premises**. We have identified a temporary resource to undertake this specific work but have been unable to successfully recruit. We are currently re-advertising. This is at a critical stage as we do not have adequate resources in-house to attend to this work. This was extended to the 30th June 2014

3.6 We have been unable to progress with

(a) The review of resource levels or workforce planning with Environmental Health or Trading Standards at a local level, leading into the 2014/15 service plan (actions 1 and 2). This was to be integrated into the Service Prioritisation process, which is now delayed. This was extended to 31 March 2014.

4. CONCLUSIONS

4.1 Progress has been good both locally and nationally and we are establishing appropriate working arrangements. There has been a lot of hard work and effort put in at both levels to take forward the concerns in the Protecting Consumers report by Audit Scotland.

5. IMPLICATIONS

5.1	**Policy**	Protecting Consumers is consistent with Single Outcome Agreement.
5.2	**Finance**	There may be some costs relating to the proposal by COSLA for development of role of TSS.
5.3	**Legal**	The report covers statutory duties of the Local Authority for Trading Standards and Environmental Health.
5.4	**Personnel**	Our difficulties recruiting to a temporary post is causing considerable issues, and will impact on our ability to meet the Action Plan. There is a need to develop and deliver a workforce development strategy.
5.5	**Equal Opportunities**	None
5.6	**Risk**	There is a risk that the Food Standards Agency may take action against the Council if we do not address premises that are currently not risk rated'

Regulatory Services Manager

AM/KT/7444 December 2013

For further information contact: Alan Morrison Tel: 01546 604292
Regulatory Services Manager
e-mail : alan.morrison@argyll-bute.gov.uk

LIST OF BACKGROUND PAPERS :

1. Annex 1 : Spreadsheet of Progress

Key Point/Checklist/ Recommendation	Action/Response:	Proposed actions	Date for Impleme n-tation	Status	Risk Status	Progress and Update
Does the Council work with the FSA in Scotland and, in future, the new Scottish food safety organisation to develop a workforce strategy, which identifies the staffing levels and skills required to sustain an effective food safety service over the next 5–10 years, and take action to address any shortfalls identified	We have good relationships with the FSA and the Food Framework provides a standard for local authority food safety services. Our statutory food safety service plan is approved by Committee, and we are subject to audits by the FSA. To date, these have been positive. We have on-going staff development, training and support arrangements in place to retain and improve competency.	1. Review staffing levels and workforce planning within environmental health and prepare report for further consideration	31/10/2013	Not progressed	M	Was incorporated into phase 1 Service review but will require further consideration. Extended to 31st March 2014
		2. Identify clear priorities for service based on outcome of point 1 above into 14/15 service plan	31/3/2014	Not Progressed	M	Linked to action 1
		3. Participate in corporate Workforce Planning review	31/03/2014	Ongoing		Now incorporated into service prioritisation review
		4. Work with REHIS to implement new training programme for EH	31/12/2013	Ongoing		On-going
		5. Deliver the outcomes of the PDR reviews with staff	31/03/2014	Ongoing		On target
		6. Work with COSLA regarding resources for Regulatory Services	On-going	Ongoing		Summit meeting for TS; ongoing work through SOCOEH and SCOTSS, and FSA/COSLA
		7. Work with FSA, Society of Chief Officers of Environmental, Health Officers in Scotland on issues regarding workforce planning and resources	On-going	Ongoing		On going
Has the Council developed a new risk assessment scheme for trading standards that is sensitive to local intelligence about businesses	We have a scheme of risk assessment although the report indicates that there is a high percentage of high risk premises in Argyll and Bute (5.9%) compared to other local authorities (Fife 0.5%, Highland 2%)	8. We are in the process of preparing to implement a new national risk assessment scheme which will update all risk assessments.	30th October 2013	Complete		Work completed to develop consistent approach to risk assessment with TS team. Risk rating process was complete for non-agricultural businesses,

		9. Arrangements will be implemented to ensure that the service undertakes risk assessments and local scores consistently in line with the national risk assessment scheme.	30th June 2013	Complete		Training and review arrangements developed and complete.
Does the Council ensure they have access to, and make use of, intelligence to help determine their local priorities, and contribute intelligence to information systems that support the work of other Scottish and UK councils, and the national teams	These are available through existing liaison arrangements direct with agencies (FSA, OFT etc.); liaison groups with other LA's, use of IT system to share information and intelligence, including MEMEX which we implemented in December 2012. We also attend meetings hosted by national Scottish Scambusters with input from IMLU & E-crime teams.	10. Maintain current working arrangements and utilise new MEMEX software	On-going	Complete		We are now using MEMEX, which is a national intelligence sharing software system. Training has also been provided to all TS staff. We also continue to use TS Interlink, but usage of this system is dropping across the UK and is currently under national review. We have attended 100% of Scambusters meetings
Has the Council developed a clear direction for the future of their consumer protection services and satisfy themselves that they are allocating resources where they are most effective and in a way that appropriately reflects the risks, national and local priorities and the needs of local communities	Through the service review, we redesigned service delivery including that of consumer protection. First stage civil advice is issued by national agencies and not the Council and we have measures in place to ensure the public access this basic advice service. This includes agreement with Citizens Advice Scotland and financial support to Argyll and Bute Citizens Advice Bureau, The current situation with second stage civil advice/interventions is less clear. There is also improved information and links on our website and the Customer Management Centre are able to direct any consumer to appropriate advice services. Our trading standards service plan defines the consumer protection priorities for the year focussing on national and local priorities. Argyll and Bute Council are specifically mentioned in the Audit Scotland report as one of only 6 councils that do not take referrals from Citizens Advice Consumer Scotland, although second stage advice offered by the other local authorities is a non-statutory function and one which we ceased some time ago.	11. We are to undertake a review of the local and national civil advice arrangements in Argyll and Bute to determine whether they meet the needs of the consumer and are effective	31/12/2013	On-going		2nd stage intervention policy extended for 3 months for further evaluation. ABAN referral system to be implemented Baseline review complete, but further information being sought from ABAN partners
		12. We are to review and implement a new risk rating system for trading standards. This will enable us to address the issue whereby Argyll and Bute Council have the highest percentage of high risk premise in Scotland	31/07/2013	Complete		High risk premises have reduced from 5.6% to 2.1%. This is comparable with other LA's
		13. We are to review and improve the time recording systems used for environmental health and trading standards	30/09/2013	On-going	Timescale extended to 31/01/14	System in place for TS and AHW. EH system being reviewed at present and will be in place by 31/12/2013

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	The Council have the largest number of unrated food businesses in Scotland	14. We are to develop an action plan to rate the currently unrated food safety premises in Argyll and Bute. They are deemed to be low risk although they have not been formally rated using the FSA Code of Practice	31/03/2014	On-going	Timescale extended to 30/06/14	Action plan developed and resource secured in establishment. This has been advertised 3 times with no success. In addition, no short-term contractors are available Impact of this is significant as we have been unable to carry out assessments at our unrated premises.
Does the Council ensure their work on lower risk areas is sufficient to prevent them becoming more serious risks	We have initiated an alternative enforcement strategy which seeks to achieve this. An annual work plan is agreed each year and delivered across Regulatory Services	15. To further develop alternative enforcement, (ii) To review the resource implications and success of the low risk intervention activities	31/03/2014	Ongoing		(a) Alternative enforcement plan in place and work progressing well,
Does the Council ensure they monitor and manage the performance of all their consumer protection services using appropriate measures of performance that enable benchmarking, and report performance regularly to councillors, senior management and the public?	Performance measures are in place and we are working with a number of local authorities to develop common benchmarking measures across Regulatory Services	16. To continue to develop benchmarks with the local authorities within the "Argyll" Club	31/03/2014	Ongoing		(a) Benchmarking Club established and common measures identified (b) Comparison measures are being identified from statutory reports to provide quick benchmarks although these will change once relevant ones are developed

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	We are working with Association of Public Services Excellence (APSE) to develop a suite of performance measures in Scotland for trading standards and environmental health.	17. To participate in the pilot with APSE and other local authorities to develop better performance measures and benchmarking arrangements	31/12/2013	Ongoing		APSE project delayed but work on-going with Scottish Project Team established
	Currently, performance is reported via the Councils Pyramid system and service plans detail future priorities and also report on performance. Our Balanced Scorecard also reports on performance and is available through our website	18. Continue to use the Corporate Pyramid system to report performance against key indicators	On-going	Complete		Complete and updated quarterly
Does the Council work with COSLA in developing arrangements for national coordination, explore a full range of options for redesigning trading standards services, including a greater use of more formal joint working; shared services and establishing a national service	Yes through work of SCOTSS. A recent example are the new arrangement for the delivery of consumer protection in Scotland and the provision of specialist units for money lending, Scambusters and IE-crime fraud	19. Continue to support current liaison arrangements	31/03/2014	Ongoing		Meeting at COSLA with Improvement Service, LA's and Trading Standards Scotland on 20th June 2013
Do the Council and COSLA liaise with the Scottish Government on the future of trading standards services where this involves organisational or service issues for which it has responsibility	Via COSLA Working Groups, SCOTSS and specific consultations	20. Continue with current arrangements	31/03/2014	Ongoing		Work on-going

Does the Council work with COSLA to develop a workforce strategy, which identifies the staffing levels and skills required to sustain an effective trading standards service over the next 5–10 years, and take action to address any shortfalls identified	Work has been through SCOTSS to date and has included funding arrangements of single-issue initiatives (e.g. tobacco enforcement) or the new consumer landscape.	21. Need to take forward recommendations of Protecting Consumers report with COSLA and others	30/06/2013	Complete		The issues have been discussed nad arrangements are now in place to ensure that we participate in these discussions. Linked to TS Summit meeting 20th June 2013
Does the Council work with COSLA to ensure that councillors are fully informed and supported to make decisions about the future of services to protect consumers	Elected representatives attend various COSLA Working Groups. Briefings provided by Regulatory Services Manager /Trading Standards Manager/ EH Manager on any relevant matters	22. Continue with current arrangements and ensure briefings are issued to support Members	On-going	Ongoing		On-going. Briefing provided to elected members attending appropriate COSLA meetings (Leaders/ Community and Wellbeing)
Does the Council ensure they monitor and manage the performance of all their consumer protection services using appropriate measures of performance that enable benchmarking, and report performance regularly to councillors, senior management and the public	These are in place and there is quarterly performance reporting. There is a trading standards plan although at present this does not go to Committee. Regular briefings are taking place with Lead Councillor on emerging issues and the national agendas.	23. Arrange regular briefings with the Lead Councillor Planning and Regulatory Services	31/03/2014	Ongoing		Briefings provided to Lead Councillor in May, June & September 2013.
		24. Determine how best to raise members appreciation of Regulatory Services and the areas of trading standards and food safety which are raised in this report	30/06/2013	On-going	Timescale extended to 30/06/14	Committee paper agreed at May 2013 PPSL Committee Arrangements in place to improve Members awareness. Delay in arranging visits but being progressed
Do the Council and COSLA work with the Citizens Advice Service and others to increase awareness and understanding among consumers of where they can get advice and help when buying goods or services, particularly when things go wrong.	We have a written agreement with Citizens Advice Scotland and we refer consumer enquiries to their national advice line. We also support the local Argyll and Bute CAB	25. Agree new contract with ABCAB, (ii) Reinstate reporting and liaison arrangements (iii) Consider funding options for 14-15.	30/06/2013	Ongoing	Timescale for item (iii) extended to 31/03/14	(i) Complete (ii) In place (i) Baseline of advice services on-going which will lead to review of funding arrangement.

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Does the Council work with COSLA to establish an effective system for analysing intelligence and agreeing national priorities for their work to protect consumers	COSLA role is minimal at present although with the demise of DTI, COSLA will need to be more involved	26. COSLA have a specific consumer protection team who will take this forward	On-going	Complete		
Does the Council work with COSLA to review 'trusted trader' schemes and consider the need for a shared national approach or standards	We are presently considering options for the provision of a trusted trader type scheme. However, I am not aware of any plans from COSLA to operate a national scheme of this type.	27. Identify options for trusted trader scheme in Argyll and Bute Council and report to PPSL Committee	31/09/13	On-going	Timescale extended to 31/03/14	Options for trusted trader scheme have been considered and report being prepared for Committee. Need discussion with Lead Councillor to determine approach and level of interest

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ARGYLL AND BUTE COUNCIL **AUDIT COMMITTEE**
IMPROVEMENT AND HR **13 DECEMBER 2013**

AUDIT SCOTLAND REPORTS – HOUSING IN SCOTLAND

1 INTRODUCTION

1.1 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 is one report appended for the Audit Committee. A Checklist has been issued to management for which a response has been provided.

2 RECOMMENDATION

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

3 DETAIL

3.1 The supply of housing is not keeping up with levels of need and the government needs to clarify how it will work with councils and other partners in the sector make sure its targets are met.

This report, says there are significant challenges ahead. The population is growing and Audit Scotland estimates it could be twenty years before enough new homes are being built to meet the projected increase in households.

The number of new homes built by the private sector in Scotland has more than halved in recent years. Councils and Registered Social Landlords (RSL) have an important role to provide homes at low rents, but since 2005, they have built 14,000 fewer homes than Scottish Government research suggested were needed.

Changes to the benefit system, an ageing population and the increasing number of single person households are creating further pressures.

The Scottish Government and councils recognise that good housing can make a positive contribution to improving local communities and the broader economy; however the recession means less public and private funding is available.

The report, for the Auditor General and the Accounts Commission, notes that Scottish Government funding for housing fell by around a quarter between 2008/09 and 2011/12 with further reductions to come.

4 CONCLUSION

4.1 Good progress is being made by Housing Services in implementing the improvements recommended by the national audit report.

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

Head of Strategic Finance
For further information please contact Internal Audit.
18 November 2013

Housing in Scotland

Prepared by Audit Scotland
July 2013

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac/

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-

Summary

Key facts

£50 million – Estimated loss of income to tenants by 2014/15 as a result of welfare reform's reduced payments for spare bedrooms

54 per cent – Reduction in the number of new homes built by the private sector between 2007/08 and 2011/12

17 per cent – Reduction in the number of households assessed as homeless between 2010/11 and 2011/12

75 per cent –Projected increase in the number of people aged 75 and over between 2012 and 2035

44 per cent – Projected increase in the number of single person households between 2012 and 2035

500,000 – Estimated number of additional households in Scotland in the next 25 years

29 per cent – Reduction in the Scottish Government's capital housing budget, in real terms, between 2008/09 and 2011/12

Background

1. Housing is important for people and communities. Well-planned, good-quality housing contributes to strong, resilient communities, and promotes economic growth. It can also have a positive impact on the quality of people's lives. If well planned, it can help prevent additional costs to public sector budgets, such as the health service.[1]

2. The UK and Scottish Governments, councils, financial institutions, landlords, regulatory bodies and the construction industry all contribute to housing in Scotland. The housing sector is interlinked, so changes in one part of the sector can directly affect other parts. Housing is also affected by external factors, particularly the strength of the economy.

3. National and local government have a long-established role in housing. Government regulates parts of the housing market and helps people meet their housing needs, particularly those with specific needs or on lower incomes. The housing sector is wide-ranging and includes services from planning and construction through to support and advice to tenants. The sector can help people who live in, or want to move to:

- a home that they own
- private rented accommodation
- a home rented from a council or a housing association or cooperative.

4. Housing is a long-term investment and is funded through a mixture of one-off payments and ongoing funding. The sources of these funds are diverse, ranging from loans through to grants and benefit payments.

About the audit

5. Our audit looked at how Scotland's housing sector works, how much public money is spent and what that money delivers. We assessed how well the Scottish Government and councils plan to meet Scotland's housing needs and the main challenges in the future. We were supported throughout the audit by our advisory group **(Appendix 1)**.

6. Our focus was on the role and performance of the public sector. We also considered the role of housing associations and cooperatives, which we have referred to as Registered Social Landlords (RSLs). RSLs are not-for-profit social landlords, most commonly housing associations. We consulted with the Scottish Housing Regulator (SHR), which regulates how councils and RSLs manage their housing stock, and how RSLs manage their finances and governance. Where relevant, we have considered the role of the private housing sector and how it works with the public sector. Our audit work took place between July 2012 and February 2013 and our conclusions reflect the situation at that time, although we have included updated information where possible. Our findings have identified areas where more detailed performance audit work may be of value. These include the Scottish Government's new build programme, how councils manage housing stock, the efficiency and effectiveness of services for homeless people, and the spend and progress to date on energy efficiency measures. We will consider these areas when developing our future work programme.

7. This report is in three parts:

- Housing in Scotland **(Part 1)**
- Funding **(Part 2)**
- Planning and management **(Part 3)**.

8. In addition to this report, we have published a range of accompanying documents and supporting material on our website:

- **an issues paper for elected council members**
- **a checklist for council officers**
- **a consultant's report on council and RSL housing stock.**

Key messages

1. Housing in Scotland is facing significant challenges. The recession has affected the availability of housing and the sector is now working with constraints on lending, competing and increasing demands on capital resources, and reduced government subsidies. Population changes and welfare reform will further increase pressure on the sector. The challenges will require effective leadership and a long-term, coordinated response.

2. The supply of housing is not meeting current levels of need. The number of new private homes built in Scotland has more than halved in recent years while the population is increasing. Our analysis suggests that it could be more than 20 years before there are enough new homes to meet the projected increase in households in any one year. In terms of council and RSL homes, Scottish Government research in 2005 suggested that 8,000 new homes were needed each year. Our analysis suggests that just over 42,000 of the 56,000 council and RSL homes needed since then were built, a shortfall of almost 14,000 homes.

3. Between 2008/09 and 2011/12, Scottish Government revenue budgets for housing fell by 24 per cent in real terms, from £199 million to £152 million and capital budgets by 29 per cent, from £534 million to £378 million. Revenue and capital funding for new homes has been particularly affected and there are significant and competing demands on capital budgets. The Scottish Government is responding by encouraging increased borrowing and alternative models of finance to maximise private investment in housing. These have associated risks that must be carefully managed. To date, the use of alternative models of finance has been limited and the extent to which they can compensate for reduced levels of subsidy is not clear.

4. National and local government recognise that good housing can make a positive contribution to many government priorities, including economic growth, community empowerment and improved health. However, housing does not always play the role that it could. Planning at a local level is challenging; councils have an important role but have few direct powers, and influencing change can be difficult. Effective leadership is required at a national and local level to ensure housing is well planned and linked to other policy areas.

Key recommendations

The Scottish Government should:

- demonstrate how its long-term vision for housing underpins relevant national policies and informs local planning and practice
- improve its reporting of housing budgets, spend and what the money has delivered to ensure that it is easy to track, takes account of in-year revisions, and provides details on amended spend as and when it occurs
- clarify its expectations of the role alternative models of finance will play in the future financing of council and RSL housing. Provide leadership and support to councils and RSLs in understanding how best these sources of finance can be used and how the risks involved can most effectively be managed
- improve the detail and reliability of national information on housing, including an assessment of the needs of current and future populations. This should assess need for council and RSL homes and affordable homes
- review the financial pressure on the sector, including its ability to meet the national targets and quality standards, and councils' and RSLs' capacity to develop alternative models of finance,

and assess the implications for funding for new homes.

Councils should:

- ensure housing strategies and the associated plans and investment decisions are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners including RSLs and tenants
- review the way housing services are designed and delivered in light of the recent reductions in the number of people assessed as homeless and councils' duties to homeless people
- review the differences in performance and long-term financial position of their housing stock and develop strategies, including rent strategies, to address future liabilities and maintain the value of the assets.

Part 1

Housing in Scotland

housing in Scotland is facing significant challenges

Key messages

5. The Scottish Government has set ambitious targets for housing and progress has been made. However, housing in Scotland is facing significant challenges from population and policy changes in the next few years. The ageing population is likely to increase demand for adaptations, such as wheelchair access, for supported living and for sheltered housing. The number of single person households is set to rise. This is likely to lead to increased demand for smaller homes. Reforms of the welfare system and environmental policies will further increase pressure on the sector.

6. Assessing how many homes are needed, and of what type and where, is difficult. Information is limited on some aspects of current housing supply and need, and there are no consistent definitions for key terms. There is no comprehensive information on existing housing stock, and information on the number of people needing and waiting for a council or RSL home is lacking.

7. The supply of housing is not meeting current levels of need. Due to the recession, the number of new private homes has more than halved in recent years and home ownership remains unaffordable for many people. At the same time, Scotland's population is increasing and our analysis suggest that it could be more than 20 years before enough new homes are built to meet the projected increase in households in any one year.

8. Scottish Government research in 2005 suggested 8,000 new council and RSL homes were needed each year. This research took place before the recession which is likely to have increased demand for council and RSL housing. Our analysis, based on the 2005 research, suggests that just over 42,000 of the 56,000 council and RSL homes needed since then were built, a shortfall of almost 14,000 homes.

The balance between privately owned and rented accommodation has changed significantly over the last 40 years

9. The make-up of Scotland's housing stock has changed significantly over the last 40 years:

- In the 1970s, about 30 per cent of homes were owner-occupied; by 2011, this had doubled to more than 60 per cent.
- In the 1970s, more than 50 per cent of homes were rented from a council or RSL; by 2011, this had dropped to 24 per cent. In the 1970s, almost all of these were council homes; by 2011, this had fallen to around half.[2]
- The number of privately rented homes fell from about 20 per cent in the 1970s to less than ten per cent in the 1990s. This has increased slightly since then to just over 11 per cent.[3,4]
- In 2011, there were 96,000 vacant or second homes in the private sector, just under four per cent of housing stock **(Exhibit 1)**.[5]

Many organisations are involved in providing housing

10. The Scottish Government, councils, RSLs and the private sector all have an important role in housing in Scotland. When we refer to Scotland's housing sector we include these organisations **(Exhibit 2)**.

11. The UK Department for Work and Pensions (DWP) provides housing benefit and council tax subsidies for tenants who need help to pay their rent. The UK Government is currently reforming the welfare system, including changes to the way housing benefit is calculated and paid.

12. Various third sector organisations across Scotland, such as voluntary groups and charities, are also involved in housing advice and support services. These organisations generally provide services for specific groups of people such as vulnerable or older people, and people at risk of becoming homeless.

The recession has affected the housing market in Scotland

13. When Scotland's economy entered recession in 2008, there was a significant reduction in lending to both house builders and people planning to buy their own home:

- The number of new homes built by the private sector more than halved from 21,656 in 2007/08 to 10,039 in 2011/12.[6]
- The number of mortgages approved in Scotland more than halved from 104,900 in 2006 to 44,100 in 2011.[7]
- The number of first-time buyers more than halved from almost 10,000 in the second quarter of 2007, to 4,800 in the second quarter of 2012.[8]
- People are living with their parents for longer. Scottish figures are not available but, in 1997, 2.5 million people in the UK aged 20–34 were still living with their parents. This increased by 20 per cent to almost three million in 2011.[9]
- Home ownership remains unaffordable for many people. A property is classed as affordable if it costs no more than 3.5 times a person's annual salary.[10] We estimate that the average property in Scotland costs six times the average salary.[11]

14. The recession has affected the private housing sector and had major implications for the public sector. It has added to the challenge of how the sector plans to meet housing need in local areas. This includes how it supports people who need help to buy or rent a home and people who are homeless. It is likely that the recession will also have increased demand for council and RSL housing. Since 2007/08, the number of homes built by councils and RSLs each year has increased by about 1,000 to around 6,500 in 2011/12.[12,13]

Housing supply is not keeping up with need

15. Assessing how many private, council and RSL homes are needed for the future, what type are needed and where, is difficult as it depends on many factors which are liable to change. Projections on the number of households Scotland will have in the future are based on assumptions such as future migration and birth rate.

16. Information is also limited on some aspects of current housing supply and need. For example, there is no comprehensive information on housing needs of people with disabilities. There is no consistent information on the number of people living in unsuitable accommodation. There is also a lack of accurate information on the number of people needing and waiting for a council or RSL home. Although each council with housing stock and some RSLs have waiting lists, they contain an element of double counting and are not routinely reviewed, so they can include people who no longer need or want a council or RSL home.

It is estimated that Scotland will need more than half a million new homes over the next 25 years

17. The Registrar General publishes information on Scotland's population and households. Over the last ten years, Scotland's population has increased by five per cent from just over five million in 2002, to 5.25 million in 2011. The population is projected to continue to grow, increasing by almost ten per cent to 5.76 million in 2035.[14]

18. Changes to the way we live and increased life expectancy mean that the number of households has increased by nine per cent from 2.2 million in 2002 to 2.4 million in 2011; and is forecast to increase by a further 21 per cent to 2.9 million in 2035. To meet this projected increase, Scotland would need 21,230 additional homes each year between 2011 and 2035; that is more than half a million additional homes over 25 years.[15]

19. In the absence of other information, we have used these projections of the number of new households to look ahead. From this, we estimate that it could take more than 20 years from 2011/12 before enough new homes are built to meet the projected increase in households in any one year **(Exhibit 3)**.[16] This does not take into account people who are living in accommodation that does not suit their needs, such as families living in homes that are too small or disabled people living in unsuitable accommodation.

20. Scotland has around 23,000 long-term empty private homes. There are also over 3,000 council homes, and almost 600 RSL homes that have been vacant for over six months, around half of which have been empty for over two years.[17] The Scottish Government's Empty Home Partnership is working with councils, the private sector and Shelter to help use these homes to meet need in some areas.[18]

There is unmet need for council and RSL housing

21. The Registrar General's projections are not broken down into privately owned, privately rented, council or RSL homes. However, national statistics published by the Scottish Government suggest that the number of households waiting for a council home has fluctuated over the last ten years. They range from a low of 187,000 in 2003 to a high of 210,000 in 2006.[19] In 2012, around 188,000 households were waiting to rent a council home, almost eight per cent of Scottish households.[20]

22. The Scottish Government commissioned research in 2005 that showed Scotland needed over

8,000 new affordable homes for rent each year.[21] At that time, this meant council and RSL housing. However, the approach taken in the research was a matter of significant debate and took place before the recession, which is likely to have increased demand for council and RSL housing.[22] In any case, although the number of new homes has increased in recent years, councils and RSLs have not built 8,000 new homes in any recent year. Based on our analysis, just over 42,000 of the 56,000 council and RSL homes needed since then have been built, representing a shortfall of almost 14,000 homes **(Exhibit 4)**.

23. In 2011, the Scottish Government set a target of 6,000 new 'affordable homes' a year, 4,000 of which were to be 'social homes' (see **Exhibit 6** for details of all government targets). However, these terms have been used interchangeably and the difference between an affordable home and a social home in terms of tenants' rents is not clear.

Councils and RSLs have sold over 133,000 homes

24. Since 2000/01, councils and RSLs have sold around 133,400 homes,[23] leaving a net loss of 65,146 council and RSL homes through sales. It is only in recent years that councils and RSLs have built more homes than they have sold **(Exhibit 5)**. This is likely to be due in part to the Scottish Government's policy restricting the sale of these homes.

The Scottish Government has set ambitious targets

25. The Scottish Government published its strategy *Homes fit for the 21st Century* in 2011.[24] This sets out its vision to provide an affordable home for all by 2020, although what this means is not defined. It outlines the Scottish Government's priorities for the next ten years including the need to build more energy-efficient homes. The strategy highlights the challenges the country faces and sets out the government's approach. It focuses on:

- increasing the number of new homes in Scotland
- improving the quality and energy efficiency of existing homes
- giving people more choice about the type of home they live in.

26. The Scottish Government is helping to fund a range of new housing programmes for people on low to moderate incomes who are unable to buy their own home. Some of these, such as the National Housing Trust's (NHT) mid-market homes, include options for tenants to buy their property after a number of years. To date, there are plans for NHT to deliver around 1,000 new homes.

27. The Scottish Government has also set targets covering the supply of new homes, the quality of council and RSL homes, and homelessness **(Exhibit 6)**. Although organisations are generally making progress against the national targets, the Scottish Government has not defined key terms and some of its performance measures could be improved. The Scottish Government's homeless target was to give all unintentionally homeless households the right to settled accommodation. The government monitored progress towards this by measuring the number of homeless households assessed as in priority need rather than the number of homeless households given settled accommodation. On 31 March 2012, 10,743 households were in temporary accommodation and, in 2011/12, almost 2,000 people who contacted their council for help with homelessness had slept rough the previous night.[25]

Scotland's housing sector is facing a number of other significant challenges

28. Scotland's housing sector must respond to a number of population and policy changes which will affect housing need and demand:

- **Ageing population –** the number of people aged 75 and over is projected to increase by 75 per cent from 421,000 in 2012 to 738,000 in 2035.[26] This will result in significant challenges for the housing sector as more people will live for longer, often alone. Demand is expected to increase for supported living and sheltered housing. The number of older people requiring an adaptation to make their home more accessible is estimated to increase by 60 per cent between 2008 and 2033.[27] In response, the Scottish Government has recently produced its *Housing for older people strategy* to support changes to care for older people.

- **Single person households –** lifestyle changes mean that the number of single person households is projected to increase by 44 per cent from over 895,000 in 2012 to almost 1.3 million in 2035.[28] Housing supply will have to adapt to meet the different needs and demands of these households.

- **Welfare reform –** UK Government reforms of the welfare system include changes to housing benefit. As part of these reforms, working age tenants receiving housing benefit will have their benefit reduced for each spare bedroom in their home.[29] This is expected to lead to increased demand for smaller homes, especially one-bedroom homes. However, there may not be enough council and RSL one-bedroom homes. It is estimated that, under the reforms, 60 per cent of tenants will be assessed as needing a one-bedroom property. However, only 26 per cent of occupied council and RSL homes have one bedroom.[30] Previously, councils and RSLs did not build many one-bedroom homes as they are less flexible to meet people's changing needs and do not necessarily lead to mixed and sustainable communities. These changes could lead to increased use of smaller homes in the private rented sector at higher costs.[31]

- **Energy efficiency –** UK and Scottish Government environment policies are increasingly expecting Scotland's housing stock to contribute to national reductions in carbon emissions. There will be cost implications for councils, RSLs and the private sector and it will be difficult to improve the energy efficiency of some older homes.

Recommendations

The Scottish Government should:

- improve the detail and reliability of national information on housing, including an assessment of the needs of current and future populations. This should assess need for council and RSL homes and affordable homes

- provide clarity by defining social housing and affordable housing in terms of tenure and rent levels, and promote their consistent use and a common understanding across organisations involved in housing

- evaluate the success of the new build programme, including all new initiatives and schemes designed to support people who cannot afford to buy their own home, to ensure value for money.

Part 2

Funding

capital funding is under significant pressure

Key messages

9. Between 2008/09 and 2011/12, Scottish Government revenue budgets for housing fell by 24 per cent in real terms, from £199 million to £152 million. Over the same period, Scottish Government capital budgets for housing fell by 29 per cent in real terms, from £534 million to £378 million. Revenue and capital funding for new homes has been particularly affected, falling by 35 per cent in real terms, from £555 million in 2008/09 to £361 million in 2011/12.

10. Funding arrangements for housing are complicated, change frequently and are hard to track. This makes effective scrutiny difficult. There is scope to improve national and local financial reporting on housing.

11. Constraints on lending, national targets and reduced government subsidies are adding to pressures on council and RSL capital budgets. It is not clear whether councils and RSLs have enough money to fund all competing demands. Private housing also requires investment. Welfare reform is expected to bring additional financial pressures. Planned changes to benefits could have significant financial implications for councils, RSLs and the private rented sector.

12. The Scottish Government is responding to pressures on finance by encouraging increased borrowing and use of alternative models of finance to maximise private investment in housing. These have associated risks that must be carefully managed. To date, the use of alternative models of finance has been limited and the extent to which they can compensate for reduced levels of subsidy is not clear.

Scottish Government housing budgets have fallen in recent years

29. As a result of the UK spending review in October 2010, the Scottish budget reduced by over 11 per cent, in real terms, between 2010/11 and 2014/15. The Scottish revenue budget fell by eight per cent and the capital budget by 36 per cent.[32] We have used real term changes in budgets in this report, which means that we have allowed for inflation.[33]

30. The Scottish Government's housing budget has fallen in recent years. It fell by 28 per cent, in real terms, from £733 million in 2008/09 to £530 million in 2011/12. Future budgets are set to fall further, to £375 million in 2014/15. In real terms, this represents a 49 per cent reduction over six years. Within this:

- the revenue budget for housing fell by 24 per cent, in real terms, from £199 million in 2008/09 to £152 million in 2011/12. Future revenue budgets for housing are set to fall further, to £125 million in 2014/15. In real terms, this represents a 37 per cent reduction over six years
- the capital budget for housing fell by 29 per cent, in real terms, from £534 million in 2008/09 to £378 million in 2011/12. Future capital budgets for housing are set to fall further, to £250 million in 2014/15. In real terms, this represents a 53 per cent reduction over six years.[34]

31. Revenue and capital funding to councils and RSLs for new homes fell by 35 per cent, in real terms, from £555 million in 2008/09 to £361 million in 2011/12.[35] Further reductions to £239 million in 2014/15 are planned. In real terms, this represents a 57 per cent reduction over six years. These reductions are partly a result of reduced capital budgets from the UK Government. But evidence to the Scottish Parliament’s Infrastructure and Capital Investment Committee highlighted that capital funding for new housing had fallen more than capital funding to other policy areas, which had generally fallen by a third.[36]

32. However, the Scottish Government has allocated extra capital funding for housing:

- in 2013/14, in-year revisions increased the 2012/13 budget by £230 million, and the 2013/14 budget by £149 million **(Exhibit 7)**
- in May 2013, the Scottish Government announced an additional £202 million for housing in 2014/15: £20 million of this in the form of additional capital funding for new homes; and £182 million in the form of a shared equity resource for various housing initiatives.

33. Changes to budgets, particularly in-year revisions, make it harder for local organisations to plan ahead, and suggest a lack of long-term financial planning at a national level. However, they demonstrate the Scottish Government's commitment to increasing the amount of money available for housing. In addition, the Scottish Government introduced three-year allocations for funding for new homes in 2012/13 and has subsequently provided indicative allocations for a further three years to 2017/18 to support longer-term planning locally.

Funding for housing is complicated and hard to track

34. Funding for housing is a complicated mixture of public and private finance. The movement of money between organisations, the use of private finance and different reporting arrangements make it difficult to calculate how much public money is spent on housing in any one year. One-off capital payments and ongoing revenue funding come from public agencies across the UK. Capital funding for new and existing homes comes from a number of different sources:

- The Scottish Government provides significant capital funding to build new homes and improve existing homes. In 2011/12, it provided approximately £68 million to councils and £285 million to RSLs to build new homes.[37] In addition, it provided around £20 million to home owners, RSLs and energy companies to improve the energy efficiency of existing homes.
- RSLs are currently using around £3 billion in private borrowing to fund new developments and improvements to existing stock. Councils are increasingly borrowing to finance capital investment, including housing. In 2011/12, councils borrowed £1.3 billion, however it is not known how much of this was for new or existing homes.[38]
- Councils and RSLs generate some capital income through selling land or buildings.

35. The Scottish Government also provides revenue funding to support new build programmes (£54 million in 2011/12), to support some RSLs (£39 million) and for energy efficiency measures (£20 million).

36. Councils and RSLs also generate a large percentage of their revenue through rents. Most of this income is spent managing and maintaining existing homes. The Department for Work and Pensions is the single biggest contributor to housing revenue, paying £1.7 billion in housing benefit for individual tenants in Scotland in 2011/12. Of this, £674 million was for council tenants, £608 million for RSL tenants and £446 million for private tenants **(Exhibit 8)**.[39]

Funding streams change frequently

37. In the last few years, Scottish Government funding streams have changed significantly. The complex nature of funding for housing is further complicated by the multiple and changing funding streams **(Exhibit 9)**. In recent years, the Scottish Government has introduced and provided funding for a wide range of schemes. It has allocated additional money to schemes to help vulnerable people stay in their own homes and to energy efficiency initiatives. It has also introduced initiatives which aim to attract private money for some energy efficiency programmes. For example, the Scottish Government has recently provided £79 million for the national retrofit programme and expects to attract a further £120 million from energy companies.[40]

38. It is not always clear why funding streams change, or how successful previous initiatives were. The Scottish Government has not always evaluated the effectiveness of these schemes or the impact changes have on the sector. It can take time and money to work up proposals for different funds and initiatives. Changes can create difficulties for organisations interested in building new homes For example, in 2011/12, the Scottish Government launched the Innovation and Investment Fund, which included a separate £10 million innovation fund. Although the Scottish Government had not committed to a second year of innovation funding, some RSLs and private developers were working up bids for a second round when the fund changed and was replaced by one targeted at environmental innovation. This meant that some of the momentum built up for innovative funding methods and interest in a bidding process were lost. Preparing bids can be time-consuming and costly, particularly for smaller organisations.

There are multiple Scottish Government funding streams for new housing

39. There are often numerous funding streams for the same or similar objectives. This is particularly true of funding for new homes. There are a number of different funding streams and arrangements to enable councils and RSLs to build homes for rent and to allow councils, RSLs, private developers and individuals to build homes for people to own **(Exhibit 10)**. Having access to funds from several sources gives housing providers greater flexibility in their funding choices, but it does mean that it is hard to track what public money has delivered and can make effective scrutiny difficult.

40. Cash flows for new housing are complex. The Scottish Government can renegotiate with developers about when it makes payments to ensure the total budget is spent each year. It also allocates future funds, which means that a proportion of any future budget, usually around half, is already committed. While flexibility of these arrangements is necessary, the Scottish Government needs to be clear at a national level about how much money is available, how it is to be used and what it will deliver.

There is scope to make local financial reporting clearer

41. Twenty-six of Scotland’s 32 councils manage their own housing stock. The other six councils have transferred all their stock to RSLs.[41] Councils must report all their income and spend on their housing stock through the Housing Revenue Account (HRA). However, tenants are concerned that it is not always clear what the HRA is used to fund. In 2010, the Regional Networks of Registered Tenant Organisations in Scotland presented a report to the Scottish Government asking for, a more transparent system so that tenants know what their rents pay for.[42]

42. The reporting of spend on homeless services is complicated. Some spend on homelessness is recorded through the HRA and some through the general fund.[43] For example, the costs of providing temporary accommodation in council housing is recorded in the HRA and the money spent on preventing homelessness and providing other temporary accommodation, such as bed and breakfast, is recorded in the general fund. However, this is done differently across council areas making it difficult to compare spend on homelessness and assess value for money. This split also means that it can be difficult to see total spending on homelessness and the true position of the HRA.[44]

Capital funding is under significant pressure

Scottish Government subsidies for RSLs have reduced

43. The money the Scottish Government provides to RSLs for building homes has decreased over the last few years. Before 2011, RSLs submitted proposals to the Scottish Government to build new homes. If projects were approved, the Scottish Government decided the level of capital subsidy on a project-by-project basis, typically around £70,000 per home.

44. In 2011, in response to the reduced overall capital budget, the Scottish Government significantly reduced subsidies for RSLs and set a national subsidy guide of £40,000 for each new home. At the same time, the Scottish Government set a national subsidy guide of £30,000 for each new council home, which was broadly in line with previous council subsidies. One of the main reasons for this reduction in subsidy to RSLs was research that suggested that RSLs could build with reduced subsidies.[45] Given the length of time it takes to build a house, reduced subsidies have not yet affected the number of new council and RSL homes built, which increased from around 5,500 in 2007/08 to around 6,500 in 2011/12. However, many of the homes built in the last few years would have received the previously higher subsidies.[46]

National targets are increasing demands on capital budgets

45. Scotland's national targets for housing include targets on new builds, quality, energy efficiency and fuel poverty **(Exhibit 6)**. These targets were generally set in times of higher levels of public spending and are now adding to pressures on council and RSL capital budgets. The Scottish Housing Regulator has reported that it would cost at least £1.3 billion for councils and RSLs to meet the Scottish Housing Quality Standard (SHQS) target.[47]

46. In the context of limited resources, the challenge is to balance the need for new homes with the need to invest in existing housing stock to ensure good-quality, sustainable homes. The SHR expects councils and RSLs to meet the SHQS by 2015 and they have a role to play to reduce fuel poverty. Some councils and RSLs are investing in existing homes rather than in building new homes. For example, of the £47 million housing capital in Aberdeen City's budget for 2012/13, only £500,000 was for new building completing the previously agreed programme.[48] The Scottish Government is considering relaxing some of the criteria on accessibility for new homes but is planning to increase energy efficiency standards. Initial Scottish Government estimates are that this could cost an additional £1.8 billion although the exact costs and benefits are still being calculated.[49]

The recession has had an impact on lending

47. Currently RSLs in Scotland have loans of around £3 billion. Since 2007, the amount of new lending has fallen. Generally RSLs negotiate a loan facility, that is an arrangement to borrow money up to a certain amount, with lenders. This provides access to loans for future years. The SHR reports that RSLs are increasingly using up their existing loan facility and that the rate at which they are agreeing and drawing down against their loan facility has slowed down.[50] This indicates that there is less available money for RSLs to borrow.

48. It is also harder for some RSLs to access loans as the conditions of borrowing have changed. Previously, banks would grant loans over a 30-year period at low rates of interest. Following the recession, lenders have generally offered only five- to 15-year loans. Lenders are also looking to renegotiate the terms of existing loans so they can impose a change to an existing loan as a condition of any new borrowing. These changes can be costly, so only some RSLs, such as those with significant reserves or enough available revenue, can access new loans.

49. Councils operate in a different financial environment and have been less affected by changes to private borrowing since the recession. Councils have increased their use of borrowing since the Prudential Code was introduced in 2004. This allows councils greater flexibility to borrow for capital investment without specific consent from the Scottish Government.[51] Councils can access less expensive loans through, for example, the Public Works Loan Board.[52] Economies of scale can also make it easier for councils to raise capital through increases to rents.[53] Council chief housing officers are confident that they have enough money to build within current levels of subsidy for the next five years. However, they stress that this is dependent on the impact of welfare reform and other policy changes such as increased energy efficiency standards.[54]

Private sector housing requires investment

50. The vast majority of housing stock in Scotland is privately owned and the number of people in private rented accommodation is increasing. All private landlords are required to carry out repairs to ensure homes are structurally sound and 'reasonably fit for human habitation'.[55] However, this is not inspected and there is no comprehensive regulation of the sector. The national quality standards do not apply to privately owned home and national statistics show that the quality of private rented accommodation is generally poorer than owner-occupied, council or RSL homes.

51. People living in poorly maintained homes are more likely to suffer physical and mental ill health. Poor-quality private housing not only affects those who live in it but can also have a negative impact on neighbours and their homes. For example, some tenement buildings have a mixture of council or RSL and private flats. Poor conditions in one flat, such as damp, can cause problems in neighbouring properties.

52. There is information on the quality of private housing stock across Scotland but detailed, up-to-date information on the level of investment required is not available across the country. However, some information is available, for example, Glasgow City Council undertook a detailed review of older private homes in the city in 2006. This found that it would cost an estimated £91 million (at 2006 prices) to repair and upgrade the homes. The report found that:

- around nine per cent did not meet tolerable standards (the minimum state in which a property should be occupied)
- many roofs were in a state of disrepair
- only 16 per cent of homes met the SHQS.[56]

53. The Scottish Government is proposing minimum energy efficiency standards for the private sector; this is likely to further increase investment requirements. Councils have a duty to ensure that all private and public properties are safe and well maintained. However, there are few incentives to encourage private owners who do not want to, or are unable to, maintain their own properties. In 2011/12, councils provided around £11 million in grants and loans to home owners, but councils report that a lack of funding limits the impact they can make on the condition of private housing. The shortfall between the amount of investment required and the money available is likely to become a bigger problem in the future.

Welfare reform is expected to bring further financial pressures

54. Welfare reform is expected to have a significant financial implication for councils, RSLs and private landlords. Currently, many people who receive housing benefit have this paid directly to their landlord. However, in the future, benefit payments will be paid directly to tenants, potentially providing less security to landlords and lenders.[57] The lack of certainty over rental income could lead to increased management costs and rent arrears for all landlords and affect housing services. This could also affect RSLs' ability to access private finance.

55. Welfare reform will result in a number of changes to housing benefit and it is too early to tell the full financial impact on the housing sector. Research commissioned by the Scottish Parliament's Welfare Reform Committee found that in Scotland, tenants' income will fall by an estimated £50 million by 2014/15 as a result of reduced payments for spare bedrooms.[58] The research also found that changes to payments for tenants in private rented accommodation could see their income fall by an estimated £80 million by 2014/15. These changes are likely to have implications for council and RSL management costs, rent arrears and evictions. The changes could also result in less rental income for private landlords, which could mean private landlords will not want to rent to people who are receiving benefits.

The Scottish Government is promoting alternative models of finance, but these carry risks and the extent to which they can compensate for

reduced levels of subsidy is not clear

56. Reduced government subsidies, constraints on borrowing and the pressures on capital budgets mean it is increasingly difficult for RSLs to invest and build. The Scottish Government is encouraging increased borrowing and use of alternative models of finance for councils and RSLs to maximise private investment in housing. These alternative models involve councils and RSLs accessing private sector funds through arrangements such as bond financing or agreements with pension funds. While these arrangements are well established among private and commercial businesses, they bring new risks and complexities to councils and RSLs that must be properly understood and managed.

57. The SHR is warning of the higher risks that increased borrowing and alternative models of finance could have on the financial sustainability of RSLs.[59] As a result, the regulator is increasing its scrutiny of RSLs that adopt new funding models. In general terms, alternative models of finance hold risks for tenants of RSLs and for public finances. If things went wrong for any RSL and there was financial failure (as has happened in the care home sector), the Scottish Government may feel it has no choice but to step in and provide financial support to RSLs. Councils would also have a role given their duty to help house people in need.

58. To date, alternative models of finance in housing have been on a small scale but they do show the potential for some RSLs to access capital markets directly. For example, a group of RSLs has accessed around £70 million in bond finance and another model in Grampian is hoping to generate money from renewable energy. The number of other smaller schemes is not known and it is not known how many new homes these will result in as in some cases part of the money is being used to pay off existing bank debts. It is not clear to what extent these alternative models of finance can compensate for reduced levels of subsidy. Work commissioned by the Scottish Federation of Housing Associations found that alternative models of finance were not possible in all council areas.[60]

59. Many councils and RSLs lack experience and expertise in alternative financing models. The SHR has highlighted the importance of good governance arrangements. There is also a need for a national role. If these models of finance are to become a sustainable source of funding for housing and compensate for reduced levels of subsidy, then national leadership and support will be necessary to make these a viable option for change.

Recommendations

The Scottish Government should:

- improve its reporting of housing budgets, spend and what the money has delivered to ensure that it is easy to track, takes account of in-year revisions, and provides details on amended spend as and when it occurs
- review the financial pressure on the sector, including its ability to meet the national targets and quality standards, and councils' and RSLs' capacity to develop alternative models of finance, and assess the implications for funding for new homes
- clarify what it considers the spending priorities should be (eg, SHQS, energy efficiency or new builds) for social landlords who are unable to meet all existing demands on resources
- evaluate the effectiveness of funding streams to ensure changes will lead to clear benefits and reduce the burden on organisations working to deliver on the ground
- clarify its expectations of the role alternative models of finance will play in the future financing of council and RSL housing. Provide leadership and support to councils and RSLs in

understanding how best these sources of finance can be used and how the risks involved can most effectively be managed.

The Scottish Government and councils should:

- clarify guidance on recording of spend through the HRA and the general account for housing to improve transparency to tenants and provide a clearer picture of council spending on homelessness services
- work together to develop a clear understanding of the condition of private sector housing and what investment is required in the future.

Part 3

Planning and management

effective leadership is required

Key messages

13. National and local government recognise that good housing can make a positive contribution to many government priorities, including economic growth, community empowerment and improved health. However, housing does not always play the role that it could. Effective leadership is required at a national and local level to ensure housing is well planned and linked to other policy areas.

14. National targets and funding arrangements for new builds could have long-term implications for council and RSL housing in terms of who builds houses, of what type and where. Tenants' rents may also be affected and there is scope for greater clarity on what is an affordable rent.

15. Planning at a local level is challenging. Councils have a key role but few powers to influence a range of public and private partners. It is important that local plans are robust. The Scottish Government and councils are working to improve the planning process.

16. Between 2010/11 and 2011/12, the number of households assessed by councils as homeless fell by 17 per cent to just over 34,000. This is likely to be due to councils doing more to prevent homelessness. Legislation has given homeless people the right to a settled home but more people are spending longer in temporary accommodation. This can create insecurity and disruption to people's lives and is more expensive than a permanent council or RSL home.

17. Scotland's council and RSL housing stock is a significant national asset. Its value must be protected by managing, maintaining and investing in it properly. Current practices have long-term financial consequences and there are indications that, over the long term, rental income will not be enough to manage and maintain council housing stock in its current condition.

Clearer links to national and local priorities are needed

60. National and local government recognise that well-planned, quality housing can help build strong, resilient communities, promote economic growth and contribute to people's health. Poor housing can contribute to crime, unemployment, low educational attainment and poor physical and mental health. It can affect the quality of children's experiences and the wellbeing of older people.[61] Housing, therefore, affects spending across the public sector and, if well planned, can result in savings to other budgets. For example, research suggests that it costs the NHS across the UK £859 million a year to treat illnesses caused by cold private housing.[62]

61. Housing's contribution to achieving wider government aims could be improved. The government has recently set out how housing fits with its strategic purpose and framework, but this does not always influence national or local plans. For example:

- Housing has links to the economy, employment and economic growth. The Scottish Government has stated that building new homes has a 'stimulus effect' on the economy. However, beyond this, the relationship between housing and the economy has not been clearly formulated at a national level. For example, it is important that people can move easily for work but legislation and guidelines about allocations to council and RSL homes do not make it easy for people to move to another area for a job. Current financial support for new homes does not always support economic growth. Aberdeen City is one of the few council areas in Scotland with a surplus of jobs, but the area received the lowest allocation per head of population for new homes in 2012–15 plans. Housing may therefore not be contributing to or stimulating the economy as much as it could.

- Housing can also contribute to sustainable, strong local communities. Many RSLs work to give individuals and communities the confidence and ability to adopt community-based solutions to problems. For example, in Govanhill, the community-based RSL carries out other roles in the community and encourages tenants to get involved in designing and developing services. The housing association is currently supporting a community service of housing, police, social work and health. However, in future it is possible that only larger RSLs will be able to build new homes at reduced subsidies or take advantage of new models of finance. Many smaller, community-based RSLs may be unable to expand and build new stock.

- To save money and improve standards of care for older people, the Scottish Government is looking to shift care from institutions to local communities. Housing has an important role to play. For example, in Castlemilk and Govan, two housing associations are working to reduce the loneliness and isolation of older people through a community arts project. This has improved the mental and physical health of participants and allowed them to live independently for longer. An evaluation of the project found that for every £1 spent there was an £8 return on investment.[63] The government's Change Fund for older people is a three-year programme designed to support this shift to care in local communities. However, housing organisations have not been as fully involved in the process as they could have been; a survey of 104 RSLs found that only 12 received Change Funding.[64] The Scottish Government has recently included a 'Housing Contribution Statement' in the guidance for Scotland's new health and social care partnerships to try and improve how housing supports better care for older people.

National targets and funding arrangements for new builds could have long-term implications

62. Housing is a long-term asset, so it is important that new homes are built where they are most needed. However, Scottish Government subsidies for council and RSL homes have been based on historical allocations. There is no correlation between current funding levels and current or future household projections or estimates of need. In 2012, the Scottish Government and councils agreed a formula that takes into account factors including levels of deprivation, housing market pressures, remoteness and levels of homelessness. This formula is now being used to distribute any additional resources and will be fully implemented across Scotland over the next few years.

63. The Scottish Government has set a national target for new homes but it has not provided details of where it expects new homes to be built or how many should be for people with specific housing needs. It is for councils to determine through their Local Housing Strategy where to build houses. However, there is some concern that reduced subsidies and government targets could result in homes being built where it is possible to do so at the reduced subsidy and not necessarily where they are most needed. For example, some inner city sites require additional work on the land to prepare them for house building, making the overall development more expensive. A recent report concluded that this typically costs an additional £30,000 per home.[65] Similarly, building new homes in rural areas is often more expensive as the price of land is generally higher and developments tend to be smaller, lacking economies of scale for developers. In response, the Scottish Government has allowed some flexibility in funding arrangements for rural developments and for those with special needs.

64. Alternative models of finance could result in homes being built by only some RSLs. Work commissioned by the Scottish Federation of Housing Associations reviewed a series of alternative funding models against a range of criteria.[66] It concluded that alternative models of finance would only work for certain RSLs and that in some areas RSLs could not access the finance.[67] However, it is not clear what vision the Scottish Government has for the size, structure or make-up of the RSL sector in the future.

Rents may have to increase

65. New council and RSL homes are funded through a combination of public subsidies, private loans, reserves and rent. Reduced public subsidies, reduced constraints on lending and pressures on reserves may therefore drive up rent levels as rent is used to make up the shortfall. There is evidence that homes built with reduced subsidies are part-funded through higher rents as well as reserves.[68] The Scottish Federation of Housing Association's review of alternative models of finance found that these will also rely on higher rent levels.[69]

66. Using rental income as a way of funding new homes could become increasingly difficult with planned changes to housing benefit. In the future, councils and RSLs will no longer receive tenants' rents directly and there is concern that this could lead to increased rent arrears and make RSLs a less attractive option for lenders.

67. There is scope for greater clarity and understanding on the future role rental income will play in funding new council and RSL homes. There may also be scope for more consistency of approach and clarity on rent levels. Rent policy is the responsibility of individual councils and RSLs and best value in the delivery of their services suggests that rent levels should be based on sound business management and protecting the value of housing stock. Poor decision-making on rent simply stores up problems for the future. Councils are expected to reflect local circumstances, but Scottish Government research in 2007 found that there was wide variation in rent levels and no links between rent levels and local earnings or house prices.[70] There is still variation in rents around the country and no definition of what is an affordable rent for people. This raises questions about how fair and affordable rents are for tenants.

Councils have an important role but planning is challenging

68. Councils have a long-standing responsibility for assessing and responding to housing need in their area. They should have clear plans in place which set out how housing will be provided. Since 2012/13, councils are also responsible for determining where Scottish Government subsidies for new homes within their area should be allocated, and for monitoring and ensuring local developments are built. This includes deciding how much should go to an RSL and how much to their own council house-building programme. Councils welcome the new arrangements which give them a more strategic role and recognise that it is important that RSLs, tenants and other partners are involved in the process.

69. Local planning arrangements are complicated and there have been changes to these in recent years. The Scottish Government has set up a series of linked plans and strategies that councils are required to produce. Every council in Scotland produces a Local Housing Strategy designed to address all housing need in the area. This strategy should reflect the findings of a Housing Needs and Demand Assessment (HNDA) and be linked to the area's Local Development Plan.[71] Councils should then use the Local Housing Strategy in developing their Strategic Housing Investment Plan (SHIP) and, since May 2012, the Strategic Local Programme (SLP), both of which list future new building developments **(Exhibit 11)**. From 2013, the Scottish Government is planning to combine the SHIP and the SLP.

70. HNDAs should cover all private, council, RSL and specialist housing need and should influence all plans in an area. Councils must update these assessments regularly – Scottish Government guidance suggests around every five years. The way councils do HNDAs differs across the country, and they cover different time periods. So they do not provide a national picture. The Scottish Government reviews each HNDA and, by December 2012, had assessed all 32 as 'robust and credible'. The government is now working to produce revised guidance to councils to help improve their HNDAs and is developing a tool which will make the process easier for councils.

Councils have few direct powers

71. Once housing need has been assessed, councils then face the challenge of identifying the funding and developers to build the new homes needed. In the current financial climate this can be difficult. For example, South Lanarkshire Council estimated it needed 800 new council and RSL homes a year to meet housing need. However, given the economic climate and reduced subsidies it reduced its plan to between 150–200 homes a year. In 2011, 98 new council and RSL homes were built; however, the council sold 92 properties through right-to- buy so it only gained six new council and RSL homes.[72]

72. Councils must demonstrate leadership and work to influence partners. To be effective councils must work with planners, house builders, RSLs, the private rented sector and local residents. However, this is not always straightforward for councils. In 2012, the Scottish Government gave councils three months to develop their Strategic Housing Investment Plans which were to detail all new developments for the next year. Given the timescales, there was limited opportunity to meaningfully consult or ensure their information on housing need and demand was accurate and up to date. As housing investment decisions have long-term implications, it is important that they are based on full, reliable information about the housing market, housing need and demand.

73. Councils are responsible for ensuring good community planning arrangements and Community Planning Partnerships (CPPs) have a role to play in bringing partners together to consider issues relating to housing. Audit Scotland's recent audits of three CPPs found that housing was not an explicit feature of their future priorities.[73] The role of CPPs in housing should be considered in light of councils' new responsibilities for deciding on the distribution of funding for new homes. CPPs should also work to ensure housing is linked to other policy areas.

The number of households assessed as homeless has fallen but challenges remain

74. In 2002, the Scottish Parliament introduced new legislation to help homeless people.[74] This included a national target that by December 2012 all 'unintentionally homeless households' would be entitled to a home. There is now a duty on councils to provide settled accommodation for all unintentionally homeless households.[75]

75. For ten years, the number of households assessed as homeless remained at around 40,000 a year. However, in 2011/12, the number of households assessed as homeless fell by 17 per cent to 34,300. This reduction is likely to be due to councils' new 'housing options approach'. This focuses on preventing homelessness by combining the assessment of a person's legal rights to a home with a range of other support to help them stay in their current home or find an alternative. While this progress is encouraging, it is not yet clear if the reduction is due to people's housing needs being successfully met in the longer term. There is also a risk that the continued economic downturn, combined with changes to the welfare system, could increase the risk of homelessness and the number of people sleeping rough.

76. The homelessness act gave everyone who was assessed as unintentionally homeless the right to temporary accommodation until a permanent home becomes available. Between 2010/11 and 2011/12, the numbers of households living in temporary accommodation fell by five per cent. But over the longer term the numbers have more than doubled, from around 4,000 in 2002/03 to over 10,000 in 2011/12.[76] Available data suggest that the average number of days people are spending in temporary accommodation has also grown, from 77 days in 2009/10 to 120 days in 2011/12.[77] As permanent council and RSL homes are not always available, councils have increased their use of private temporary accommodation. They have also increased the number of council houses dedicated for use as temporary accommodation, from 2,082 in 2002 to 4,816 in 2012.[78] This means there are fewer council homes available for permanent rent.

77. While temporary accommodation ensures that people have a place to stay, it is a short-term solution and can create insecurity and disruption, particularly if people are moved outside their local area. Families can be particularly affected, and children living in temporary accommodation are among the most deprived in the country.[79] Councils have worked to reduce the numbers of children in temporary accommodation.

78. Temporary accommodation accounts for the largest percentage of council spending on homeless services. Although routine information is not available, research suggests that council spending on temporary accommodation has increased by an average of about 14 per cent over the last three to five years.[80] We estimate that councils spent around £36 million on temporary accommodation in 2011/12, including £2.9 million on housing people in private temporary accommodation.[81] It costs more to house people in any form of temporary accommodation than in a secure home due to higher rents and maintenance costs. We estimate that housing people in temporary accommodation cost councils about £27 million more than it would have cost to house them in a permanent home.[82] Welfare reform is likely to impact on temporary accommodation in the future.

The management of Scotland's housing stock could be improved

79. Scotland's council and RSL housing stock is a significant national asset. Its value must be protected by managing, maintaining and investing in it properly. Current performance levels have long-term financial consequences which can either enhance or reduce the value of the asset.

80. It is important to understand the long-term financial performance of these assets. We analysed published information to find out if, all things being equal, council and RSL income for housing is enough to cover costs and protect the value of the asset in the longer term.[83] We did not review local services but used available information to provide an indication of the quality of longer-term plans for maintaining existing housing stock. This was challenging given the information that councils and RSLs hold. Most data are historical and information on investment was only available up to 2011/12 for councils and up to 2015 for RSLs. We therefore had to apply a set of assumptions about investment levels.

81. We considered council and RSL rental income against their spend on management, repairs and investment and their lost income through empty properties. We projected this over 30 years. The data shows that, all things being equal, over 30 years, RSLs' income will exceed their expected spend by £3.9 billion while council income will be £1.9 billion less than is needed to cover the costs of existing stock. We have not included the additional costs of possible future energy efficiency standards which are being considered, RSLs future pension liabilities or the possible impact of welfare reform. There are also important differences to bear in mind between councils and RSLs, most importantly higher subsidies for many RSLs. However, the financial relationship between the income and expenditure, which is the substance of the financial plan for every council and RSL, is directly comparable. This analysis highlights the significance of effectively managing income and expenditure and of long-term financial planning for both existing and new housing stock. In some cases, income and expenditure will need to be addressed if the condition and value of stock is to be maintained and services to tenants continued.

82. In 2012, the Scottish Government introduced the Scottish Social Housing Charter, which includes challenges to councils and RSLs to improve how they manage their stock. The SHR will report on progress against this charter in autumn 2014.

Recommendations

The Scottish Government should:

- demonstrate how its long-term vision for housing underpins relevant national policies and informs local planning and practice

- clearly state its expectations for new builds, including location, type and numbers for people with specific housing needs and monitor the impact of reduced subsidies on the type and location of new builds and assess this against indications of need

- work with councils to review the impact that reduced subsidies and alternative models of finance will have on rent levels and the need for greater clarity and consistency of rents for council and RSL tenants, including defining an affordable rent

- review the impact reduced subsidies and alternative models of finance will have on the provision of new homes and work with RSLs to clearly state what it expects the medium- to long-term future and structure of the RSL sector to look like.

Councils should:

- ensure housing strategies and the associated plans and investment decisions are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners including RSLs and tenants

- review the way housing services are designed and delivered in light of the recent reductions in the number of people assessed as homeless and councils' duties to homeless people

- review the role their CPP plays in housing to ensure arrangements are clear and that the CPP is effective in bringing partners together

- review the performance and long-term financial position of their housing stock and develop strategies, including rent strategies, to address any future liabilities and maintain the value of their assets.

Endnotes

1. **Evidence and analysis of Scottish Government research**
2. **UK Government – Dwelling stock tables**
3. *The Future for Social Renting in Scotland*, Newhaven Research, 2006.
4. **Housing statistics for Scotland – key information and summary tables**
5. Ibid.
6. *Housing statistics for Scotland 2012: Key trends summary*, Scottish Government, 2012.
7. *Scottish Housing Market Review*, Scottish Government Centre for Housing Market Analysis, 2012.
8. **Council of Mortgage Lenders – Press release**
9. *Young Adults Living With Parents in the UK, 2011,* Office for National Statistics, May 2012.
10. UK Department for Communities and Local Government.
11. In 2011, average house prices as reported by Register for Scotland were six times average salaries as reported by the Office of National Statistics.
12. We have included all council and RSL new building from the Scottish Government's New Housing Supply statistics. We have also included conversions but not rehabilitations as these do not constitute new housing stock. This is a different dataset to the one the Scottish Government uses to measure progress against its target which is all homes funded through its Affordable Housing Supply Programme.
13. We have used the term 'built' to mean the number of new houses delivered. The Scottish Government uses the term 'completed' in its national statistics.
14. *The Registrar General's Annual Review of Demographic Trends*, National Records of Scotland, 2012.
15. Ibid.
16. This figure represents our middle scenario. We have projected the rate of new homes by assuming that 6,000 new council and RSL homes will be built each year and then adding the average for the number of council and RSL refurbishments and conversions from 2000 to 2012. We then took the average level of private builds for 2000 to 2012. Full details are available here in **Appendix 2**.
17. **Scottish Government social sector housing tables**
18. Shelter is a charity that works to alleviate the distress caused by homelessness and bad housing.
19. There will be elements of double counting in this data; however, they are the only

	national data available. Data are published by the Scottish Government: **Housing statistics for Scotland – management of local authority housing**
20.	Of these, around 20,000 households were looking for a transfer to a different council home.
21.	*Local housing need and affordability model for Scotland update (2005 base)*, Communities Scotland, 2006.
22.	The research projected housing need based on economic growth and, according to some, did not take full enough account of regeneration and poverty needs.
23.	The right to buy is a government policy introduced in the 1980s, which allowed tenants of councils to buy their rented home at a discounted rate. Other policies were also introduced to allow tenants to buy RSL homes.
24.	*Homes fit for the 21st Century*, Scottish Government, 2011.
25.	**Crisis – Sleeping rough**
26.	*The Registrar General's Annual Review of Demographic Trends*, National Records of Scotland, 2012.
27.	*The impact of population ageing on housing in Scotland*, Scottish Government, 2010.
28.	*The Registrar General's Annual Review of Demographic Trends*, National Records of Scotland, 2012.
29.	The Department of Work and Pensions will determine whether a bedroom is 'spare' according to a set of criteria.
30.	*Impact of Planned Housing Benefit Changes in Scotland: Reducing the Housing Benefit of Households of Working Age in Social Housing Under-Occupying a Property,* Scottish Government, 2012.
31.	Audit Scotland produced a report for the Accounts Commission in May 2013 on councils' preparations for welfare reform.
32.	*Scotland's spending plans and draft budget,* 2011-12, Scottish Government, 2010.
33.	All figures are in 2011/12 prices.
34.	Housing budget figures include the Scottish Government's housing budget as well as the Transfer of Management of Development Funding (which sits in Local Government budget), funding for the Scottish Housing Regulator (which sits under 'other') and the warm homes fund (which sits in the Transport budget). We have removed all regeneration budgets and have not deducted income. All budgets are in 2011/12 prices.
35.	This is the affordable housing investment budget.
36.	*The Scottish Government's Draft Budget 2013-14*, Infrastructure and Capital Investment Committee of the Scottish Parliament, 2012. This compares capital funding across two spending review periods (2009/10 to 2011/12 and 2012/13 to 2014/15).

37.	*Affordable housing supply programme: Out-turn Report, 2011-12*, Scottish Government, 2013.
38.	***Major capital investment in councils*** , Audit Scotland, March 2013.
39.	**The Department for Work and Pensions – Benefit expenditure tables**
40.	Retrofit means refurbishing or re-fitting existing homes to make them more energy efficient, for example by insulating walls, doors or windows to keep heat in. It can also involve installing new technology such as 'smart meters' that monitor energy use, a new boiler or renewable heat or hot water systems.
41.	Glasgow City, Inverclyde, Argyll & Bute, Dumfries & Galloway, Scottish Borders, and Comhairle nan Eilean Siar have transferred all of their housing stock to RSLs.
42.	*Local Authority Housing Revenue Account (HRA): report to Alex Neil, Minister for Housing and Communities*, Scottish Government, 2010. In response, in May 2013, the Scottish Government consulted with councils and tenants' groups on guidance for the HRA.
43.	The general fund is a council's main account, into which the council receives money and from which it makes payments.
44.	*Funding the homeless service*, Shelter, 2012.
45.	*The capacity of Registered Social Landlords and Local Authorities to build housing across Scotland*, Scottish Government, 2010.
46.	*The Scottish Government's Draft Budget 2013-14*, Infrastructure and Capital Investment Committee of the Scottish Parliament, 2012.
47.	This is based on self-reporting from councils and RSLs. *Scottish Housing Quality Standard progress report*, Scottish Housing Regulator, 2012.
48.	*Housing Capital Budget 2012/13 to 2013/14*, Aberdeen City Council, 2011.
49.	**Scottish Government estimate based on consultation responses**
50.	*Weathering the Storm*, Scottish Housing Regulator, 2011. While the total loan facility available to RSLs increased from £2.9 billion in 2007 to £3.9 billion in 2011, the proportion of unused facility, that is the amount of available loan RSLs have not used, has fallen. In 2007, RSLs had £1.3 billion in unused loan facilities. By 2011 this had fallen to just over £1 billion, and the regulator expects this to be less than £1 billion in 2012.
51.	***Major capital investment in councils*** , Audit Scotland, March 2013.
52.	The Public Works Loan Board provides loans to public bodies from the National Loans Fund; it provides loans to councils, primarily for capital projects.
53.	*The Scottish Government's Draft Budget 2013-14*, Infrastructure and Capital Investment Committee of the Scottish Parliament, 2012.
54.	*Ibid.*

55.	There is also a Private Rented Housing Panel to help tenants who think their home is not structurally sound or 'reasonably fit for human habitation'.
56.	*Condition survey of older private houses*, Glasgow City Council, 2006. This looks at the condition of houses built before 1945, it estimates it would cost £15.7 million to get all homes to the tolerable standard, £30.8 million to fix the roofs and £44.5 million for all homes to meet SHQS.
57.	The timescales for direct payments and arrangements for any exceptions have still to be confirmed.
58.	*The impact of welfare reform on Scotland*, Sheffield Hallum University for the Scottish Parliament, 2013.
59.	Scottish Housing Regulator Chair speech at Harper Macleod national housing conference, November 2012.
60.	*Report on the Long-Term Funding Options*, Murja Ltd, 2012.
61.	**Evidence and analysis of Scottish Government research**
62.	*2009 Annual Report of Chief Medical Officers Report*, Department of Health, 2009.
63.	*Social Return On Investment (SROI) evaluation of the Craft Café Programme*, Social Value Lab, 2011.
64.	*Supporting older people to live at home: the contribution of housing associations and cooperatives in Scotland,* Scottish Federation of Housing Associations, 2012.
65.	*New build construction, comparative costs in urban social housing projects*, Glasgow and West of Scotland Forum of housing associations, 2012.
66.	Criteria included viability, the level of government support required, accessibility and scale.
67.	*Report on the Long-Term Funding Options*, Murja Ltd, 2012.
68.	*Glasgow and West of Scotland Forum of Housing Associations report to Cabinet Secretary for Infrastructure, Investment and Cities and the Minister for Housing Welfare*, Glasgow and West of Scotland Forum of Housing Associations, 2013.
69.	*Report on the Long-Term Funding Options*, Murja Ltd, 2012.
70.	*Social sector rents in Scotland*, Scottish Government, 2007.
71.	Local Development Plans concentrate on the long-term development plans of local areas. They should set out where most new developments will happen and policies that will guide decision-making and planning applications.
72.	The estimated need takes account of houses sold through right to buy.
73.	Audit Scotland audited the **Community Planning Partnerships in North Ayrshire, Scottish Borders and Aberdeen in 2013**
74.	Homelessness legislation received royal assent in 2003 – Homelessness etc

	(Scotland) Act 2003.
75.	A person becomes homeless intentionally if they deliberately do, or fail to do, anything which causes them to cease to occupy accommodation which was available and reasonable for them to occupy.
76.	Figures as at 31 March 2013: **Scottish Government homelessness statistics**
77.	Data from Scottish Housing Best Value Network (SHBVN). SHBVN is a consortium of council and RSLs working together to benchmark performance and share good practice.
78.	**Housing statistics for Scotland - Public authority housing stock**
79.	*Living in limbo*, Shelter, 2004.
80.	*Funding the homeless service,* Shelter, 2012. Information on temporary accommodation spend is based on survey data collected from councils. It is not audited and does not include every council area.
81.	Based on analysis of Scottish Housing Best Value Network data.
82.	Ibid.
83.	Further details and a summary of the methodology are available in **Social Housing in Scotland** .

Appendix 1

Membership of the advisory group

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

Member	Organisation
Lesley Baird	Tenant Participation Advisory Service Scotland
Kay Barton	Scottish Government
David Bookbinder	Chartered Institute of Housing
Ian Brennan	Scottish Housing Regulator

Member	**Organisation**
Rosemary Brotchie	Shelter Scotland
Karen Campbell	Homes for Scotland
Angela Currie	Scottish Housing Best Value Network
Ken Gibb	University of Glasgow
Jim Harvey	Glasgow and West of Scotland Forum of Housing Associations
Jim Hayton	Association of Local Authority Chief Housing Officers
Silke Isbrand/Caroline Johnston	Convention of Scottish Local Authorities
Maureen Watson	Scottish Federation of Housing Associations

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

Appendix 2

Audit methodology

We reviewed a range of published information to inform our audit, including:

- Scottish Government strategies, budgets, consultations, policy documents and guidance
- Scottish Parliament Committee reports and supporting evidence, including reports from the Finance Committee and the Infrastructure and Capital Investment Committee
- Reports and research from the Scottish Government, the Scottish Housing Regulator and housing providers on the performance, financial sustainability and future risks to the sector, including the impact of welfare reform
- Academic and research papers, including assessments of housing needs and housing markets and the added value of housing.

We reviewed published and unpublished data including:

- Scottish Government housing statistics, including data on new builds, waiting times, homeless services and unpublished data on spending
- Scottish Government Centre for Market Analysis data on housing market indicators such as mortgage approvals and new builds
- Scottish Housing Regulator data on Registered Social Landlords (RSLs) performance and finances
- National Records of Scotland data on past and projected changes to Scotland's population and number of households
- Scottish Housing Best Value Network data on the use and cost of temporary accommodation.

We carried out focus groups and interviews with:

- Scottish Government staff
- COSLA staff and council representatives through the Association of Local Authority Chief Housing Officers (ALACHO)
- representatives from RSLs through the Scottish Federation of Housing Associations and the Glasgow and West of Scotland Forum of Housing Associations
- tenants through the Scottish Government's Regional Network for tenant participation and the Tenant Participation Advisory Service Scotland
- private sector representatives, including Homes for Scotland and the Council of Mortgage Lenders
- third sector organisations, including Shelter and the Housing Support Enabling Unit
- a range of other housing experts including the Chartered Institute of Housing, Scottish Housing Best Value Network and academics.

We would like to thank ALACHO, the Scottish Federation of Housing Associations and Glasgow and West of Scotland Forum of Housing Associations for organising focus groups and meetings with

representatives.

We commissioned i.s.4 housing and regeneration ltd to analyse published information to assess if, all things being equal, council and RSL income for housing is enough to cover costs and protect value in the longer term. We considered council and RSL rental income against their expenditure on management, repairs and investment and their lost income through empty properties and projected this over thirty years. Further details on the methodology and findings are available in **Social Housing in Scotland**.

We carried out our own analysis of:

- **New homes and household projections –** we calculated three scenarios for the number of additional homes in each year until 2035. We did so by assuming the Scottish Government target of 6,000 new council and RSL homes will be delivered in each year and then adding worst, average and best case private building figures to this number. In the worst case scenario, we assume private builds remains at 2011/12 levels (the lowest in the last 12 years). In the best case scenario, we assumed private builds remains at 2004/05 levels (the highest in the last 12 years). In the average case scenario, we assume private builds remains at the annual average for 1999/00– 2011/12. **(Exhibit 3)** shows the ratio in each year between these new build scenarios and National Records of Scotland household projections. It shows the relationship between the three new building scenarios and household projections. An indicator line of one new home for each new household shows when the number of new homes equals the number of new households in any one year.

- **Council spend on temporary accommodation –** we calculated council spend on temporary accommodation using data from the Scottish Housing Best Value Network on average number of days in temporary accommodation, average weekly costs for different types of temporary accommodation and average uses of different types of temporary accommodation. We then compared the total cost of temporary accommodation with how much it would cost to house these people in council housing.

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ACCOUNTS COMMISSION – HOUSING IN SCOTLAND – KEY RECOMMENDATIONS:

Key Point/Checklist/ Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
Ensure housing strategies and the associated plans and investment decisions are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners including RSLs and tenants.	Yes	In place & working well. Council has a good quality Local Housing Strategy (LHS)based on a robust & credible Housing Needs and Demand Assessment (HNDA) but the process needs to be revisited in light of revised Centre for Housing Market Analysis guidance due end of year/early 2014. For the future, need to review & align overall HNDA with community-level assessments. Good joint working partnerships in place at operational & strategic levels. Key Housing Market Partnership is the Strategic Housing & Communities Forum which includes RSL & tenant participation (Tenants Panel) as well as other key stakeholders.	Ongoing	Housing Services Manager
Review the way housing services are designed and delivered in light of the recent reductions in the number of people assessed as homeless and councils' duties to homeless people.	Yes	In place & working well. Reduction in homeless presentations is only one factor to impact on service delivery & does not necessarily equate to an overall reduction in casework/staff input or required staffing levels. Delivering effective Housing Options & preventative activity can actually mean that enhanced caseloads and staff input are required. Council has an effective approach to service planning and has just completed a rigorous review into service structures, delivery & budgeting.	Ongoing	Housing Services Manager
Review the differences in performance and long-term financial position of their housing stock and develop strategies, including rent strategies, to address future liabilities and maintain the value of the assets.	No	Not applicable. This Council transferred stock in 2006 & no longer has a landlord function.		
Clarify guidance on recording of spend through the HRA and the general account for housing to improve transparency to tenants and provide a clearer picture of council	No	As the Council no longer has an HRA all expenditure on homelessness is charged to the General Fund. There are separate cost centres set up to record		

Key Point/Checklist/ Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
spending on homelessness services.		costs on homelessness within the General Fund revenue budget and is therefore totally transparent.		
Work together to develop a clear understanding of the condition of private sector housing and what investment is required in the future.	Yes	Work ongoing but is an area for improvement. Evidence on private sector house condition is available from: Scottish House Condition Survey (limited sample at local level); Local House Condition Survey (covers admin areas but now dated); Recently conducted primary Research on private rented sector and developed an action plan to be incorporated into LHS (excludes owner occupied sector). Housing services also undertakes rolling programme of random surveys but these are not geographically comprehensive. Clear evidence of poor condition & energy efficiency across the private sector but need to improve & quantify understanding of actual investment requirements.	Ongoing	Housing Services Manager
Review the role their CPP plays in housing to ensure arrangements are clear and that the CPP is effective in bringing partners together.	Yes	In place & working well. The Strategic Housing & Communities Forum comprises a wide range of Community Planning partners. The LHS is directly aligned with CP & SOA and housing contributes to a number of key aims and outcomes, and will have a central role in delivering the revised priority/vision for Argyll & Bute – to ensure economic growth is based on an increased population.	Ongoing	Housing Services Manager

ARGYLL AND BUTE COUNCIL	**AUDIT COMMITTEE**
IMPROVEMENT AND HR	**13 DECEMBER 2013**

AUDIT SCOTLAND REPORTS –
CHARGING FOR SERVICES: ARE YOU GETTING IT RIGHT?

1 INTRODUCTION

1.1 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 is one report appended for the Audit Committee. A Checklist has been issued to management for which a response is being considered.

2 RECOMMENDATION

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

3 DETAIL

3.1 Officers are currently considering how to implement the points in this report.

4 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

Head of Strategic Finance
For further information please contact Internal Audit.
18 November 2013

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How councils work:
an improvement series for councillors and officers

Charging for services: are you getting it right?

ACCOUNTS COMMISSION

Prepared by Audit Scotland
October 2013

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: **www.audit-scotland.gov.uk/about/ac**

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.

Summary

Key facts

75 per cent
Three-quarters of councils are reviewing their use of charges, but less than half have corporate policies in place

£1.3 billion
Raised from charges and fees by councils each year

£££
Charges vary according to council policy from free to hundreds of pounds per year

7 per cent
Total funding councils receive from charges and fees

54 per cent
Proportion of income from social work, roads and transport, and 'central services' charges such as licensing.

57 per cent
Income from charges relative to council tax take

Background

About our report

1. The Accounts Commission seeks to support developments in Best Value and how to manage resources such as people and finance. We recognise these as components vital to successfully delivering council services. Our 'how councils work' series of reports aims to stimulate change and help councils continue improving their performance. We select topics based on the recurring themes and issues from our Best Value and performance audit work, the work of local auditors and our annual overview report. All our reports are available on our website: www.audit-scotland.gov.uk Topics to date have included:

- the roles, responsibilities and working relationships of councillors and council officers
- councils' use of arm's-length external organisations (ALEOs)
- the management of costs
- performance management and improvement
- capital project management.

2. Local authority charging is an important issue. While charges for services make up a relatively small part of a council's income, they can be very significant to people who use services. Charges are one of the few ways that are within councils' control to raise income locally.

charges are an important source of income over which councils have control or influence

3. In Part 1 we look more closely at the types of services that councils can charge for. We also look at the contribution charges make to a council's overall budget. This includes information about current practice including variations in charges, and the extent to which councils have clear policies for charging.

4. Charges can influence how people choose to use services. In Part 2 we look at examples of good practice including understanding costs and getting the views of people who use services.

5. Part 3 includes a guide to managing charges, and Appendix 1 and Appendix 2 include checklists for councillors and officers to help them apply good practice.

6. We are grateful to all the councils who responded to our survey, and also to other organisations who we worked with to develop this report including the Convention of Scottish Local Authorities (COSLA), the Improvement Service, and the Society of Local Authority Chief Executives (SOLACE).

Key messages

1. Councils should have clear policies in place for charges and concessions. They should regularly review charges to ensure that they are appropriate and meet their intended objectives.

2. Councillors should take a lead role in determining charging policies. They should be involved and consulted over the design of charges and concessions.

3. Charges can be used to influence behaviour to help meet councils' objectives. They should not be seen solely as a means to generate income.

4. Councils should improve their use of cost information, including unit costs. This is essential for councils to design charges and understand the extent to which they will recover costs.

5. Charges for services vary markedly between councils, reflecting local circumstances and policy priorities. This may be appropriate but councils should be aware of any significant differences in their charges. They should be transparent in how they set charges and be able to explain their charging decisions to the public.

6. Councils should consider charging as part of their overall financial management. Councils should understand the contribution that charges make to their overall financial position, and the extent to which individual services are subsidised. This can help councils to target subsidy to priority areas.

7. Many factors must be taken into account when designing charges. To assist in this, councils should follow the good practice set out in this report. This includes identifying charging options, assessing their impact on services and the people that use them, and making comparisons with other providers.

Part 1

Why charges are important

Key messages

1 Charges are an important source of income and are a means to help councils achieve their objectives.

2 Councils have discretion over their charging policy and variations in charges can be expected. Councils with a clear basis for their charges are better placed to explain their charging decisions.

3 The income that councils raise from charges has risen over the last decade and is estimated at some £1.3 billion, or approximately seven per cent of a council's overall expenditure.

Councils use charges to help them meet their policy aims

charges should be made clear to the public

7. Charges serve a variety of purposes. They bring in a vital source of income to councils and can be used to help councils to deliver services and their policy aims. Councils charge the users of their services through a variety of means. These include:

- charges at the point of sale or admission, eg gyms, galleries, school meals and museums
- fees paid up front for receiving services, eg meals on wheels, licence applications, parking permits, gym membership schemes
- services billed for after they have been provided, eg pest control, statutory repairs
- services where a contribution is paid by the user depending on their eligibility or ability to pay, eg non-residential care services

8. The term 'charging' in this report refers to all these charging methods used by councils. Our report does not specifically refer to housing rents, or to fines issued by councils, although similar principles apply in these areas.

9. Councils use charges to influence behaviours – for example, low gym charges can be used to encourage exercise or car park charges can be introduced to discourage the use of cars in city centres.

10. Councils work with limited resources and face continuing financial pressures through increasing costs and demands on services. The Scottish Government funding settlement to local authorities for 2013/14 is £9.9 billion, a decrease of about 2.2 per cent in real terms.[1] Councils are predicting increasing funding gaps. There is therefore an increasing need for councils to examine potential sources of income, including charging more for their services.

11. Charges can be a means to sustain and improve services. They can also be used to bring in new sources of income or be used to help a council to improve the services it offers. In setting charges, councils must take into account the impact on the service user. They must also understand the contribution charges make to their council's overall financial position. Councils should consider charging within their overall plans for how they manage their resources.

12. Our assessment of the Scottish Government local financial returns shows that councils raise over £1.3 billion through charges,[2] equivalent to over 50 per cent of the amount they raise through council tax.

13. We have used information reported by councils in their local financial returns to the Scottish Government to illustrate broad trends in income from charges. These returns do not provide an accurate figure for the amount that councils raise through direct charges to service users. However, they allow us to compare data over time on a reasonably consistent basis. This information is reported by councils as their total income from sales, fees and charges.

14. The majority of income in this category comes from charges to service users, but it may include other income sources such as charges for services provided on behalf of other councils, or sales of discontinued equipment. It is not possible to separate these miscellaneous sources of income from the figures. The figures do not include income for services provided through trusts or arm's-length companies, as these are treated as separate organisations for accounting purposes. Such organisations are used by councils to different extents in areas such as leisure, property services and, more recently, social care services.

15. We emphasise that the financial information available to us on income from charges is limited. An important message from this report is that councils themselves must ensure that they have good financial information to manage their charges effectively.

Councils must provide some services free of charge, but have discretion to set charges in many areas

16. Councils do not have complete freedom to charge for services. Many council services are provided with no direct charge to the service user. Examples include children's education and street cleaning. Services such as these are funded mainly through taxes.

17. Councils do however have discretion to charge for other services. For example, the service user typically pays for services such as planning consents and building control certificates, the use of sports facilities, licensing and burials and cremations. Councils may also offer price concessions to certain service users based on, for example, their age, employment or financial circumstances.

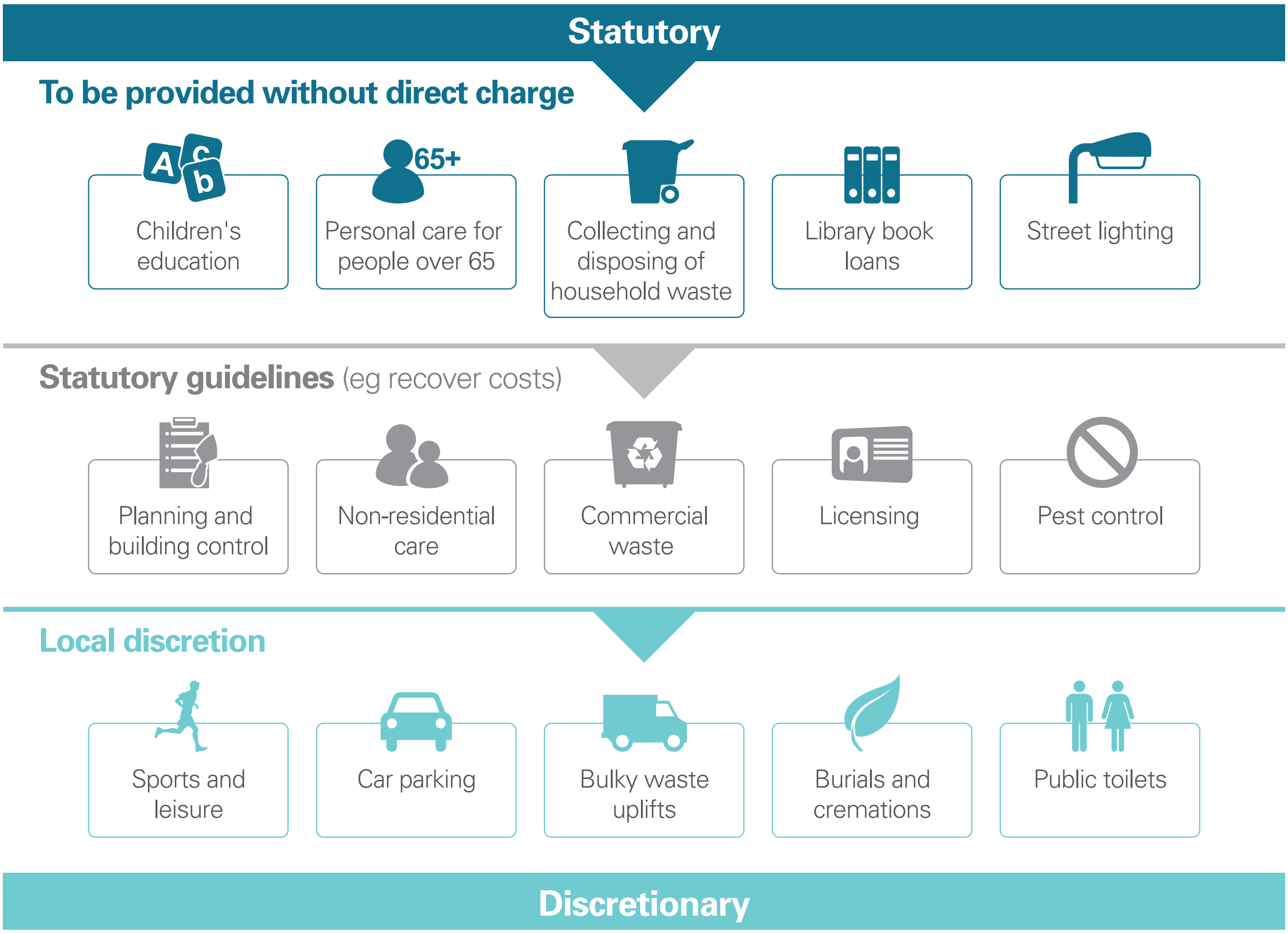
18. Charges are an important area of income over which councils can have direct control. This report focuses on areas where councils have discretion to apply charges.

19. Charges in many areas are subject to legislation and national guidelines. Common principles behind these are that charges should be reasonable, take account of the service user's ability to pay, and should not exceed the cost of providing the service. Examples of how charging legislation applies to different services are shown in Exhibit 1.

Exhibit 1

Examples of charging regimes for services

Charging requirements and legislation vary for different services.



Source: Audit Scotland

20. Legislation and guidelines for charging should be kept under review. This is an area the Scottish Government may wish to consider to ensure that statutory charges remain appropriate for the environment in which councils operate.

21. Councils have discretion to subsidise services. Where a service is subsidised public money is used to make a contribution to part of the costs of providing the service. Subsidy applies to the service as a whole and is not targeted to a particular social group. Councils can also apply concessions through reduced fees and charges to certain groups, for example to encourage equal access to services.

22. Charges for public sector services generally cover the costs of providing them and are not intended to generate income. Where charges generate a profit or surplus, this is normally reinvested in the service. Parking is an example of this, where any surplus income from charges and fines is reinvested in related services. In the case of charitable trusts, any surplus is reinvested in the activities of the trust.

23. In certain circumstances, councils and their associated organisations may be able to trade in the open market, applying commercial rates to generate some profit. For example, many councils have set up arm's-length companies to undertake activities such as property development and facilities management services.

Councils generated over £1.3 billion from charges in 2012/13

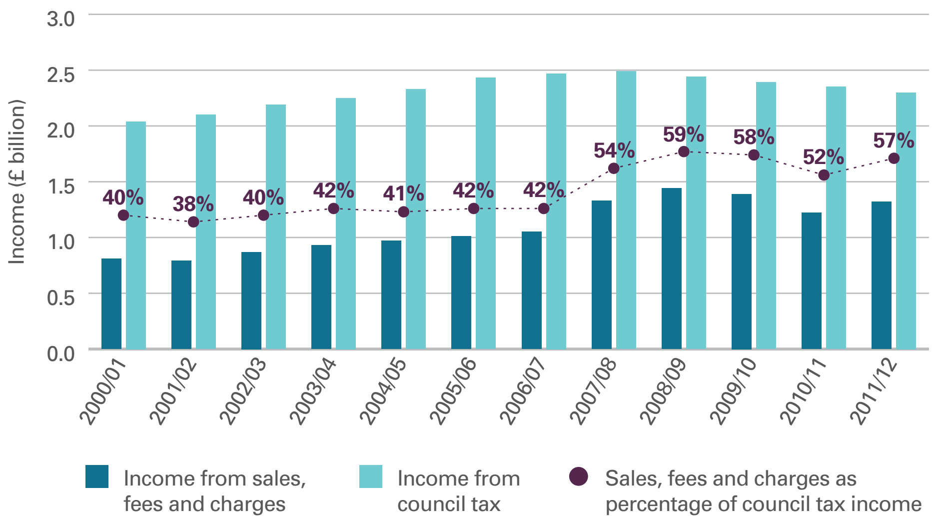
24. Information reported by councils in their annual Scottish Government financial returns indicates that they raise over £1.3 billion a year through charges, accounting for 7.4 per cent of councils' total revenue. The proportion of income from charges rose from 5.6 per cent in 2003/04[3] to 7.4 per cent in 2013. The implementation of the council tax freeze in 2007/08 altered the relative proportion of councils' income from charges.

25. Income from charges now equates to over half of the income raised through council tax, having risen from about 40 per cent in 2003 to 57 per cent in 2013. Exhibit 2 shows how this proportion has changed over the last ten years.

Exhibit 2

Income from sales, fees and charges compared to income from council tax (shown in 2011/12 prices)

Income from charges is increasing, while income from council tax has declined in real terms.

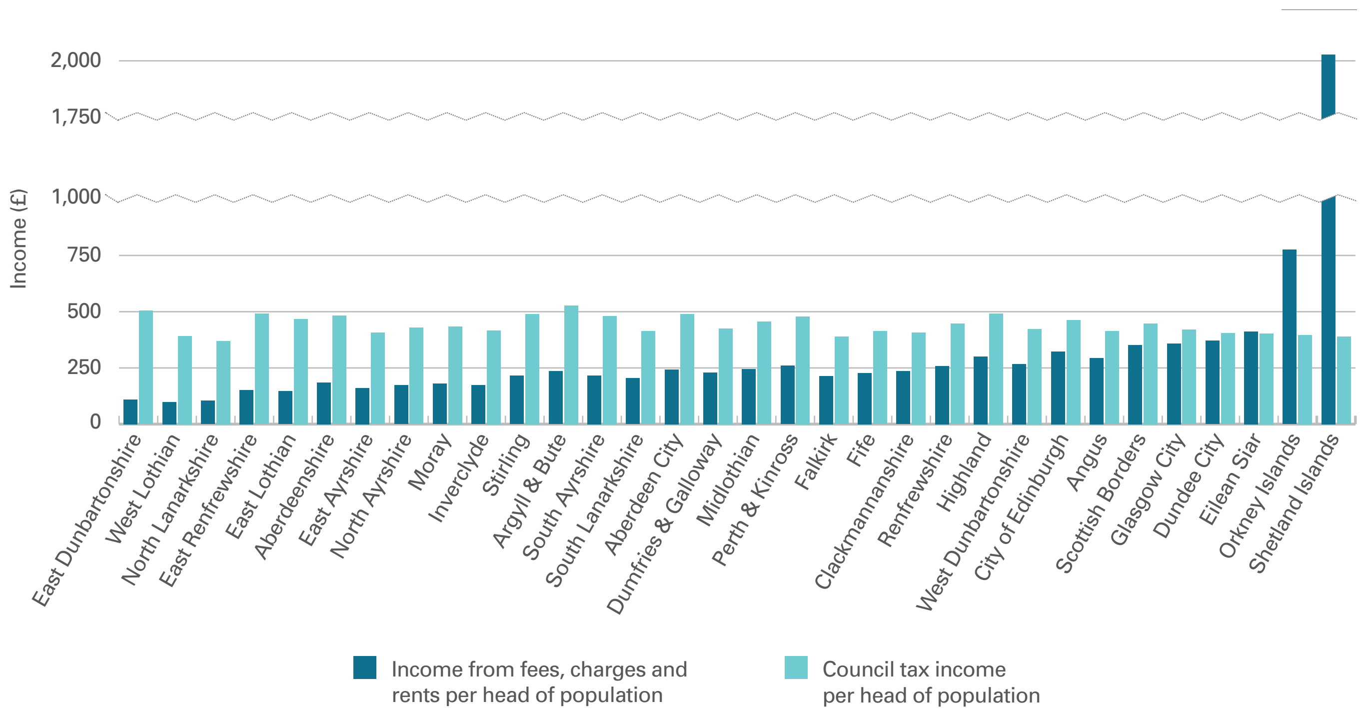


Note: Figures adjusted in real terms to 2012.

Source: Audit Scotland and Scottish Government Local Financial Returns

26. Exhibit 3 compares income from sales, fees and charges with income raised through council tax. This shows a large variation in the amount that councils raise from charges. Income from charges as a proportion of council tax ranges from a low of 22 per cent in East Dunbartonshire to a high of over 500 per cent in the Shetland Islands.

Exhibit 3
Councils' per capita income from sales, fees and charges, compared to income from council tax
The amount councils raise through charges varies significantly.



Source: Audit Scotland and Scottish Government Local Financial Returns

27. Councils are therefore using charges to supplement the income they raise locally through council tax to varying degrees. The reasons for this variation are not clear, and there is no clear relationship between the levels of council tax and charges levied by councils. The variations are likely to be due to a combination of councils' charging policies and other local factors. For example, cities may be able to raise more charges from their business and tourism base. Similarly, Shetland Islands Council and, to a lesser extent, Orkney Islands Council and Comhairle nan Eilean Siar (Western Isles Council), generate significant private sector income from their harbour activities including essential ferry services and in the case of Shetland, oil-related revenue. This results in their comparatively high income levels from charges.

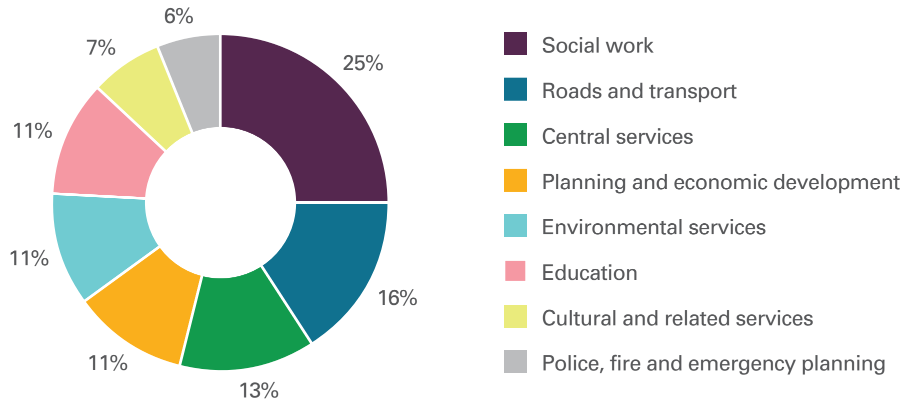
28. As part of good financial management and planning, councils should understand the contribution that charges make to their overall financial position. They should also be aware of how this compares with other councils.

29. Councils apply charges across a wide range of services. Exhibit 4 shows the services that generate most income from charges. Social work, roads and transportation, and central services make up the highest levels of income. Within social work, older peoples' services make up the majority of income, followed by services for people with learning disabilities. Income from roads and transport charges comes mainly from parking, and roads maintenance work. Within central services, charging income comes from activities such as licensing and registering births, deaths and marriages.

Exhibit 4

Income from sales, fees and charges by service area

Social work, roads and transport, and central services (such as licensing) together raise over 50 per cent of income from charges.



Source: Audit Scotland

Charges vary between councils

30. Legislation and guidance sets out how councils can apply charges, but councils have discretion to set charges in many areas. Legislation prohibits charging altogether in certain areas such as children's education. In other areas, legislation sets out broad principles but its application may vary between councils, for example in the way councils determine what constitutes a reasonable charge. Local differences such as the nature of the services provided and the actual costs involved in providing them will also affect councils' charges.

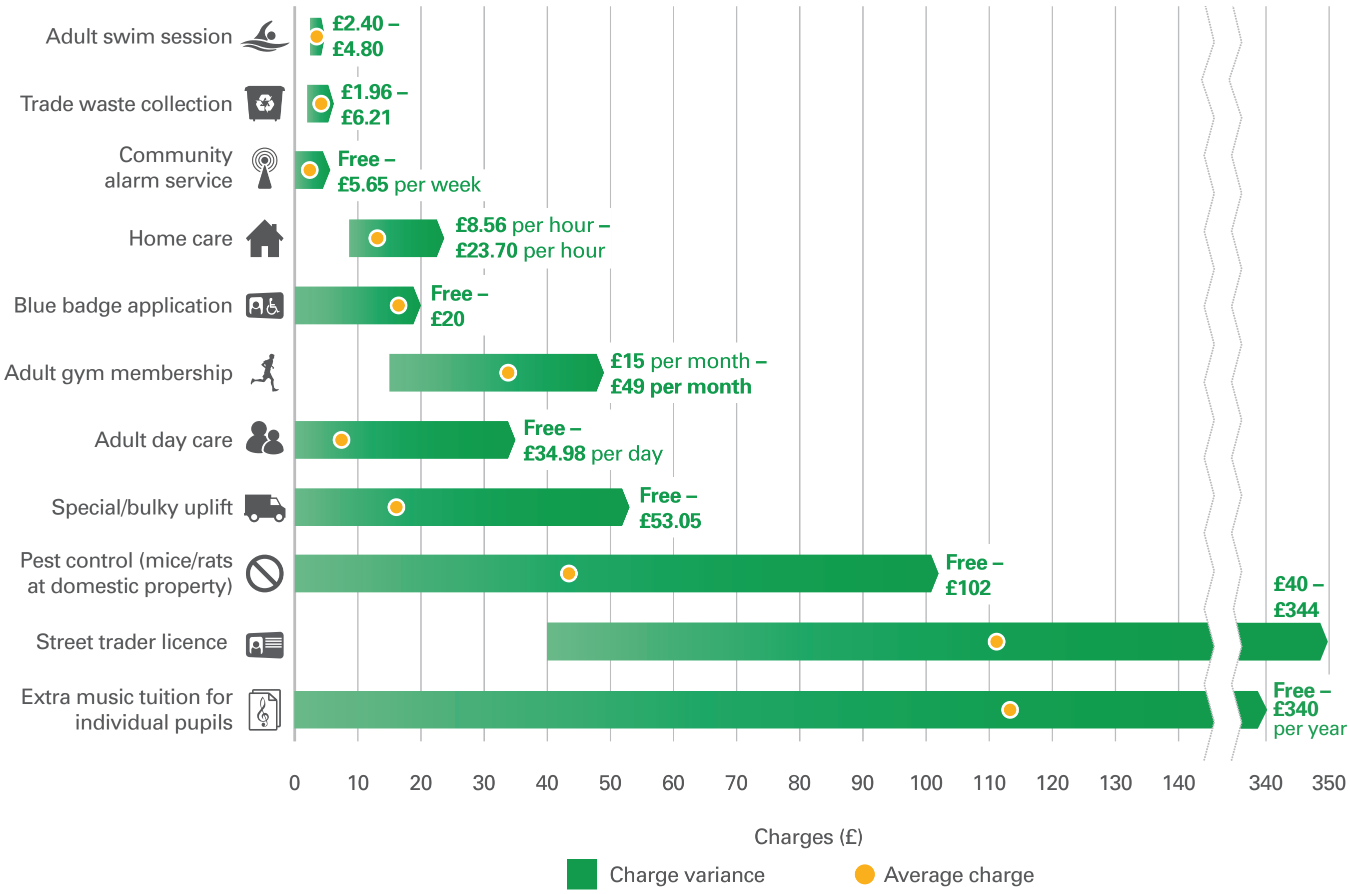
31. As locally elected bodies it can be expected that councils' charging policies will differ. Service users, however may perceive variations in charges for similar services as inconsistent, confusing, or unfair. This may be particularly the case where some councils charge for a service and others do not. Also, the public may be less assured about charges with no clear basis or that are simply set at historical levels.

32. Some users will be more aware of differences in charges. Businesses, for example, may deal with several councils and find different approaches for commonly used services such as commercial waste disposal, scaffold permits and licensing. Exhibit 5 (page 13) shows how charges vary between councils across a sample of services.

Exhibit 5

Variation in charges for a sample of services provided by councils

Charges vary significantly across councils.



Note: Shows range of charges across sample sizes ranging from 16 to all 32 councils. Charges reflect, as far as possible, similar terms of service and exclude concessions and off-peak reductions. In areas where means testing applies, such as adult social care, the charge shown is the total service charge and does not necessarily reflect the amount any individual service user will pay.

Source: Audit Scotland

33. There can be significant variation in charges. The cumulative effect of these on a household receiving a variety of services could be significant and amount to hundreds of pounds a year. However, it is often difficult to compare charges across councils. The variation in charges between different councils is not always clear from simply looking at the stated prices.

34. For example, Exhibit 5 shows that the charge for individual music tuition[4] varies from being provided free (Dundee City Council, City of Edinburgh Council, Comhairle nan Eilean Siar, Glasgow City Council, Orkney Islands Council, South Ayrshire Council and West Lothian Council) to £340 per year (Aberdeen City Council). However, the service being provided also varies between councils, with the number of lessons ranging from 28 to 40; lesson duration ranging from 25 minutes to an hour; and some councils providing free use of equipment while others charge a hire fee. The Scottish Government published a review of school music tuition in June 2013.[5]

35. The variation in costs for adult day care services is also more complex than the difference in the core fee suggests. For example, some councils include costs for meals and transportation while others charge an extra cost to the user.

36. Councils should be transparent in their use of charges. It is good practice for councils to set out clear charging schedules so that the public are aware of what services they need to pay for and how much they will cost. Some councils make such information clearly available on their websites and also at the point of service delivery, for example through customer service standards and leaflets. Exhibit 6 shows how Clackmannanshire Council gives a clear overview of its overall policy for community care charges.

Exhibit 6

Community care charging policy

Charges fall into one of three categories.

Free services

- Personal care over age 65
- Minor adaptations
- Equipment to assist with daily living
- Mobile emergency care service
- Day care
- All services to children are currently free

Services charged according to ability to pay

- Homecare
- Residential care
- Nursing homecare
- Major adaptations to property

Fixed charge services

- Meals provided at home and at day centres
- Respite care

Source: Clackmannanshire Council website, Community Care Charging Policy, adapted by Audit Scotland.

Councils should have a clear basis for their charges

37. Ultimately, each council must set its charges in the context of its wider service objectives. However, councils should be aware of practice elsewhere to help set their charges. They should compare their charges with other providers and make use of national and other benchmarking approaches. This does not mean simply mirroring charges elsewhere, because local circumstances may vary. However, councils should be aware of any unexplained inconsistencies and be able to explain why their charging policy differs.

38. We found that most councils use benchmarking to compare their charges across services and with other councils and providers. This allows them to identify any significant variations and take these into account when setting their charges. Councils should be able to explain any significant variations in charging, for example because of differences in costs, service quality or policy.

39. At a national level, organisations including the Association of Public Sector Excellence (APSE), The Chartered Institute of Public Finance and Accountancy (CIPFA), COSLA, the Improvement Service, and SOLACE are all involved in benchmarking charges for services. Our survey found that councils also use the COSLA/Association of Directors of Social Work (ADSW) non-residential social care charging survey which is completed annually and circulated around all authorities.

40. Benchmarking is often triggered by the annual budget process or individual service reviews. We found some councils had undertaken major, one-off reviews of charging or income across the council. Some were using benchmarking to identify charges that were significantly lower than those elsewhere as part of initiatives to identify new sources of income.

41. Councils have found benchmarking difficult because of the wide range of charges applied, and variations in the services delivered. Some also reported that the range of different providers also makes benchmarking difficult. For example, sports and leisure is often provided through diverse organisations including councils, charitable trusts, arm's-length companies and the private sector. However, it is important that councils find ways to benchmark their charges. We found that some councils had compared charges across public, private and third sector providers in areas such as crematoria, social care, waste management, and sports and leisure.

Part 2

Managing charges

Key messages

1. Charges for services should be consistent with councils' overall policy aims. Few councils have corporate policies specifying the circumstances in which charges and concessions should be applied, but most have policies in place for individual services.

2. Councillors approve charges through the budget-setting process, but should take a stronger role in determining policies for charges and concessions.

3. Councils have tended to review charging as part of their annual budget-setting cycle, but are beginning to undertake more strategic reviews of charging.

4. Good financial information is essential to manage charges effectively. The availability of cost information in councils is limited. Many factors must be taken into account when designing charges. Councils must also understand the views of people who use services, including their ability to pay.

Charges should be part of a council's financial and resource planning

42. Many factors must be taken into account when deciding how to apply charges. In some councils, charging decisions have been made late in their budget-setting process. With a more structured approach, however, councils are better able to take informed decisions on charges that are consistent with their policy aims.

43. Councils should be clear on their overall objectives for charging and have guiding principles in place. They should also understand the legislative context, the views of users and other stakeholders, and the likely impact of charges on service uptake and income. Councils should consider how to introduce new or increased charges. It is often prudent to phase in charges over a period.

44. It is important to monitor and review the impact of charging decisions. Where pricing aims to achieve a policy aim it is important to monitor whether this has been achieved in practice. This should include identifying any unintended consequences of pricing decisions such as people withdrawing from services. For example, initiatives to increase participation in exercise or to encourage healthy eating for school children could be affected by price increases.

councillors have a lead role, and should be aware of costs, comparisons, and the views of service users

45. Councils should periodically review their overall approach to charging and concessions. As part of this they should assess the impact of charging arrangements and ensure that service charges comply with corporate guidelines.

46. The following bullets set out a framework for managing charges. This is not intended to be a prescriptive process for councils to follow, but sets out some of the important stages that councils are applying in practice. The following sections of this report expand on the main elements within this framework.

- Ensure councillors take a lead role in setting aims and priorities for charges and concessions.
- Adopt clear corporate principles and service objectives for how charges and concessions are applied.
- Understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges.
- Consult service users, community planning partners, residents and other stakeholders over proposed charges.
- Keep services under review to ensure that charges are appropriate and align with service and corporate objectives.
- Design charges to take into account the views of users and the potential impact on uptake and income.
- Design concessions that target priority groups and are consistently applied across services.

47. Part 3 includes an overall cycle for managing charges exhibit and Appendix 1 and Appendix 2 provide supporting checklists for councillors and officers.

Councillors should take a lead role in setting charges

48. Charges are an important means for councils to sustain services and to help meet their policy aims. Councillors should provide strong leadership and direction over charges. They should be aware of the impact of charges on the services they are responsible for, and be actively involved in charging decisions. Councillors have an important role in representing their constituents and should be consulted over charges along with users and other stakeholders.

49. Officers should provide councillors with clear financial information on the contribution charges make to a service. Councillors should also be made aware of the sensitivities of how pricing influences service uptake in particular services.

50. Councillors should be aware of their council's overall financial position. This requires a clear understanding of costs, subsidy levels and the contribution of charges. Councils have limited money to subsidise services. By having a clear understanding of the costs of services and the extent to which they are subsidised, councillors can ensure that any subsidy is channelled to priority areas.

51. Without this, there is a risk that councils are subsidising services where it would be reasonable to charge the service user more. Alternatively they may not be targeting subsidy to areas where people are struggling to afford services that are essential to them.

52. Typically councillors are involved in charging decisions through the budget-setting process and through service committees. This tends to be mostly where there are proposed changes to charges or charging policies.

53. There is scope for councils to involve councillors more closely in setting charges. We found limited evidence of councillors being involved in charging outside of committee. By involving councillors, charging proposals can be closely aligned with the council's priorities. For example, North Lanarkshire Council had involved councillors in an option appraisal and challenge process with senior officers. This was used to assess charging proposals, including their impact on services, client groups, savings targets and strategic priorities.

Charges should be set within a clear corporate policy framework

54. Charges should not be set in isolation. Any decision to vary or introduce charges should take into account the council's priorities and financial objectives. Councils can benefit from having a systematic approach to setting charges. This means having clear policies for how and when charges are to be used. These include corporate policies setting out council-wide principles for charging, and also departmental policies setting out objectives for individual services.

55. Some councils have developed registers of charges setting out current charges, the annual adjustments to the charge, and their charging basis, for example to recover costs. These help councils to monitor their overall approach to charging and take a consistent approach across services. Councils should consider concessions as part of their charging schemes. Policies for charging and for concessions should be consistent and integrated.

56. Councils should decide what services it is appropriate to charge for and what the objective of the charge is. Where services benefit the entire community, councils tend to fund them principally through taxation. This is often more efficient than attempting to charge service users directly. Councils are more likely to apply charges where services provide direct benefits to identifiable groups. Here services will typically be funded jointly through taxation and user charges.

57. Some councils apply punitive charges or fines where they need to provide services in response to behaviours that cause negative effects to the community or individuals. Here, charges are funded as much as possible from users. Dog control is an example of this.

58. What we found – 1 (page 19) indicates how the Highland Council applies its charging principles across all services. The policy helps to ensure that charging reviews as part of the council's budget-setting process reflect common corporate principles. The council's finance service is responsible for managing the application of this policy.

59. What we found – 2 (page 20) shows how a West Midlands council has set out a wide range of charging requirements under three guiding principles of viability, fairness and consistency. This illustrates the link between a council's policies for charging and concessions.

What we found – 1

Highland Council – corporate charging policy excerpt
The policy sets out fundamental principles for charging:

- All services must adhere to this policy and the principles outlined here. Any exceptions must have committee approval.
- The Corporate Charging Policy is designed to create a consistent approach to charging across council services and each service director is responsible for applying it.
- How fees and charges are used can have a positive impact on service delivery and therefore should not be automatically considered detrimental or controversial.
- The reason for levying a charge, and the basis on which the charge should be levied, should be transparent and must be considered against the council's corporate objectives. Charges should first and foremost be in accordance with legislative or regulatory requirements and be set to deliver policy objectives. Where appropriate, they may also be used as a means to generate income.

Source: The Highland Council

Most councils only have charging policies for individual services

60. Corporate charging guidelines would make councils better placed to make charging decisions that are consistent with their policy aims. In 1998 the Accounts Commission found that less than one-quarter of Scottish councils had established corporate principles for charges.[6] Our 2013 survey of Scottish councils indicates only a slight improvement.[7] Only nine out of 23 councils who responded to our survey said they had a corporate or council-wide policy in place for charging.

61. We found that most councils do, however, have charging policies for individual services. These were often approved by the relevant committees, with service directors being responsible for ensuring that they are followed. Clackmannanshire Council's community care charging policy is an example, as noted in Exhibit 6 (page 14).

Councils should be able to provide clear information on service costs and subsidies

62. Setting charges for services can be a complex exercise and needs to take into account many factors. Most crucially, councils should understand the full costs involved in delivering the service, including overhead costs and the costs of related services. Only then can they understand the contribution that charges are likely to make in recovering these costs.

63. For some services, charges may be set at historical levels and may not have been reviewed for some time. In other areas, councils may have reviewed charges to reflect the actual costs of providing the service, or to reflect market rates. Councils should also take into account the public perceptions of what makes a reasonable charge.

What we found – 2

Sandwell Council – guiding principles for setting fees and charges

This council sets its core principles for charging as viability, fairness and consistency.

Viability	Fairness	Consistency
The council will aim to achieve an appropriate level of income from fees and charges by ensuring that charges to users reflect the full cost of the service provision, unless otherwise required.	Fees and charges should be set at a level that is fair to users and council tax payers. Services received by commercial organisations should always pay the full cost, unless otherwise required, and concessions should be available to groups determined by the council as being unable to pay the full charge.	Concessions for target groups should be consistent across the authority's services in terms of who is eligible.
The decision to subsidise a service by either not charging for it at all or by charging at less than full cost should be a conscious choice, not an accident of history.	Significant price increases should be phased in over time to reduce the impact on service users.	Charges for similar services or activities should be consistent across the authority.
Charging levels should take account of market demand, competition from other service providers and comparisons with charges made by other comparable local authorities.	A tough stance should be taken on fee dodging so that other users do not pay more to compensate for non-payers.	Decisions about whether and how much to charge should be consistent with the achievement of customer outcomes and council strategies.

Source: Sandwell Council

64. Councils will also need to consider what costs charges are intended to cover. This may vary from full cost recovery to a percentage of costs, or marginal costs.[8]

65. Councils need to consider which pricing structures to apply. Three broad approaches are set out below. These should all be considered before deciding how to design a charge.

- Cost-based pricing – to recover all or a proportion of the costs of providing the service.
- Competition-based pricing – to reflect market rates.
- Demand-based pricing – to promote, or to control and limit uptake.

66. The basis for calculating costs may vary between councils, for example, the extent to which they include overhead costs such as building costs and central services such as information technology and human resources. Councils must identify and include all relevant costs. This is particularly important to help councils compare their costs and to report financial information publicly.

67. By identifying the full costs involved in delivering services, councils can then understand the extent to which charges recover costs. This is important if councils are to demonstrate that charges are reasonable and reflect the actual costs of delivery. It also allows them to understand the extent to which public money is used to subsidise services.

68. Good financial management is essential for councils to get charging right. Our 'how councils work' report on using cost information stressed the importance of management accounting.[9] Financial accounting tends to focus on the past and is used mainly to prepare annual financial statements. Management accounting is more forward-looking. It involves using current financial information to plan and manage services. This is the type of information that is important to understand and manage the impact of charges on services.

69. We have found that the use of cost information is relatively underdeveloped across councils. For example, performance management reports to committees often focus on service quality or uptake, but lack cost information. This can make it difficult for councillors to make informed decisions as to what level to set charges. It also makes it difficult for them to take strategic decisions on how they should make the best use of their limited resources to subsidise services.

70. Our 2012 'how councils work' report on using cost information emphasises the need to understand 'unit costs'. Unit costs are particularly useful when setting charges as they can help to identify the costs of the discrete activities the service user is paying for. Calculating unit costs involves identifying a suitable costing basis such as the cost per transaction, or the cost per visit. As part of this, overheads and other 'fixed' costs such as building costs need to be factored in, as do 'variable' costs such as staff time, materials and other expenses. Costs are then apportioned to the activity in question.

71. Stirling Council examined its burial and crematorium costs. This involved detailed task analysis and cost calculations to establish full-cost recovery for this service, What we found – 3.

What we found – 3

Stirling Council used activity-based costing to identify the full costs of the service

Stirling Council examined the income it receives from fees and charges as part of its financial planning process. It reviewed its burial service charges as part of this. The council's charges for this service had been set at historic levels and had not been reviewed for some time.

The council allocates all services for which it charges into categories: no charge, subsidised, full-cost recovery, income generating or statutory charges. The burials service is categorised as a full-cost recovery service.

The council used activity-based costing to understand the actual cost of providing the service. This showed that the council was subsidising the service significantly more than it had anticipated.

Activity-based costing involved identifying all the key steps involved and their associated costs. To cost activities, the council identified direct costs, such as staff time, and indirect costs, such as property costs, management costs, and support functions such as IT. The council used time-recording information, transactions and uptake data, and meetings with staff to gather the cost information. The activity-based costing exercise also highlighted activities not previously recognised as part of the service such as permit costs for stone masons.

The review gave councillors clear information on the service costs, charges, and how these compared to other providers. This allowed them to fully understand the financial implications of charging options. The council decided to move to full-cost recovery for most aspects of the service. The new charges were to be phased in to manage the impact on residents.

Source: Audit Scotland and Stirling Council

It is vital to understand the views of people who use services

72. Consultation is vital to understand the particular needs of service users. This includes talking to service users and other stakeholders such as residents and tax payers. Councils are consulting residents over charges as part of their annual budget-setting, and are inviting customer-satisfaction feedback, including complaints. Councils with good processes for monitoring service uptake and customer satisfaction have a valuable source of information to support their charging decisions.

73. We found that councils are using a variety of means to talk to the users. For example, in social care services, councils are consulting both service users and staff to gather their views on the service, their ability to pay, and the likely impact of welfare reform Exhibit 8 (page 29). Equalities-impact assessments should be considered as part of any significant charging decision to gauge how charges are likely to affect minority or disadvantaged groups.

74. Councillors, community councils, and voluntary or third sector organisations provide a useful sounding board for the likely impact of charges. It is also important that councils take into account the perspective of businesses, especially where private sector companies use services across different council areas.

75. Councils should also gather benchmarking information and comparisons with charges elsewhere. In some cases councils have realised that people are prepared to pay more for better services, such as secure car parking, or improved sports facilities. Councils can make more effective charging decisions when they consult with service users. For example, East Renfrewshire Council had consulted a theatre users' group over its charges for theatre lets. This group was not able to pay in advance so the council agreed to take payment once the theatre group had received its ticket sales income.

76. Councils are increasingly delivering services in partnership through community planning and other joint working across organisations. There is scope for councils and their partners to make greater use of community planning as a means to discuss and develop charging proposals.

Councils are reviewing how they use charges

77. We were encouraged to find that about three-quarters of councils who responded to our survey had conducted reviews of charging across their organisation. This shows that they recognise charging as an important area in its own right. What we found – 4 (page 24) summarises some of the types of corporate review activity we found.

78. Some have undertaken corporate reviews to help set a consistent approach to charging across services. In many cases the annual budget process has triggered reviews of charges. This is of course a practical consideration where councils face financial pressures. But it is important that decisions on charges are not taken in isolation.

79. Most councils have also reviewed charges in specific services within the last three years. Some councils have a systematic approach to doing this. East Renfrewshire Council has a rolling programme to review significant charging areas Case study 1 (page 24).

80. Councils' overall objectives for individual reviews into charging varied. Many cited generating income from new or increased charges as their main objective. Councils often applied wider aims where services are essential to people's wellbeing. Here cost recovery was seen to be a more appropriate aim than generating income. Examples of such services include social care and burials and cremations. In the case of social care, the ability of the service user to pay was an important factor in designing charges and concessions. What we found – 5 (page 25) summarises some of the service areas councils have examined, including the review objectives.

Many factors must be taken into account when setting charges

81. As well as contributing to income, charges are used to encourage certain behaviours to help meet service and corporate objectives – for example, to encourage equal access to services such as sports facilities, or to ensure that those who can afford to pay for services do so. Where charges are used to influence behaviours it is important to monitor whether this has been achieved in practice. Some charges may result in unintended consequences. As an example, charges for special or bulky waste uplifts may lead to more fly tipping causing environmental damage and clear-up costs for councils.

What we found – 4

Progress in corporate reviews of charging

Our survey of Scottish councils found the following:

- Council-wide reviews to set a framework for charging to identify the extent of cost recovery or income generation across all services.
- Joint reviews with other councils to allow comparisons and consistency in charging practice.
- Reviews of individual services to check compliance against existing corporate charging policy.
- Prioritisation exercises to target reviews in certain service areas.
- Overall income reviews as part of the annual budget process.
- A basic annual uplift of charges as part of the budget process.
- Council-wide reviews of concessions to ensure their consistent application.

Source: Audit Scotland

Case study 1

The service charge review programme in East Renfrewshire

Example of a structured approach to reviews.

The council has a rolling three-year programme of service charge reviews. This requires major charging areas to fully cost the services they provide at least once in each three-year period. Charges are calculated on an appropriate basis such as full-cost recovery, part-cost recovery, or contribution to revenue. This allows councillors to consider levels of service subsidy. In the interim two years, charges are adjusted according to the annual uprating guidance issued by the director of finance. This includes taking into account the impact of price changes on demand levels and competitor prices.

Source: East Renfrewshire Council

What we found – 5

Councils' reviews of charges and their objectives

The objectives of reviews depends on the services in question.

Charging review area	Main objectives cited by councils
Aids and adaptations	Remove charges Increase uptake
Bulky waste uplifts	Reduce subsidy Encourage efficient use of the service
Cemeteries and burials	Reduce subsidy Achieve full-cost recovery Improve facilities
Childcare	Increase income Create parity with other public provision
Ferry services, licensing, school buses, trade waste, pest control	Generate income
Individual music tuition	Expand and invest in the service Increase income
Non-residential social care (see Exhibit 8)	Fairness, consistency, transparency Reduce subsidy Consider impact of Welfare Reform and Self-Directed Support
Parking charges	Support the transport strategy Generate income
School meals	Cost recovery (to cover increased food costs) Generate income
Special schools	Benchmark charges
Sports and leisure	Generate income Increase uptake/target user groups Standardise charges and concessions

Source: Audit Scotland survey of Scottish councils 2013

82. It is good practice to monitor the impact of charges both on the uptake of the service, and on the overall financial position of the service. When designing charges many factors must be taken into account. Exhibit 7 highlights a range of issues that councils should consider.

Exhibit 7
Issues to consider when designing charges

Collect and analyse service information including:

- Who uses the service/who is the service targeted at?
- What charges and concessions apply?
- What is the financial position, including subsidy?
- What are the unit costs?
- What is the uptake, and service standards?
- When is the service used – peaks and troughs?
- How satisfied are service users?
- Is there scope to generate further income?
- What is the alternative to charging?
- What has been the impact of previous charging decisions?

Examine options for different levels of charging and concessions, referring to corporate guidelines, including:

- Assess the impact on service users and uptake, considering the sustainability of the proposals.
- Forecast demand and income.
- Assess the impact around equalities and accessibility.

Source: Audit Scotland

83. As an alternative to increasing charges, councils should also consider whether there is scope to reduce the costs of delivering the service, for example by redesigning or re-tendering aspects of it. A council that continuously reviews its activities will be better placed to find efficiencies without having to pass costs on to the end user.

84. Case study 2 (page 27) gives an example of how the Comhairle nam Eilean Siar (Western Isles Council) examined charges for its sports and leisure service. By reducing prices the council managed to increase income and at the same time support its policy aim to encourage people's participation in exercise.

Councils are making greater use of charges to offset financial pressures

85. In planning their budgets, councils are considering various options to reduce costs or generate income. As part of this work, some councils have stated that some free-of-charge services are no longer viable.

86. At the time of our survey in July 2013, a number of respondents were reviewing non-residential social work charges. This is a complex area and many factors must be taken into account. Demographic changes are leading to growing demand for services such as older peoples' care.[10] At the same time councils are facing continuing financial pressures. Budget and demand pressures have led some councils to introduce charges for services that were previously delivered free of charge.

Case study 2

Comhairle nan Eilean Siar (Western Isles Council): Slàinte Mhath Scheme

Reducing charges can increase service uptake and generate more income.

Slàinte Mhath, which is Gaelic for 'good health', is a reduced price access scheme for the comhairle's sports facilities. Launched in January 2010, the scheme gives members access to all sports facilities, including pools and classes, across the islands.

Before the scheme started, the cost of membership was more than double its current price. Individual and corporate memberships were available but their cost meant low uptake. The comhairle had identified that sports participation levels were decreasing and that some health indicators, especially heart disease and obesity levels, were worsening.

The comhairle launched the scheme with the aim of increasing participation in physical activities and supporting long-term health improvements. The scheme aims to make membership attractive to the local population while keeping prices reasonable for the casual user or visitor.

Memberships are available in two main categories: families at £20 per month and individuals at £15 per month. There are also concession rates available for those over 60, in full-time education and those receiving qualifying benefits (£10 per month for individuals and £15 for families). Pay-as-you-go prices have increased but still remain within sportscotland's national guidelines.

By March 2013, the scheme had about 5,000 individual participants. This is about 30 per cent of the island's population under 70 years of age. The scheme resulted in a 30 per cent increase in the use of sports facilities. There has also been a similar percentage increase in the income generated. Since the launch of the scheme, income has increased by about £100,000, reducing the overall service cost to the comhairle.

Source: Audit Scotland and Comhairle nan Eilean Siar

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87. Many councils are looking at options to increase income from charges. There is a danger, however, that by increasing charges, councils may actually lose income by pricing people out of the market.

88. Councils must consider the ability and willingness of service users to pay. This is particularly important for services that people rely on as part of their daily lives, such as homecare for people with disabilities, and meals on wheels.

89. Many councils have reviewed their non-residential care charging policies or are planning to do so. Almost 40 per cent of councils' social care spending is non-residential services for adults and older people. This includes homecare, day care, meals on wheels and community alarms.

90. With a projected 82 per cent increase in the population aged over 75 between 2010 and 2035, this is an area facing particular pressures, including rising demand and pressure on capacity. Current policy changes, will also significantly impact on this service area. These include the integration of health and social care services, welfare reform, the move to greater personalisation of services, which includes self-directed support, and the focus on earlier and more localised provision of care.

91. Some of the councils we spoke to are planning to carry out wider financial assessments of service users and have already put planning groups in place to progress this. This is partly in response to legislative changes that could have a potential impact on people's disposable income such as welfare reform. Exhibit 8 (page 29) outlines some of the challenges faced by councils in this important area.

Concessions are an important part of charging

92. Concessions are a means for councils to offer discounted fees and prices to particular individuals or groups, without having to limit standard charges. This can help councils to achieve their policy aims, for example to promote social inclusion by encouraging minority or harder-to-reach groups to use services. Charging and concessions should be considered together when designing pricing structures for a service.

93. Some groups are widely recognised by service providers nationally as being eligible for concessions. These include children, people over 60 years, adults on low income, people with a disability and students. Councils have local discretion to set concessions in line with their pricing structures for these groups, and for other groups or service users that they identify as a priority. Examples include the discounted hire of council facilities for various community groups, or the award of concessions to service veterans.

94. There are national schemes in place to improve the management of concessions. Universal benefits cards such as the national entitlement card allow a common means to identify eligibility for benefits. Councils use these schemes to varying degrees for services such as schools catering, libraries and public transport.

95. It is important that councils have a coherent and coordinated approach to concessions. From the user perspective this allows consistency; and from a council perspective it allows subsidy funding to be targeted to priority groups. To achieve this, councils should have corporate principles setting out how they will apply concessions. A good concessions policy will require services to observe applicable legislation and guidance, and to consider the impact of the concessions. Policies for charging and for concessions should be consistent and integrated. As part of a more strategic approach, councils should also consider how service-users access welfare and other related benefits.

Exhibit 8

Reviewing charges for non-residential social care

Councils face a challenge in balancing the need for financial contributions from clients, with ensuring their welfare and quality of life.

Councils have identified that:

- Charges are increasingly important to sustain social care services.
- They need a clearer understanding of the cost of services and the financial contribution made by service users.
- They need to understand the impact of charging policies on all service user groups.

Examples of review activity we have found include:

- Identifying further areas for service charges. This includes examining the costs of collecting any additional charges, and the likely impact on the take-up of the service.
- Service and finance teams working together to understand service costs including benchmarking how much clients are expected to contribute to their care costs.
- Assessing the impact of any changes through one-to-one meetings with service users, workshops with service users groups, and discussing proposed changes with front-line staff.

Source: Audit Scotland

96. Councils need to develop stronger corporate management of concessions. In the majority of councils concessions were determined by individual service departments. Only five respondents indicated that they had a corporate process and criteria for concessions that is shared across services. There is a risk otherwise that eligibility criteria can be inconsistent and confusing to the person seeking the concession.

97. Dundee City Council had reviewed its overall approach to concessions as part of the implementation of its Dundee Fairness Strategy. This resulted in simplified criteria for income-related concessions. The council also had a mechanism in place to recognise eligibility for concessions. Here, a resident’s entitlement to a council tax reduction also confirmed their eligibility to receive concessions across services. Case study 3 (page 30) gives a further example of how North Lanarkshire Council used concessions in partnership with its leisure provider to support its aim to increase participation in exercise.

Case study 3
Example of how North Lanarkshire uses concessions to help meet its outcomes

North Lanarkshire Council has used concessions to support its Single Outcome Agreement aim to 'increase the number of people enjoying a physically active life'. The council's social care service has worked with North Lanarkshire Leisure to encourage residents to take part in sport and be more physically active. The main focus was on those in the community who are harder to reach and who suffer disadvantage and deprivation. Some of the concessions introduced include:

- Kids Klub free of charge programme in the school holidays.
- Free swimming lessons during school holiday periods.
- Saturday Sports Scene project which offers free access to ten to 17 year olds on a Saturday night to a range of sports, coached activities and guidance on healthy lifestyle choices.

Source: North Lanarkshire Council

98. The Equality Act 2010 requires public authorities to have regard to the need to eliminate discrimination, advance equality, and foster good relations across a range of protected characteristics. These are defined as age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, sex and sexual orientation. In assessing the impact of their charging proposals, councils should also consider the impact on these characteristic groups to avoid or manage any detrimental effects.

99. Councils should also consider wider issues around access and affordability. For example, the children of people on low incomes may not be directly eligible for concessions. As such they may not be able to afford services that would benefit them such as swimming.

100. Councils' policies for charging and concessions should be consistent with their overall approach to equal opportunities. It is good practice for councils to carry out equality impact assessments for concessions. Some councils involved staff in their diversity and equal opportunities functions in the design of concessions.

101. Examples of measures councils have taken to apply concessions more consistently are set out below. Practice such as this is a good way for councils to make sure they are aware of the impact of charges, particularly on the vulnerable or income deprived.

- East Ayrshire Council used its budget-setting process to give an overview of all charges. By taking a corporate view it identified service users who would be affected by multiple charges from different services. As part of this, the council carried out equality-impact assessments to help maintain equity and fairness, particularly where new or increased charges were proposed.

- West Lothian Council was developing a council-wide concessions policy. This took into account the impact of welfare reform on eligibility for concessions. The aim of the policy is to put in place a fair and equitable range of concessions, to create greater awareness of concessions in the community, and to increase the uptake of concessionary services.

The costs of collecting charges should not be overlooked

102. One factor that should not be overlooked is how charges should be collected. Councils should make sure that they consider the costs of collection, and also the risks and benefits of various options for collecting charges.

103. It may not be worthwhile to charge for services when collecting them would be onerous or expensive. Highland Council's corporate charging policy stated that charging would either be limited or not applicable where charges were not cost effective to collect. Similarly, it stated that if it was likely that charges would frequently be waived depending on the service users' circumstances, then charges may not be appropriate.

104. The two main approaches to collecting charges are collection at the point of service delivery, and billing. The former involves collecting money up-front from the customer and requires administration such as cashiers and banking services. An example of this is admission to sports centres. Billing involves sending invoices to the recipient for the service provided, for example parking permits and building control certificates.

105. There are a range of direct and indirect costs involved in collecting a charge. Direct costs include front-line administration, ticketing and equipment to collect charges. Indirect costs include pursuing arrears, bad debts, and possible fraud costs where money may be misappropriated. Collection through taxation, such as through council tax, is a more efficient method. However, this cannot be used where it is necessary to charge specific service users.

106. Where money is collected at source, the risk of internal fraud is higher because of the need for money handling. Where service charges are billed, the risk of such fraud is reduced, but there is a greater risk of incurring bad debts which can then require expensive recovery processes.

107. Technology can be put to good effect to improve payment security and reduce transaction costs. Innovative ways to pay for services include payment via council's websites, payment using mobile phones, for example to pay for ticketless parking, and the cashless payment for services such as school meals using smartcards.

108. The use of technology such as smartcards is not yet well established in councils. Some are piloting new approaches, and the use of smartcards, for example, is not yet widespread or integrated across services or client groups.

Arm's-length companies and trusts may be directly responsible for setting charges

109. Our 'how councils work' report on the use of ALEOs[11] looked at how councils use companies, trusts and other forms of organisations to deliver services. Where a council uses delivery models such as these, its control over the services in question may be affected. This will be determined by the particular governance arrangements in place.

110. We found that many leisure trusts, as independent bodies, have control over setting prices for admission to sports and leisure centres. Some councils had arrangements in place to mutually agree charges with ALEOs. These included boards of leisure trusts being required to negotiate amendments to charges with the council as part of a services agreement.

111. Councillors and officers must take into account the implications of different delivery models on the way services are governed. Where an ALEO has delegated responsibility for setting prices there is a risk that its charges and concessions may differ from the policy aims of the council. This risk can be reduced where prices are mutually agreed, and endorsed by the appropriate council committee. However, such arrangements must recognise the independent status of organisations such as charitable trusts.

Want to know more?

Further information on charging for services can be found in these publications:

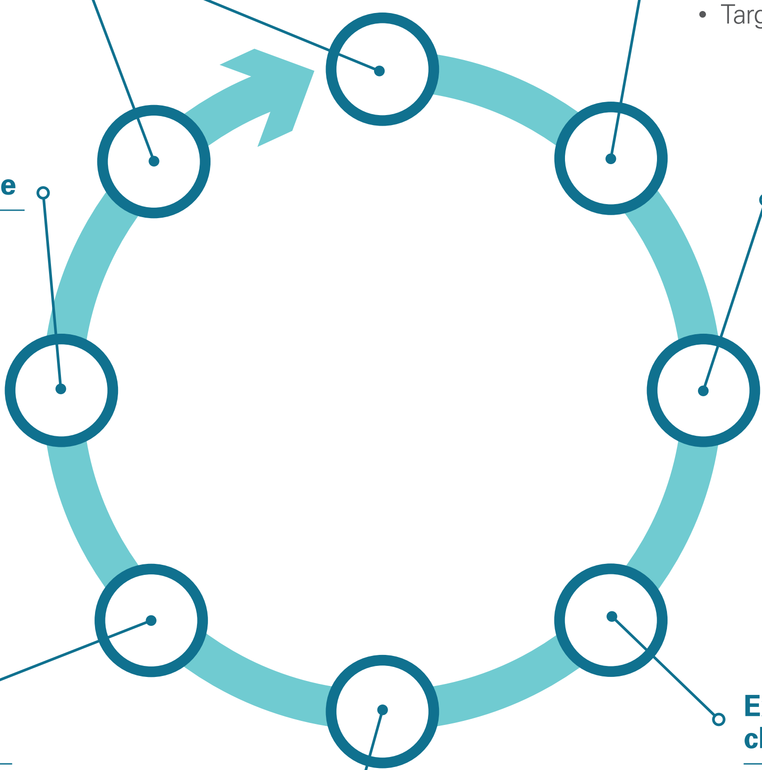
- *How councils work: an improvement series for councillors and officers – Using cost information to improve performance: are you getting it right?*, Accounts Commission, May 2012
- *How councils work: an improvement series for councillors and officers – Arm's-length external organisations (ALEOs): are you getting it right?*, Accounts Commission, June 2011
- *The challenge of charging – Bulletin March 1998*, Accounts Commission, March 1998
- *Positively Charged, Maximising the benefits of local public service charges*, Audit Commission 2008
- *The Price is Right?, charges for council services,* Audit Commission 1999

Legislation – examples of Acts that contain charging legislation:

- Local Government in Scotland Act 2003 specifies areas that must be provided without charge.
- Community Care and Health (Scotland) Act 2002 covers areas of charging for social care.
- Environmental Protection Act (1990) covers trade refuse.
- Civic Government (Scotland) Act 1982 covers licensing.

Part 3

Cycle for managing charges



Identify which charges should be reviewed

Things to consider:

- Service user feedback
- Financial pressures and opportunities
- Alignment with corporate objectives

Assess constraints and understand the legislation

Things to consider:

- National guidance
- Users' ability to pay
- Use of surpluses
- Target service user groups

Collect and analyse information

Things to consider:

- Service uptake and user profile
- Customer satisfaction
- Other providers
- Unit costs, and cost recovery
- Impact of previous charging decisions

Examine options for charges and concessions

Things to consider:

- Impact on service users including minority groups
- Forecast demand and income
- Concessions
- Impact on other services, and local businesses
- Consistency with corporate guidelines

Consult on proposals

Things to consider:

- Workshops with service users
- Residents' surveys
- Sessions with councillors
- Staff feedback

Revisit options as appropriate

Things to consider:

- Adjust options as required
- Appraise all options
- Councillors to approve selected option

Implement the new charge

Things to consider:

- Timing and phasing
- Communication of changes
- Monitoring arrangements (eg setting targets)

Monitor and review the impact

Things to consider:

- Were the intended aims met?
- Impact on uptake and income
- Unintended consequences

Endnotes

1 *Local Government Funding: Provisional Allocations for 2013-14*, Scottish Parliament Information Centre (SPICe), December 2012.

2 Total income from sales, fees and charges by all councils in 2011/12 as reported by councils in the Scottish Government's local financial returns. It is not possible to get accurate income data which only includes direct user charges. The majority of income in this category comes from direct user charges, but it may include other external income sources. It is this financial data, which we refer to throughout this report as charges.

3 This is the first year in which the source data is included in the Scottish Government local financial returns.

4 This relates to individual music tuition provided to pupils who wish to study a particular instrument. It does not include general music tuition provided in classroom settings.

5 *Instrumental Music Tuition in Scotland: a report by the Scottish Government's Instrumental Music Group*, Scottish Government, June 2013, which is available at www.scotland.gov.uk

6 *The challenge of charging – Bulletin March 1998* (PDF) Accounts Commission for Scotland, March 1998.

7 In June-July 2013, we asked Scottish councils to update us on their charging practice and areas of good practice. Approximately three-quarters of councils completed the survey.

8 The extra cost of providing each additional unit of service.

9 *How councils work: Using cost information to improve performance* (PDF) Audit Scotland, May 2012.

10 The Accounts Commission and Auditor General for Scotland will be publishing a performance audit on reshaping care for older people in early 2014. This will be available on the Audit Scotland website www.audit-scotland.gov.uk

11 *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* (PDF) Audit Scotland, June 2011.

Appendix 1

Questions for councillors

Issue	Yes/No	Action
• Do you give strong direction over aims and priorities for charges (in areas where the council has discretion)? • Do you understand the non-financial contribution of charges, eg to behaviours and service uptake? • Do you get good information on costs including the costs of providing services and the contribution made from charges? • Do you know the extent to which services are subsidised across the council? • Are charges and concessions pitched at an appropriate level for people and businesses that use services? • Do you know where charges are used to generate extra income? • Are concessions taken up by the people they are aimed at? • Do officers provide you with sufficient guidance on options for using charges? • Do you understand the views of service-users and residents, and consult them over charges? • Are there areas where charges need to be reviewed?		

Appendix 2

Questions for officers

Issue	Yes/No	Action
Charging policy • Do councillors give you a clear direction over charging priorities? • Do you have clear policies in place for how charges should be applied – do these recognise the constraints and legislation that apply? • Are corporate policy and guidelines adhered to by service directors/ service providers? • Is charging practice in arm's-length providers and contracted services consistent with the council's policy?		
Financial management • Do you understand the contribution that charges make to the financial position of the council? • Do you understand how your charging practice compares with other councils? • Do you understand unit costs, the extent to which costs are recovered by charges, and patterns of income from charges? • Do you understand how services are subsidised and the extent to which charges recover costs? • Do you have a register of charges across the council to help manage charges consistently?		
Setting charges • Do you fully assess charging options, in line with the good practice set out in this report? • Do you have clear objectives for charging, such as to influence behaviour and service uptake, or to recover costs? • Do you understand customer views and the likely impact of charges on service uptake and income overall? • Is there evidence that charges are adversely affecting uptake or impacting on service users?		

Issue	Yes/No	Action
Reviewing charges • Have you reviewed the council's overall approach to charging – what issues need to be addressed? • Are there any charges that should be reviewed, eg that are inconsistent with other providers? • Is there scope to generate more income from charges, for example by raising charges in line with the market? • Have you consulted service users and council tax payers over charging? • Do you make good use of available technology to make charging and concessions more efficient and user-friendly?		
Concessions • Do you have corporate guidelines on how concessions should be applied? • Are these consistent with and linked to overall charging policies? • Are concessions applied consistently across services? • Is eligibility for concessions managed efficiently and shared across services? • Are concessions and the use of subsidy managed to ensure that services are financially viable?		

Charging for services: are you getting it right?

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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Agenda Item 6

ARGYLL AND BUTE COUNCIL	COUNCIL
STRATEGIC FINANCE	28 NOVEMBER 2013

AUDITED ACCOUNTS 2012-13

1 INTRODUCTION

1.1 The external auditors, Audit Scotland, have completed their audit of the Council's accounts for the year to 31 March 2013. The audited accounts incorporating the audit certificate for 2012-13 are attached. The audit certificate contains no qualifications.

2 RECOMMENDATIONS

2.1 The audited accounts and the terms of the audit certificate are noted.

3 DETAIL

3.1 The audited accounts including the audit certificate are attached.

3.2 The accounts were completed and submitted by the statutory date of 30 June 2013. The audit has been completed within the timescale of 30 September 2013 set by Audit Scotland.

3.3. The audit certificate on the Council's accounts for the year ended 31 March 2013 contains no qualification. External audit are able to conclude that the Council's accounts present a true and fair view of its financial position as at 31 March 2013.

3.4 Appendix 1 is a schedule of the significant changes to the accounts. The significant adjustments to the accounts are noted below. There were also a few presentation adjustments.

- Correction to asset valuations £0.202m with adjustment to deprecation and impairment from correction to asset valuations £0.046m
- Correction to care home charging orders £0.046m
- Adjustment between General Fund and Trust Funds £0.101m
- Correction to provision against bad debts £0.032m
- Other minor changes (less than £0.050m) £0.048m

3.5 The table below reconciles the changes from unaudited accounts to audited accounts for Deficit/(Surplus) on Provision of Services, balance on the General Fund and Total Assets less Liabilities.

	(Surplus) On Provision of Services £m	General Fund Balance £m	Total Assets Less Liabilities £m
Unaudited Accounts	(23.321)	(46.205)	181.011
Correction to asset valuations	46		(202)
Correction to care home charging orders	46	46	(46)
Adjustment between General Fund and Trust Funds	101	101	(101)
Correction to provision against bad debts	(32)	(32)	32
Other minor changes (less than £0.050m)	(48)	(48)	48
Audited Accounts	**(23.208)**	**(46.138)**	**180.742**

3.6 The committed funds within the General Fund Balance were £36.044m per the audited accounts. This leaves a free General Fund Balance of £10.094m equivalent to 4.1% of the Council's budgeted net expenditure for 2013-14. This exceeds the agreed contingency level approved as part of the 2013-14 budget process. The level of General Fund Balance and contingency will require to be considered during the 2014-15 budget process.

3.7 The external audit report identifies 2 errors where it was agreed not to amend the accounts. These would have reduced the General Fund Balance by £0.008m. They comprise.

	£m
Understatement of utilities provision	0.008
Recognition of provision for future restoration and aftercare costs for landfill sites:	
• Property , Plant and Equipment	1.147
• Provisions	(1.147)
Net error	0.008

4 CONCLUSION

This report advises members on the conclusion on the audit of the accounts. The external auditor's certificate is unqualified. The audit was completed

within the required timescales. Minimal adjustments were made to the accounts during the audit process.
.

5 IMPLICATIONS

5.1 Legal – Legal requirements in relation to accounts met
5.2 Policy – None
5.3 Financial – None as report is for noting
5.4 Human Resources – None
5.5 Equalities- None
5.6 Risk – None
5.7 Customer Service – None

For further information please contact Bruce West, Head of Strategic Finance 01546-604151.

Bruce West
Head of Strategic Finance
20 November 2013

APPENDIX 1 – SUMMARY OF MAIN CHANGES TO FINANCIAL STATEMENTS ARISING FROM AUDIT

Section of Financial Statements Changes	Audited Accounts £000s	Unaudited Accounts £000s	Change £000s	Comments / Explanation
Comprehensive income & Expenditure Account (Pages 32-33 of audited accounts)				
Net cost of service	231,520	231,407	113 (Dr)	Adjustment to deprecation and impairment from correction to asset valuations £0.046m (Dr) Correction to care home charging orders £0.046m (Dr) Adjustment between General Fund and Trust Funds £0.101m (Dr) Correction to provision against bad debts £0.032m (Cr) Other minor changes (less than £0.050m) £0.048m (Cr)
Surplus) / Deficit on Provision of Services	(23,208)	(23,321)	113 (Dr)	See above
Statement of Movement in Reserves (Pages 28-29 of audited accounts)				
Surplus) / Deficit on Provision of Services	(23,208)	(23,321)	113 (Dr)	See Comprehensive Income and Expenditure Account
Depreciation and Impairment of Non-Current Assets	(20,662)	(20,708)	46 (Cr)	Adjustment to deprecation and impairment from correction to asset valuations £0.046m (Cr)
Increase / (Decrease) in General Fund Balance for the Year	(11,566)	(11,633)	67 (Dr)	Net effect of above
Balance on General Fund Carried Forward	(46,138)	(46,205)	67 (Dr)	Net effect of above

Balance Sheet (Page 34-35 of audited accounts)				
Property, Plant and Equipment	488,866	489,068	202 (Cr)	Correction to asset valuations £0.202m (Cr)
Long Term Debtors	3,563	3,609	46 (Cr)	Correction to care home charging order £0.046m (Cr)
Short Term Debtors (Net of Impairment)	14,471	14,439	32 (Dr)	Correction to provision against bad debts £0.032m (Dr)
Short Term Creditors	(35,295)	(35,242)	53 (Cr)	Adjustment between General Fund and Trust Funds £0.101m (Cr) Other minor changes (less than £0.050m) £0.048m (Dr)
Total Assets less Liabilities	180,742	181,011	269 (Cr)	Net effect of above

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Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid

Audited Financial Statements

for the year ended 31 March 2013

LANGUAGE OPTIONS

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Strategic Finance
Argyll and Bute Council
Kilmory
Lochgilphead
Argyll
PA31 8RT

Tel: 01546 604220

FINANCIAL STATEMENTS CONTENTS

NOTES TO THE FINANCIAL STATEMENTS CONTENTS

NOTES TO THE FINANCIAL STATEMENTS CONTENTS

INTRODUCTION

The Financial Statements demonstrate the Council's stewardship of the public funds it controls. The financial results for 2012-13 are set out on pages 28 to 36. Note 1 to the Financial Statements on pages 37 to 49 sets out the Summary of Significant Accounting Policies adopted by the Council to ensure that the Financial Statements give a "true and fair view" of our financial performance.

THE FINANCIAL STATEMENTS

The objectives of financial statements are to provide information on the financial position, financial performance and cash flows of the Council which is useful to a wide range of users in making and evaluating decisions about the allocation of resources. The information provided by the financial statements should be useful for decision making and demonstrate the accountability of the Council for the resources entrusted to it.

The financial statements comprise:

- Statement of Movement in Reserves for the period
- Statement of Comprehensive Income and Expenditure for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information

FINANCIAL PEFORMANCE

Statement of Movement in Reserves

The total Council reserves have increased from £177.087m at 31 March 2012 to £180.742m at 31 March 2013, an increase of £3.655m. This is represented by a Surplus on Provision of Services of £23.208m partly offset by a deficit in Other Comprehensive Income and Expenditure of £19.553m.

The Council's reserves are split into Usable and Unusable Reserves. Usable reserves are those which are backed by actual resources and can be applied to fund expenditure or reduce local taxation. Unusable reserves are not backed by resources and are required purely for accounting purposes, these reserves do not represent resources available for the Council to utilise.

Unusable Reserves have decreased by £8.453m from £138.891m at 31 March 2012 to £130.438m at 31 March 2013. The main reasons for this are an increase in the Pension Reserve Liability of £20.772m, partly offset by a surplus on the revaluation of fixed assets of £2.027m and the transfer of £11.428m from the Comprehensive Income and Expenditure Statement for Capital Grants.

The Usable Reserves have increased from £38.196m at 31 March 2012 to £50.304m at 31 March 2013, an increase of £12.108m. The main reason for this is an increase in the General Fund Balance of £11.566m.

A number of adjustments are made between Council reserves to reflect the correct charge to Council Tax for the year. The net adjustment to the surplus per the Comprehensive Income and Expenditure Statement to reflect the impact on Council Tax is a debit of £11.642m. In summary this debit represents the difference between:

- Principal repayment to the loans fund and the depreciation or amortisation of property, plant and equipment, government grants and any gain/loss on sale of assets.
- Cash paid as pension contributions and the costs charged in accordance with IAS19.

- Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the Code.
- Capital element of finance lease payments on the schools NPDO contract and other finance leases and the amounts paid under the contracts.

The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Statement of £23.208m less the adjustments to reflect impact on Council Tax of £11.642m equates to the increase on the balance on the General Fund of £11.566m.

General Fund Reserve

The balance on the General Fund at 31 March 2013 stands at £46.138m compared to £34.572m at 31 March 2012, an increase of £11.566m. The "free" General Fund Balance stands at £10.094m at 31 March 2013. This equates to 4.1% of the net revenue expenditure for 2013-14, the Council has a policy of maintaining an unallocated balance in the General Fund Reserve equivalent to 1.5% of budgeted net revenue expenditure. There are a range of balances earmarked within the General Fund, these total £36.044m and are laid out in note 5 on page 53. The main balances include £10.183m for the Strategic Housing Fund generated from Council Tax on second homes, £3.0m earmarked as a revenue contribution to capital as a contribution to Dunoon and Campbeltown Schools, £9.5m contribution to investment in affordable housing and £8.171m earmarked from service budget underspends to support corporate and service improvement plans.

The movement in the General Fund can be summarised as follows:

	£m	£m
Balance on General Fund 31 March 2012		**34.572**
Release of sums previously earmarked to service budgets 2012-13		(2.620)
Budgeted Contribution to General Fund Balance 2012-13		3.760
		35.712
Add outturn for 2012-13:		
Increase in Council Tax income	0.518	
Joint Boards Reserve Redistribution	0.975	
One off Severance Costs for 2012-13	(0.830)	
Net underspend on departmental and other expenditure compared to budget	0.288	
Surplus against budget 2012-13		**0.951**
Contributions to Earmarked Reserves 2012-13:		
Council Tax collection on second homes	1.695	
Joint Board Requisition Redistribution	0.849	
Funds earmarked by departments from budgets	6.931	
		9.475
Balance on General Fund 31 March 2013		**46.138**

The release of sums already earmarked to service budgets of £2.620m consists of funds released to services of amounts previously earmarked for specific purposes, for example unspent budget within the Devolved Management of Resources Scheme of Delegation for Schools, Strategic Housing Fund payments and unspent grant and third party contributions required for specific purposes.

Performance against budget

At the year-end, expenditure excluding Joint Board requisitions and severance was underspent by £0.288m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend £m	% of annual budget £m
Chief Executive's Unit	0.500	7.31%
Community Services	1.378	1.00%
Customer Services	1.191	3.69%
Development and Infrastructure Services	(1.459)	(4.66%)
Non-Departmental expenditure	(0.002)	(0.01%)
Outturn Total	**1.608**	
Earmarked reserves approved February 2013	**(1.320)**	
TOTAL	**0.288**	**0.37%**

The Council took the decision in February 2013 to earmark £1.320m of the projected 2012-13 budget underspend, this amount was earmarked from the overall projected outturn position for the Council revenue budget and not from department specific underspends.

The underspend in the Chief Executives Unit relates to the Workforce Deployment element of Process for Change, where savings have been made in IT costs. In Community Services there was an overall underspend due to a reduction in demand for some services and vacancy savings across the department. The underspend in Customer Services is due to procurement savings and additional savings achieved in advance of the savings requirement for 2013-14. The overspend in Development and Infrastructure Services mainly relates to the additional costs associated with winter maintenance. The projected year-end position for the departments was forecast and monitored during 2012-13 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable.

Comprehensive Income and Expenditure Statement

The Council ended the year with an accounting surplus of £3.655m for 2012-13 compared to a deficit of £35.893m in 2011-12, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure for 2012-13 represents the increase in the net worth of the Council from £177.087m at 31 March 2012 to £180.742m at 31 March 2013. This is an increase in the net worth of the Council in accounting terms and does not represent an increase in the spending power of the Council.

The total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £23.208m and a surplus on the revaluation of Long Term Assets of £2.027m; these are partly offset by an actuarial loss on the pension fund assets/liability of £21.580m.

The surplus on the provision of services of £23.208m compares to a surplus of £15.642m for 2011-12. The main factors contributing to these changes are as follows:

- Taxation and Non-Specific Grant Income increased from £272.546m to £274.177m, an increase of £1.631m (0.6%). This increase in income reflects a general year on year increase in General Government Grants.
- Financing and Investment Income and Expenditure increased from £15.316m in 2011-12 to £16.475m in 2012-13, an increase of £1.159m (7.6%). The increase is due to a fall in interest payable and similar charges and an increase in interest and investment income, offset by a decrease in the expected return on pension assets.
- Other Operating Income and Expenditure increased from £1.396m in 2011-12 to £2.974m in 2012-13, an increase of £1.578m (113%). This is due to an increase in the loss on disposal of long term assets.
- The Net Cost of Services has decreased from £240.192m in 2011-12 to £231.520m in 2012-13, a decrease of £8.672m (3.6%). This is a decrease in expenditure in accounting terms and does not necessarily represent a true decrease in spend on services by the Council.

Balance Sheet

As indicated above the accounting net worth of the Council has increased by £3.655m from £177.087m at 31 March 2012 to £180.742m at 31 March 2013.

The value of long term assets has increased from £486.289m at 31 March 2012 to £500.353m at 31 March 2013, an increase of £14.064m (2.9%). This comprises the net of an overall upward revaluation of fixed assets, capital expenditure in the year, less the value of long term assets disposed.

Total current assets have increased from £53.303m at 31 March 2012 to £63.678m at 31 March 2013, an increase of £10.375m. The main reason for this being a decrease in Cash and Cash Equivalents of £3.619m from £15.487m at 31 March 2012 to £11.868m at 31 March 2013, offset by an increase in short term investments of £15m.

Total current liabilities have increased from £40.865m at 31 March 2012 to £42.899m at 31 March 2013, an increase of £2.034m. Short term creditors have increased by £2.213m from £33.082m to £35.295m. In addition, there has been a decrease in short term provisions of £0.648m, which relates to the settling of equal pay claims and severance costs associated with employees leaving the Council under redundancy and early retirement.

Overall, long term liabilities have increased from £321.640m at 31 March 2012 to £340.390m at 31 March 2013. The increase of £18.750m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £79.092m to £99.864m.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The Cash and Cash Equivalents balance at 31 March 2012 was £15.487m and decreased by £3.619m to £11.868m at 31 March 2013. The Net Cash Flows from Operating Activities have increased from £6.538m at 31 March 2012 to £27.191m at 31 March 2013, this increase of £20.653m represents an increase in the Councils expenditure being funded from taxation and grant income. Cash outflows for Investment Activities have increased from £21.570m during 2011-12 to £29.473m in 2012-13, as a result of an increase in the purchase of long term assets partly offset by a year on year reduction in the value of surplus cash investments made during the year. Cash flows from Financing Activities were a cash inflow of £0.073m during 2011-12 and a net cash outflow during 2012-13 of £1.337m, this change relates to £1.6m of other receipts from financing activities during 2011-12 which was in relation to Non Domestic Rates.

Pension Liability

As noted above the IAS19 valuation of the pension scheme liability has increased from £79.092m at 31 March 2012 to £99.864m at 31 March 2013. This pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2013.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years' time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2013. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under IAS19, issued by the Institute and the Faculty of Actuaries.

Significant Trading Organisations

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 8 of the Notes to the Core Financial Statements on page 58. During 2012-13 the Roads and Lighting trading account achieved a surplus of £0.357m. It achieved a rolling breakeven position with a three year surplus of £1.315m. The Catering & Cleaning trading account returned a surplus of £0.052m for the year, and it achieved a rolling breakeven position with a three year surplus of £0.680m. Any surplus or deficit on trading organisations is treated as part of the General Fund.

Capital Expenditure and Borrowing

Local authority capital expenditure and borrowing is regulated by the Prudential Code, a regime of self-regulation. Under the Prudential Code of Practice the Council must ensure that:

- Capital expenditure plans are affordable;
- Borrowing is sustainable and prudent; and
- Treasury management reflects good professional practice.

The Council approved a set of prudential indicators for 2012-13 and managed capital expenditure and borrowing within these approved limits.

Capital expenditure was incurred across a range of services enhancing the value, useful life or working capacity of the Council's assets. This included investments in schools, offices, other premises and facilities, information technology and roads. Details of capital expenditure are as follows:

		£'m
Gross Capital Expenditure		35.140
Less:	Capital Receipts	0.394
	Government Grants and Other Contributions	11.428
	Revenue Contributions	1.650
Balance Funded from Borrowing		**21.668**

The capital financing requirement at 31 March 2013 was £258.398m. This was financed as follows:

	£'m
Long Term Borrowing	159.871
Short Term Borrowing	1.097
Schools NPDO Finance Lease Liability	81.152
Internal Funds	16.278
	258.398

The external borrowing of the Council at 31 March 2013 amounted to £160.968m. The majority of this was financed by the Public Works Loan Board (£108.066m), with the remainder coming mainly from the money market.

During the year the Council completed £0.296m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.087m.

PROVISIONS AND CONTINGENT LIABILITIES

The Council has a number of significant balances held as provisions on the balance sheet, including:

- Severance costs - a number of employees have either taken or been offered a redundancy package as part of the Council Modernisation programme. A provision of £0.469m has been created in 2012-13 for the termination benefits for employees who have accepted redundancy but are not planned to leave until after 31 March 2013. Termination costs for all Council employees who have accepted redundancy by 31 March 2013 have been accounted for in 2012-13 or in previous years.
- Equal Pay - the Council settled most of the remaining outstanding claims during 2012-13. A provision was held for claims where settlement offers were made and a reliable estimate could be made of the liability. There is a provision of £0.032m remaining and there are a few further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.
- Utilities Provision - a total of £1.013m has been provided for to cover the cost of a potential liability in relation to discrepancies in charges for utility costs.

GROUP ACCOUNTS

Group Accounts have been prepared and show a change from a net liability position of £38.220m at 31 March 2012 to a net liability of £77.873m at 31 March 2013. This reduction in net assets is primarily due to an increase in the pension liability for the Council and the Strathclyde Police Joint Board. In terms of the overall position of the Group Accounts being a net liability compared to the net asset position of the single entity accounts, this is a result of the Police and Fire Pension Schemes being unfunded and reflects the proper accounting treatment as determined by IAS19. The technical accounting treatment has no impact on the underlying basis for meeting the Police and Fire Boards' pension liabilities.

Further information regarding these pension deficits can be found in Note 6 to the Group Accounts on page 103.

The formation of the new single police and fire and rescue services took place on 1 April 2013, from that date Strathclyde Police Joint Board and Strathclyde Fire and Rescue Board ceased operating.

The following statements make up the "Group Accounts" for the Council:

- The Group Movement in Reserves Statement shows the movement in the year of the different reserves the Council holds, along with the movement in the Council's share of the reserves of its associates.
- The Group Comprehensive Income and Expenditure Statement combines the Income and Expenditure Figures for the Council with the Council's share of the operating results of each associate.
- The Group Balance Sheet brings together all the assets and liabilities of the group, and combines the Council's assets and liabilities with its share of each associate's net assets or liabilities.
- The notes to the Group Accounts give further information on the Council's group accounts.

FUTURE OUTLOOK

The outlook for all public sector organisations is challenging. The Council has undertaken a three year programme of service reviews which set targets to identify savings of between 15% and 20% from service budgets. These reviews have been a key element in identifying the savings to balance the Council budget.

Looking forward the Council faces a significant challenge as a result of overall levels of public sector funding and population projections for Argyll and Bute. Combined with changing demographics the Council is likely to see a period where expenditure pressures increase at a level in excess of the income available to the Council. This is reflected in the Council's long term financial forecasts which over the period to 2019-20 indicate an average annual savings requirement of £5.8m. The budget for 2013-14 represented progress towards the overall long term savings required but will utilise £1.1m of reserves to manage the phasing of the savings agreed as part of the 2013-14 budget.

The Council is responding to the UK Government's welfare reform agenda. In 2012-13 preparations were completed to implement the Housing Benefit under occupancy restrictions, to replace Council Tax Benefit with the new Council Tax Reduction Scheme and to deliver the new Scottish Welfare Fund from 1 April 2013. These were all implemented on time and are working well. Preparations also began for the implementation of the Benefit Cap from July 2013, although this was only expected to affect a handful of households in Argyll and Bute. The Council is working closely with Registered Social Landlords and other organisations through its Welfare Reform Working Group to mitigate against these impacts.

New policies for Discretionary Housing Payment and Financial Inclusion have been put in place. Increased funding for Discretionary Housing Payment has been made available and is expected to be sufficient to meet the housing rent shortfalls for all those in hardship. Preparation is also underway for the provision of appropriate Local Support Services to support the introduction of Universal Credit and the Council is supporting a number of bids to the Lottery Support and Connect Fund to provide additional resources to meet these new burdens.

The 3 year capital plan has been agreed by the Council for the period to 2015-16, the table below summarises the capital budget plans for the 3 years to 2015-16:

	2013-14 £m	2014-15 £m	2015-16 £m
Total Capital Expenditure	**35.045**	**41.826**	**24.716**
Funded by:			
Borrowing	19.586	24.252	11.389
Capital Grant	9.043	13.705	13.077
Contribution from Smoothing Funds	-	3.000	-
Contribution from Revenue Budget	4.216	0.869	-
Capital Receipts	2.200	-	0.250

Capital funding has been declining and will continue to decline and this will have an increasing impact on the level of capital investment that the Council will be able to afford going forward. This reduction in funding will increase the importance of asset management to ensure the funding is directed towards the assets required for service delivery and that the existing assets deployed in service delivery continue to meet service needs.

The Council in common with many other organisations is facing a period of significant financial challenge. However it moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial sustainability. The financial position will be monitored on an on-going basis during 2013-14 and the revenue budget and capital plan reviewed for 2014-15.

Bruce West
Head of Strategic Finance
30 September 2013

Statement of Responsibilities for the Statement of Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Strategic Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the audited Statement of Accounts at a meeting of the Council within two months of receipt of the audit certificate.

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), are required to show a true and fair view of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year ended on that date.

In preparing this Statement of Accounts, the Head of Strategic Finance has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice 2012-13.

The Head of Strategic Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

This Statement of Accounts show a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2013.

Bruce West
Head of Strategic Finance
30 September 2013

BACKGROUND

Argyll and Bute Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the economic, efficient and effective use of public money.

In discharging these responsibilities, the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007).

A copy of the Code may be obtained from the Head of Governance and Law, Kilmory, Lochgilphead, PA31 8RT.

THE GOVERNANCE FRAMEWORK

The Code of Corporate Governance details how the Council will demonstrate compliance with the fundamental principles of Corporate Governance for public sector bodies to the following six headings:

- Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk;
- Developing the capacity and capability of members and officers to be effective; and
- Engaging with local people and other stakeholders to ensure robust public accountability.

GOVERNANCE ROLES AND RESPONSIBILITIES

Argyll and Bute Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Executive Director of Customer Services as Monitoring Officer has responsibility for:

- Overseeing the implementation of the Code of Corporate Governance and monitoring its operation; and
- Reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness.

Account has been taken of the results of reviews of internal control that have been carried out within each Council Service. Specific responsibilities are assigned to the Head of Strategic Finance to ensure that public funds are properly accounted for.

INTERNAL FINANCIAL CONTROL

In ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned, this statement also covers the other bodies whose activities are incorporated into our Group Accounts, i.e.

- Strathclyde Joint Police Board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll and Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by officers within the Council and the above named bodies. In particular the system includes:

- Comprehensive budgeting systems;
- Regular reviews by the Council and the above named bodies of periodic and annual financial reports which indicate financial performance against forecast;
- Setting targets to measure financial and other performance;
- The preparation of regular financial reports which indicate actual expenditure against forecast;
- Clearly defined capital expenditure guidelines;
- Project management disciplines;
- Guidance relating to financial processes, procedures and regulations; and
- An effective Internal Audit Section.

RISK MANAGEMENT

The Council's Risk Management and Business Continuity Strategies continued to be developed in 2012-13. Throughout the year the Audit Committee received regular reporting from the Head of Strategic Finance to assist them in their assessment of internal control and risk. The Audit Committee also received and reviewed reports on both business continuity and governance arrangements from the Head of Governance and Law.

INTERNAL AUDIT

Argyll and Bute Council and the above named bodies have an internal audit function, which operate to standards defined in the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The work of internal audit is informed by an analysis of the risk to which the Council and the above named bodies are exposed, with annual internal audit plans prepared based on that analysis. The Council's and the named bodies' Audit Committees endorse the analysis of risk and internal audit plans.

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council. The Chairman and Vice Chairman are independent lay members of the Audit Committee.

The report includes an independent opinion on the adequacy and effectiveness of the Council's systems of governance and internal control and concludes that systems for internal control were effective during 2012-13 with no identified material weaknesses.

ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2013-14, particularly in the context of continuous improvement within the Council:

- The continued development and support of the Corporate Improvement Plan;
- Continued development of performance management throughout the Council by means of Pyramid, the Council's Performance Management System;
- The implementation of performance self-assessment using the Public Service Improvement Framework (PSIF);
- Risk management and business continuity will continue to be developed and embedded within the Council Departments;
- To maintain the quality of services in a time of budget constraints and continued implementation of agreed budget savings; and
- Ensure delivery of key objectives through continued close working with Community Planning Partners (CPP).
- The Council has identified that there is an opportunity to improve the response times on Freedom of Information requests and has amended its process to facilitate this. During 2012-13 the Council received 983 FOI requests of which 883 were responded to within the required timescale.

ASSURANCE

The review of the effectiveness of the system of governance and internal financial control is informed by:

- The work of officers within the Council;
- The work of Internal Audit as described above;
- The work of External Audit;
- The Statements of Governance and/or Internal Control provided by the bodies incorporated into our Group Accounts;
- External review and inspection reports; and
- Recommendations from the Audit Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2012-13 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.

	Sally Loudon	Bruce West
Leader	**Chief Executive**	**Head of Strategic Finance**

30 September 2013

BACKGROUND

The Local Authority Accounts (Scotland) Amendment Regulations 2011 amended the Local Authority Accounts (Scotland) Regulations 1985 to require Scottish Local Authorities to prepare a Remuneration Report as part of its annual Financial Statements. All information disclosed in the tables in this Remuneration Report has been audited by Audit Scotland. All other sections within the Remuneration Report have been reviewed by Audit Scotland to ensure consistent with the Financial Statements.

REMUNERATION POLICY AND ARRANGEMENTS

Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as the Leader of the Council, the Civic Head (Provost), senior councillors or councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2012-13 the salary for the Leader of Argyll and Bute Council is £32,470. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and their remuneration is set at £24,353 which is the maximum allowed for Local Authorities in Band B.

The Regulations also set out the remuneration that may be paid to senior councillors in addition to the Leader and Civic Head and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its senior councillors shall not exceed £284,116. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors up to a maximum of 14 and their salary within these maximum limits. The Council's policy is to pay the maximum salary of £24,353 to each appointed spokesperson and the Chair of the Protective Services and Licensing Committee. Chairs of Area Committees without a spokesperson's remit are paid a salary of £19,962. The Leader of the largest opposition group is paid a salary of £19,962.

In 2012-13 Argyll and Bute Council had 12 senior councillors. The total salary remuneration for senior councillors during 2012-13 was £264,247. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Argyll and Bute Council for the period 2008 to 2013. The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary in two bandings. Executive Directors receive 80% of the amount of the Chief Executive's salary and Heads of Service 75% of Executive Director's salary. This equates to Chief Officers Salary Scale Point (SCP) 43 for Executive Directors and SCP 29 for Heads of Service.

COUNCILLORS' REMUNERATION

Councillors' payments are made in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 and The Local Government (Allowances and Expenses) (Scotland) Regulations 2007.

The total amount of councillors' remuneration paid by the Council during the year was:

Members Allowances	2012-13 Actual £'000	2011-12 Actual £'000
Basic Councillor Salaries	362	345
Senior Councillor Salaries (Includes Salary of Leader and Provost)	322	335
Other Expenses and Allowances paid to Members	169	161
Total Allowances	**853**	**841**

The annual return of councillors' salaries and expenses for 2012-13 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at **http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors**.

SENIOR COUNCILLORS' REMUNERATION

Additional disclosures are required for senior councillors' remuneration. Senior councillors' remuneration is in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 which for the purpose of remuneration, grades Councillors as either the Leader of the Council, The Civic Head (Provost), senior councillors or councillors. Details of senior councillors' remuneration are as follows:

Senior Members	2012-13 Salary, Fees and Allowances £	2012-13 Taxable Expenses £	2012-13 Non-cash Expenses & Benefits-in-kind £	2012-13 Total Remuneration £	2011-12 Total Remuneration £
Provost (from 22/05/12) **-** Councillor Isobel Strong	19,933	-	-	**19,933**	-
Leader (from 22/05/12 to 14/02/13), **Depute Leader and Lead Councillor for European Affairs** (from 14/02/13) - Councillor Roddy McCuish	25,907	216	-	**26,123**	-
Depute Provost and Lead Councillor for Human Resources and Sport (from 22/05/12 to 21/03/13), **Depute Provost and Area Leader for Mid Argyll, Kintyre and the Islands** (from 21/03/13)**-** Councillor Douglas Philand	19,933	-	-	**19,933**	-
Leader and Lead Councillor for Strategic Finance (from 14/02/13)**, Lead Councillor for Strategic Finance and European Affairs** (from 22/05/12 to 14/02/13) **-** Councillor James Robb	20,693	-	-	**20,693**	-
Lead Councillor for Education and Lifelong Learning (from 22/05/12 to 21/03/13) **-** Councillor Michael Breslin	19,216	-	-	**19,216**	-
Lead Councillor for Education and Lifelong Learning (from 21/03/13) **-** Councillor Richard Trail *(First payment in 2013-14)*	-	-	-	**-**	-
Lead Councillor for Energy, Development, Infrastructure and Tourism (from 22/5/12 to 23/8/12), **Depute Leader** (from 22/5/12 to 14/02/13), **Lead Councillor for Environment, Development and Infrastructure** (from 23/8/12)**-** Councillor John Semple	19,933	1,125	-	**21,058**	-
Lead Councillor - Bute and Cowal Area Committee (from 22/05/12), **Leader of the Opposition** (from 6/12/10 to 3/5/12) - Councillor Robert MacIntyre	19,203	-	-	**19,203**	19,962
Lead Councillor for Planning and Regulatory Services (from 22/05/12) **-** Councillor Sandy Taylor	19,933	-	-	**19,933**	-
Lead Councillor for Housing (from 22/5/12 to 21/3/13)**, Lead Councillor for Community, Culture and Strategic Housing** (from 21/3/13) - Councillor George Freeman	19,933	398	-	**20,331**	-

Senior Members	2012-13 Salary, Fees and Allowances £	2012-13 Taxable Expenses £	2012-13 Non-cash Expenses & Benefits-in-kind £	2012-13 Total Remuneration £	2011-12 Total Remuneration £
Lead Councillor for Adult Care (from 22/5/12) - Councillor Anne Horn	19,933	-	-	**19,933**	-
Lead Councillor for Roads and Amenity Services (from 22/5/12 to 23/8/12), **Lead Councillor for Renewables and Tourism** (from 23/8/12) - Councillor Donald Kelly	19,933	-	-	**19,933**	-
Lead Councillor for Children and Families (from 22/5/12)- Councillor Mary Jean Devon	19,933	-	-	**19,933**	-
Lead Councillor for Community, Culture, Customer and Communication (from 22/5/12 to 21/3/13), **Lead Councillor for Support and Customer Services** (from 21/3/13) - Councillor Louise Glen-Lee	19,933	570	-	**20,503**	-
Provost (to 3/5/12)- Councillor William Petrie	3,164	-	-	**3,164**	**24,353**
Lead Councillor for the Opposition (from 22/5/12), **Leader** (to 3/5/12)- Councillor Dick Walsh	20,828	-		**20,828**	**33,035**
Education and Lifelong Learning Spokesperson (from 6/12/10 to 3/5/12) - Councillor Ellen Morton	3,164	-	-	**3,164**	**24,353**
Rural and Island Affairs, Housing and Gaelic Spokesperson (from 6/12/10 to 3/5/12) - Councillor Robin Currie	3,164	113	-	**3,277**	**24,353**
Enterprise, Energy, Culture and Tourism Spokesperson (from 6/12/10 to 3/5/12) - Councillor Neil MacKay	3,164	-	-	**3,164**	**24,353**
Social Services Spokesperson (from 6/12/10 to 3/5/12) - Councillor Andrew Nisbet	3,164	-	-	**3,164**	**24,353**
Transport and Infrastructure Spokesperson (to 3/5/12)- Councillor Duncan MacIntyre	3,164	-	-	**3,164**	**24,353**
Third Sector and Communities Spokesperson (from 6/12/10 to 3/5/12) - Councillor Rory Colville	3,164	-	-	**3,164**	**24,353**
Chair - Helensburgh and Lomond Area Committee (from 6/12/10 to 3/5/12)- Councillor Vivien Dance	2,593	-	-	**2,593**	**19,962**
European Issues Spokesperson (from 6/12/10 to 3/5/12) - Councillor Len Scoullar	3,164	74	-	**3,238**	**24,418**
Environment Spokesperson (to 3/5/12) - Councillor Bruce Marshall	3,164	-	-	**3,164**	**24,553**
Chair - Mid Argyll, Kintyre & Islands Area Committee (to 3/5/12) - Councillor Donald MacMillan	2,593	-	-	**2,593**	**19,962**
Chair - Protective Services and Licensing Committee (to 3/5/12) - Councillor Daniel Kelly	3,164	-	-	**3,164**	**24,668**

EMPLOYEES' REMUNERATION

The Local Authority Accounts (Scotland) Regulations 1985 (Amended 2011) requires local authorities to provide an analysis of the number of employees whose remuneration in the year was £50,000 or more, including those classified as senior employees who are subject to separate disclosure requirements. The definition of remuneration includes all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits received other than in cash. This definition therefore includes all payments made to the employee in respect of agreed employment terminations or retirements. However, employer pension contributions are excluded from the definition.

Readers should be aware when making comparisons between years that, due to contractual incremental pay increases, the number of employees covered by this disclosure will increase each year. In addition, payments made in respect of agreed employment terminations or retirements can also distort the number and/or banding of employees.

The number of employees whose remuneration, excluding employer pension contributions and including redundancy/retirement payments, that was £50,000 or more in bands of £5,000 was:

Range £	2012-13 Number of Officers	2011-12 Number of Officers
£50,000 - £54,999	18	25
£55,000 - £59,999	20	20
£60,000 - £64,999	1	3
£65,000 - £69,999	13	14
£70,000 - £74,999	1	1
£75,000 - £79,999	3	2
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	3	3
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	1	1
Total	**60**	**69**

As a result of the Council modernisation programme a number of officers received redundancy payments during 2011-12.

SENIOR EMPLOYEES' REMUNERATION

The Local Authority Accounts (Scotland) Regulations 1985 (Amended 2011) requires the separate disclosure and analysis of remuneration for senior employees (defined by the regulations) as those employees forming part of the Council's senior management team, or holding certain statutory posts, whose salary is over £50,000 and any additional employee whose salary is over £150,000.

In 2012-13 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2012-13 for senior officers:

Post Holder	Salary (Including Fees and Allowances) £	Taxable Expenses £	Benefits other than in cash £	Total Remuneration 2012/13 £	Total Remuneration 2011-12 £
Chief Executive - Sally Loudon	116,472	2,309	-	118,781	120,326
Executive Director of Community Services - Cleland Sneddon	92,770	4,277	-	97,047	97,113
Executive Director of Customer Services - Douglas Hendry	92,516	757	-	93,273	93,119
Executive Director of Development and Infrastructure Services - Alexander MacTaggart	92,770	-	-	92,770	92,770
Head of Strategic Finance (Section 95 Financial Officer) - Bruce West	68,539	633	-	69,172	69,359
Head of Adult Care (Section 3 Social Work Officer) - James Robb (from 12-11-11)	68,728	-	-	68,728	68,728
Head of Children and Families (Section 3 Social Work Officer) - Dougie Dunlop (to 11-11-11)	-	-	-	-	48,191
(Full year equivalent)				-	*(68,728)*
Head of Improvement and HR (Direct Report to Chief Executive) - Jane Fowler	68,728	-	-	68,728	68,728

The Chief Executive's salary of £116,472 includes £3,251 of remuneration for acting as Returning Officer during 2012-13 and £4,796 of remuneration for the role is included for 2011-12.

The senior employees included in the table include any local authority employee:

- Who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with another person;
- Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989; or
- Whose annual remuneration is £150,000 or more.

During 2011-12 Dougie Dunlop left the organisation and James Robb, Head of Adult Care, took over the role of Section 3 Social Work Officer, no additional remuneration was given for taking over this role.

PENSION BENEFITS

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members contribution rates for 2012-13 remain at the 2011-12 rates and are as follows:

Whole time pay	Contribution Rate 2012-13
On earnings up to and including £18,000	5.50%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.50%
On earnings above £30,000 and up to £40,000	9.50%
On earnings above £40,000	12.00%

If a person works part-time their contribution is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for a lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their local government service, and not just their current appointment.

SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2013 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2013 £	For year to 31 March 2012 £		As at 31 March 2013 £	Difference from 31 March 2012 £
Leader (from 22/05/12 to 14/02/13), **Depute Leader and Lead Councillor for European Affairs** (from 14/02/13) - Councillor Roddy McCuish	5,570	3,118	Pension	1,772	486
			Lump Sum	*1,403*	153
Leader and Lead Councillor for Strategic Finance (from 14/02/13), **Lead Councillor for Strategic Finance and European Affairs** (from 22/05/12 to 14/02/13) - Councillor James Robb	4,564	3,118	Pension	1,823	411
			Lump Sum	*1,444*	71
Lead Councillor for Education and Lifelong Learning (from 22/05/12 to 21/03/13) - Councillor Michael Breslin	3,897	-	Pension	301	301
			Lump Sum	-	-
Lead Councillor for Energy, Development, Infrastructure and Tourism (from 22/5/12 to 23/8/12), **Depute Leader** (from 22/5/12 to 14/02/13), **Lead Councillor for Environment, Development and Infrastructure** (from 23/8/12)- Councillor John Semple	4,417	3,118	Pension	1,889	426
			Lump Sum	*1,496*	77
Lead Councillor for Planning and Regulatory Services (from 22/05/12) - Councillor Sandy Taylor	4,010	-	Pension	316	316
			Lump Sum	-	-
Lead Councillor for Adult Care (from 22/5/12) - Councillor Anne Horn	4,417	3,118	Pension	2,066	392
			Lump Sum	*2,486*	89
Lead Councillor for Roads and Amenity Services (from 22/5/12 to 23/8/12), **Lead Councillor for Renewables and Tourism** (from 23/8/12) - Councillor Donald Kelly	4,417	3,118	Pension	1,680	395
			Lump Sum	*1,330*	81

Senior Members	In-year pension contributions For year to 31 March 2013 £	In-year pension contributions For year to 31 March 2012 £		Accrued pension benefits As at 31 March 2013 £	Accrued pension benefits Difference from 31 March 2012 £
Lead Councillor for Children and Families (from 22/5/12)**-** Councillor Mary Jean Devon	4,417	3,118	Pension	1,578	385
			Lump Sum	*1,249*	93
Lead Councillor for Community, Culture, Customer and Communication (from 22/5/12 to 21/3/13), **Lead Councillor for Support and Customer Services** (from 21/3/13) **-** Councillor Louise Glen-Lee	4,417	1,147	Pension	483	483
			Lump Sum	-	-
Lead Councillor for Housing (from 22/5/12 to 21/3/13)**, Lead Councillor for Community, Culture and Strategic Housing** (from 21/3/13) - Councillor George Freeman	4,417	3,118	Pension	2,173	440
			Lump Sum	*1,721*	40
Education and Lifelong Learning Spokesperson (from 6/12/10 to 3/5/12) - Councillor Ellen Morton	3,333	4,678	Pension	1,857	343
			Lump Sum	*1,470*	2
Social Services Spokesperson (from 6/12/10 to 3/5/12) **-** Councillor Andrew Nisbet	611	4,678	Pension	1,629	296
			Lump Sum	*1,191*	106
Third Sector and Communities Spokesperson (from 6/12/10 to 3/5/12) - Councillor Rory Colville	3,333	4,678	Pension	1,761	338
			Lump Sum	*1,394*	14
Rural and Island Affairs, Housing and Gaelic Spokesperson (from 6/12/10 to 3/5/12) **-** Councillor Robin Currie	3,333	4,678	Pension	1,549	330
			Lump Sum	*708*	2
European Issues Spokesperson (from 6/12/10 to 3/5/12) - Councillor Len Scoullar	3,333	4,678	Pension	1,977	348
			Lump Sum	*1,566*	(14)
Chair - Helensburgh and Lomond Area Committee (from 6/12/10 to 3/5/12)-Councillor Vivien Dance	3,223	3,834	Pension	1,662	325
			Lump Sum	*1,316*	19
Environment Spokesperson (to 3/5/12) - Councillor Bruce Marshall	3,333	4,678	Pension	1,864	343
			Lump Sum	*1,476*	1

SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2013 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2013 £	For year to 31 March 2012 £		As at 31 March 2013 £	Difference from 31 March 2012 £
Chief Executive - Sally Loudon	22,318	22,248	Pension	37,031	4,599
			Lump Sum	*71,517*	-
Executive Director of Community Services - Cleland Sneddon	17,877	17,792	Pension	28,259	1,540
			Lump Sum	*66,252*	-
Executive Director of Customer Services - Douglas Hendry	17,828	17,828	Pension	37,033	1,535
			Lump Sum	*92,624*	-
Executive Director of Development and Infrastructure Services - Alexander MacTaggart	17,877	17,792	Pension	12,526	1,540
			Lump Sum	*19,052*	-
Head of Strategic Finance (Section 95 Financial Officer) - Bruce West	13,200	13,200	Pension	28,346	1,137
			Lump Sum	*71,358*	-
Head of Adult Care (Section 3 Social Work Officer) - James Robb (from 12-11-11)	13,236	13,174	Pension	24,884	1,143
			Lump Sum	*60,936*	-
Head of Improvement and HR (Direct report to Chief Executive) - Jane Fowler	13,236	13,174	Pension	20,353	1,140
			Lump Sum	*47,343*	-

EMPLOYEE EXIT PACKAGES

The numbers of exit packages with cost per band for compulsory and other redundancies are set out in the table below:

2011/12						2012/13				
	Cash Value						Cash Value			
No	Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £	Notional CAY Value £	Exit Package Cost Band	No	Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £	Notional CAY Value £
89	229,520	308,113	**537,633**	81,661	£0 - £20,000	130	269,434	370,421	**639,855**	71,928
26	149,137	593,153	**742,290**	129,121	£20,001 - £40,000	8	24,338	199,709	**224,047**	42,167
24	202,360	987,862	**1,190,222**	131,085	£40,001 - £60,000	4	42,686	137,919	**180,605**	5,658
15	66,162	958,650	**1,024,812**	42,544	£60,001 - £80,000	3	-	214,941	**214,941**	47,779
5	80,599	363,919	**444,518**	37,760	£80,001 - £100,000	-	-	-	**-**	-
5	122,020	530,533	**652,553**	-	£100,001 - £150,000	-	-	-	**-**	-
3	158,291	207,891	**366,182**	48,313	£150,001 - £200,000	-	-	-	**-**	-
167	**1,008,089**	**3,950,121**	**4,958,210**	**470,483**		**145**	**336,458**	**922,990**	**1,259,448**	**167,532**

Exit package costs include redundancy payments, pension strain and compensatory lump sum payments for all retirees. The costs should also include the capitalised cost of compensatory added years ("CAY"), which will be payable to the pension fund until the retiree ceases to claim their pension. For employees with pensions provided by the Strathclyde Pension Fund (the provider for all employees other than teachers) the notional cost of added years is noted separately in the table as costs are based on an assessment by the pensions provider of the present value of all future payments to the retiree. These amounts are not based on actual costs but instead use actuarial assumptions on pensioner longevity and other factors and as such will be subject to change and will not reflect the actual costs incurred.

The Cash Value costs noted in the table represent the actual costs incurred by the Council for the agreed exit packages. The capitalised added years pension element for members of the Teachers' Pension Scheme is included in the cash value cost as payment is made in advance to the teachers' pension fund to settle this liability.

The total cost of £1.259m in the table above includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. These costs include all exit packages agreed by 31 March in each year, this does not necessarily mean that these payments have been made, for example an employee could have subsequently been re-deployed to an alternative post within the Council. The Council's Balance Sheet includes a provision at 31 March 2013 of £0.909m, this represents the amount which has yet to be paid out by the Council, this amount is included within the bands above.

The supplementary Termination Benefits Note 33 on pages 87-88 provides more information on the exit packages agreed in the last two financial years.

Dick Walsh

Leader

Sally Loudon
Chief Executive

30 September 2013

Movements in 2012-13	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumu-lated Absences Account	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2012	**(34,572)**	**(532)**	**(3,092)**	**(38,196)**	**(55,337)**	**(172,873)**	**79,092**	**5,634**	**4,593**	**(138,891)**	**(177,087)**
(Surplus)/Deficit on Provision of Services	(23,208)			**(23,208)**						**-**	**(23,208)**
Other Comprehensive Income and Expenditure					(2,027)		21,580			**19,553**	**19,553**
Total Comprehensive Income and Expenditure	**(23,208)**	**-**	**-**	**(23,208)**	**(2,027)**	**-**	**21,580**	**-**	**-**	**19,553**	**(3,655)**
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost				-	2,303	(2,303)				-	-
Amortisation of Intangible Assets	(131)			**(131)**		131				**131**	-
Depreciation of Non-current Assets	(19,356)			**(19,356)**		19,356				**19,356**	-
Impairment of Non-current Assets	(1,352)			**(1,352)**		1,352				**1,352**	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	11,428			**11,428**		(11,428)				**(11,428)**	-
Capital Expenditure Charged to the General Fund	1,650			**1,650**		(1,650)				**(1,650)**	-
Net Gain or Loss on Sale of Non-current Assets	(2,077)		(394)	**(2,471)**		2,471				**2,471**	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372			**372**				(372)		**(372)**	-
Employee Benefits	(119)			**(119)**					119	**119**	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	808			**808**			(808)			**(808)**	-

Statutory Repayment of Debt - Loans Fund Advances	18,639			**18,639**		(18,639)				**(18,639)**	-
Statutory Repayment of Debt - Finance Leases	25			**25**		(25)				**(25)**	-
Statutory Repayment of Debt - NPDO Finance	1,424			**1,424**		(1,424)				**(1,424)**	-
Total Statutory Adjustments	**11,311**	**-**	**(394)**	**10,917**	**2,303**	**(12,159)**	**(808)**	**(372)**	**119**	**(10,917)**	**-**
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**(11,897)**	**-**	**(394)**	**(12,291)**	**276**	**(12,159)**	**20,772**	**(372)**	**119**	**8,636**	**(3,655)**
Other Transfers required by Statute											
Transfer to/from Other Statutory Reserves	331	(318)	170	183		(183)				(183)	-
(Increase)/Decrease in Year	**(11,566)**	**(318)**	**(224)**	**(12,108)**	**276**	**(12,342)**	**20,772**	**(372)**	**119**	**8,453**	**(3,655)**
Balance at 31 March 2013 Carried Forward	**(46,138)**	**(850)**	**(3,316)**	**(50,304)**	**(55,061)**	**(185,215)**	**99,864**	**5,262**	**4,712**	**(130,438)**	**(180,742)**

This Statement shows the movement in the 2012-13 financial year on the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The ‘(Surplus) or Deficit on the provision of services’ line shows the true economic cost of providing the Council’s services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The ‘Net (Increase)/Decrease before Transfers to Other Statutory Reserves’ line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Movement in Reserves

Comparative Movements in 2011-12	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumu-lated Absences Account	Total Unusable Reserves	Total Reserves
	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2011	**(33,907)**	**(497)**	**(2,972)**	**(37,376)**	**(51,895)**	**(163,123)**	**26,227**	**6,006**	**7,181**	**(175,604)**	**(212,980)**
(Surplus)/Deficit on Provision of Services	(15,642)			**(15,642)**						-	**(15,642)**
Other Comprehensive Expenditure and Income					(5,619)		57,154			**51,535**	**51,535**
Total Comprehensive Expenditure and Income	**(15,642)**	**-**	**-**	**(15,642)**	**(5,619)**	**-**	**57,154**	**-**	**-**	**51,535**	**35,893**
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	2,177	(2,177)				-	-
Amortisation of Intangible Assets	(129)			**(129)**		129				**129**	-
Depreciation and of Non-current Assets	(18,309)			**(18,309)**		18,309				**18,309**	-
Impairment of Non-current Assets	(6,460)			**(6,460)**		6,460				**6,460**	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure	11,479			**11,479**		(11,479)				**(11,479)**	-
Capital Expenditure Charged to the General Fund	124			**124**		(124)				**(124)**	-
Net Gain or Loss on Sale of Non-current Assets	(442)		(313)	**(755)**		755				**755**	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372			**372**				(372)		**(372)**	-
Employee Benefits	2,588			**2,588**					(2,588)	**(2,588)**	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	4,289			**4,289**			(4,289)			**(4,289)**	-

Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	19,915			**19,915**		(19,915)				**(19,915)**	-
Statutory Repayment of Debt - Finance Leases	157			**157**		(157)				**(157)**	-
Statutory Repayment of Debt - NPDO Finance	1,412			**1,412**		(1,412)				**(1,412)**	-
Total Statutory Adjustments	**14,996**	**-**	**(313)**	**14,683**	**2,177**	**(9,611)**	**(4,289)**	**(372)**	**(2,588)**	**(14,683)**	**-**
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**(646)**	**-**	**(313)**	**(959)**	**(3,442)**	**(9,611)**	**52,865**	**(372)**	**(2,588)**	**36,852**	**35,893**
Other Transfers required by Statute											
Transfer to/from Other Statutory Reserves	(19)	(35)	193	139		(139)				(139)	-
(Increase)/Decrease in Year	**(665)**	**(35)**	**(120)**	**(820)**	**(3,442)**	**(9,750)**	**52,865**	**(372)**	**(2,588)**	**36,713**	**35,893**
Balance at 31 March 2012 Carried Forward	**(34,572)**	**(532)**	**(3,092)**	**(38,196)**	**(55,337)**	**(172,873)**	**79,092**	**5,634**	**4,593**	**(138,891)**	**(177,087)**

This Statement shows the movement in the 2011-12 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus) or Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2011-12				Note	2012-13		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Service		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
102,771	7,013	95,758	Education Services		105,237	6,767	98,470
31,336	26,615	4,721	Housing Services (Non-HRA)		31,079	27,234	3,845
12,143	2,449	9,694	Cultural and Related Services		12,918	2,351	10,567
25,535	4,739	20,796	Environmental Services		21,559	4,542	17,017
25,411	6,735	18,676	Roads and Transport Services		24,913	7,018	17,895
7,425	4,435	2,990	Trading Services		7,086	4,373	2,713
10,452	5,845	4,607	Planning and Development Services		8,251	4,054	4,197
64,775	9,549	55,226	Social Work		66,738	9,379	57,359
		-	Central Services:				
3,945	17	3,928	- Corporate and Democratic Core		4,126	103	4,023
8,373	1	8,372	- Non Distributed Costs		1,812	5	1,807
2,606	1,189	1,417	- Central Services to the Public		3,050	1,279	1,771
9,168	-	9,168	Strathclyde Police Joint Board		7,308	-	7,308
4,839	-	4,839	Strathclyde Fire and Rescue Joint Board		4,548	-	4,548
308,779	**68,587**	**240,192**	**Net Cost of Services**		**298,625**	**67,105**	**231,520**

		Other Operating Income and Expenditure:		
	442	Net (Gain)/loss on Disposal of Long Term Assets		2,077
	(46)	(Surplus)/deficit on trading undertakings		(57)
	1,000	Other Operating Income and Expenditure	7	954
	1,396	**Total Other Operating Income and Expenditure**		**2,974**
		Financing and Investment Income and Expenditure:		
	19,602	Interest Payable and Similar charges		17,512
	(354)	Interest and Investment Income		(1,019)
	(3,932)	Pension Interest Cost and Expected Return on Pensions Assets		(18)
	15,316	**Total Financing and Investment Income and Expenditure**		**16,475**
		Taxation and Non-Specific Grant Income:		
	(187,818)	General Government Grants		(188,864)
	(11,837)	Government Capital Grants and Other Capital Contributions	13	(11,458)
	(25,582)	Non-domestic Rates Redistribution		(26,479)
	(47,309)	Council Tax Income		(47,376)
	(272,546)	**Total Taxation and Non-Specific Grant Income**		**(274,177)**
	(15,642)	**(Surplus)/Deficit on Provision of Services**		**(23,208)**
	(5,619)	(Surplus)/Deficit on revaluation of Long Term Assets		(2,027)
	57,154	Actuarial (Gains)/Losses on Pension Assets/Liabilities		21,580
	51,535	**Other Comprehensive Income and Expenditure**		**19,553**
	35,893	**Total Comprehensive Income and Expenditure**		**(3,655)**

Balance Sheet

31 March 2012				31 March 2013	
£'000	£'000		Note	£'000	£'000
		Long Term Assets			
		Property Plant & Equipment	15		
296,463		- Other Land and Buildings		293,846	
6,784		- Vehicles, Plant, Furniture and Equipment		8,822	
153,761		- Infrastructure Assets		163,822	
1,338		- Community Assets		1,466	
5,117		- Surplus Assets		3,510	
11,723		- Assets Under Construction		17,400	
	475,186	Property Plant & Equipment			**488,866**
	1,324	Heritage Assets	16		1,324
	332	Intangible Assets	17		203
	5,647	Investment Property	18		6,397
	3,800	Long-Term Debtors	21		3,563
	486,289	**Total Long Term Assets**			**500,353**
		Current Assets			
516		Inventories		631	
15,147		Short Term Debtors (Net of Impairment)	22	14,471	
2,153		Assets Held for Sale	23	1,708	
20,000		Short Term Investments		35,000	
15,487		Cash and Cash Equivalents	24	11,868	
	53,303	**Total Current Assets**			**63,678**
		Current Liabilities			
(3,225)		Short-term Borrowing	26	(3,739)	
(33,082)		Short-term Creditors	25	(35,295)	
(278)		Capital Grant Receipts in Advance		(116)	
(2,831)		Provisions	28	(2,183)	
(1,449)		Other Short Term Liabilities	27	(1,566)	
	(40,865)	**Total Current Liabilities**			**(42,899)**
		Long-term Liabilities			
(160,210)		Borrowing Repayable within a Period in Excess of 12 Months	26	(159,871)	
(81,919)		Other Long-term liabilities	27	(80,354)	
(419)		Provisions	28	(301)	
(79,092)		Other Long-term liabilities (Pensions)	29	(99,864)	
	(321,640)	**Total Long-term Liabilities**			**(340,390)**
	177,087	**Total Assets less Liabilities**			**180,742**

Balance Sheet

31 March 2012				31 March 2013	
£'000	£'000		Note	£'000	£'000
		Unusable Reserves	30		
55,337		- Revaluation Reserve		55,061	
172,873		- Capital Adjustment Account		185,215	
(5,634)		- Financial Instruments Adjustment Account		(5,262)	
(79,092)		- Pensions Reserve		(99,864)	
(4,593)		- Accumulated Absences Account		(4,712)	
	138,891				130,438
		Usable Reserves	31		
3,092		- Capital Funds		3,316	
532		- Repairs and Renewals Funds		850	
34,572		- General Fund Balance		46,138	
	38,196				50,304
	177,087	**Total Reserves**			**180,742**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:

- The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).
- The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold: and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

The financial statements were issued on 27 June 2013 and the audited financial statements were authorised for issue on 30 September 2013.

Bruce West
Head of Strategic Finance
30 September 2013

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amounts of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2011-12 £'000		Note	2012-13 £'000
(15,642)	**Net (Surplus) or Deficit on the Provision of Services**		**(23,208)**
(354)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(13,138)
9,458	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		9,155
(6,538)	**Net Cash Flows from Operating Activities**	36	**(27,191)**
21,570	Investing Activities	37	29,473
(73)	Financing Activities	38	1,337
14,959	**Net Increase or Decrease in Cash and Cash Equivalents**		**3,619**
(30,446)	Cash and Cash Equivalents at the beginning of the Reporting Period		(15,487)
(15,487)	**Cash and Cash Equivalents at the end of the Reporting Period**	24	**(11,868)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012-13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985, which section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 and the Service Reporting Code of Practice for Local Authorities 2012-13 (S*e*RCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded for the income that might not be collected.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty of notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Changes in Accounting Policies, Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances.

1.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. These transactions are reversed out through the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

1.6 Employee Benefits

1.6.1 Benefits Payable during Employment

Short-term benefits, such as wages and salaries, paid annual and sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year.

1.6.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.6.3 Post-Employment Benefits

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

a) Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

b) Local Government Pension Scheme

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This pension scheme is accounted for as a defined benefits scheme:

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on the indicative rate of return on a "high quality corporate bond of equivalent term and currency to the liability" (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years)).
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value
- The change in the net pension's liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years' service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council's Pension Fund in the year. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

1.6.4 Post Employment Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirements benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.7 Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material impact disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.8 Exceptional Items

When items of income and expenditure are material, their nature and amount are disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to the understanding of the Council's financial performance.

1.9 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of the restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

1.11 Heritage Assets

The main heritage assets held by the Council are two art collections and a historic jail and courthouse which is operated as a "living" museum. The "Argyll Collection" is an art collection which was set up to provide the young people of Argyll and Bute with direct access to a wide range of quality art recognising that they had limited access to museums and galleries. In addition the Council holds other works of art which are held at various libraries and the Campbeltown Museum. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council's main heritage assets are accounted for as follows:

The Art Collections

The collections cover a range of media including acrylic, charcoal, embroidery, engraving, etching, gouache, lithography, oil, pastel, pencil, procion dye, screenprint, monoprint, watercolour, woodcut, ceramic, bronze and woodcarving. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These valuations are updated periodically. The assets within the art collections are deemed to have indeterminate lives and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by external valuers and with reference to appropriate commercial markets using the most relevant and recent information from sales at auctions.

Inveraray Jail and Courthouse and "Other" Historic Buildings

The building is owned by Argyll and Bute Council and leased out to an organisation which runs it as a "living museum". The building is valued in accordance with its property, plant and equipment policy. Other buildings included in this category are McCaig's Folly in Oban and Castle Lodge in Dunoon.

Archaeology and "Other" Museum Exhibits

The Council does not consider that reliable cost or valuation information can be obtained for archaeological items and "other" museum exhibits outwith the art collections. This is because of the diverse nature of the assets held and lack of comparable values. Consequently, the Council does not recognise these assets on the Balance Sheet.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration of breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (see note 1.19.3 in this summary of significant accounting policies). The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory requirements relating to capital expenditure and receipts (see note 1.19.4 in this summary of significant accounting policies).

1.12 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.13 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures and requires to prepare Group Accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

1.14 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

1.15 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.16.1 The Council as Lessee

a) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

b) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.16.2 The Council as Lessor

a) Finance Leases

Where the Council grants a finance lease over a property or an item of plant and equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt on disposal of the asset is used to write down the debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

b) Operating Leases

Where the Authority grants an operating lease over a property or an item of plant and equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant Service lines in the Comprehensive Income and Expenditure Statement, with the exception of rental income from Investment Property which is credited to Interest and Investment Income. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 – Scotland (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional democratic organisation; and
- Non Distributed costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.18 Assets Held for Sale

Property, land and buildings are classified as *Assets Held for Sale* when the following criteria are met:

- The property is available for immediate sale in its present condition.
- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

When these criteria are met, assets within the category of *Property, Plant and Equipment* will be reclassified as *Assets Held for Sale*.

1.19 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others or for administrative purposes that are expected to be used during more than one financial year are classified as *Property, Plant and Equipment*.

1.19.1 Recognition

Expenditure on the acquisition, creation, or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

1.19.2 Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Accounts. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets and community assets – depreciated historical cost
- All other assets – fair value, determined the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

Assets included in the balance sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

1.19.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- Where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.19.4 Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an *Asset Held for Sale*. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as *Assets Held for Sale*.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Disposal receipts are categorised as capital receipts. All capital receipts are credited to the Capital Fund, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the costs of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.19.5 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.20 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the balance sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed assets recognised on the Balance Sheet are re-valued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year, debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Annual Finance Cost – this is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, this is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.21 Provisions, Contingent Liabilities and Contingent Assets

1.21.1 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

1.21.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.21.3 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.22 Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above and Note 30 to the accounts.

1.23 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and VAT paid is recoverable.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

For 2012-13, the only accounting policy change that requires to be reported relates to the June 2011 amendment to the accounting standard, *IAS19 Employee Benefits*. The change of accounting policy is effective from 1 April 2013 and there is no impact of this change on the accounts covering the 2012-13 financial year.

The key change relates to the expected return on scheme assets. The expected return on assets is currently credited to the Surplus or Deficit on the Provision of Services; however from 2013 this is effectively replaced with an equivalent figure using the discount rate.

While the overall impact is expected to be cost neutral, there will be a redistribution of costs within the Comprehensive Income and Expenditure Statement. By way of illustrating the impact of the accounting change upon the current year, there would be an increase in pension cost and expected return on assets of £3.413m (as assessed by the actuaries of Strathclyde Pension Fund) chargeable to the Surplus or Deficit on the Provision of Services, with a compensating reduction of £3.413m in actuarial (gains) or losses on pension assets and liabilities chargeable to Other Comprehensive Income and Expenditure.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note to the core financial statements; however a summary of those with the most significant effect is detailed below:

Government Funding: There is a high degree of uncertainty about future levels of funding for local government. However, the Council had determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Service Concessions: The Council currently operates two Private Finance Initiative (PFI), or similar, contracts which are accounted for as Service Concession arrangements under IFRIC12 – *Service Concession Arrangements*. The Council has determined that in the case of the Schools NPDO contract the Council has control over the services provided through use of the schools and that a qualifying asset has been created. The appropriate accounting treatment is to bring the assets "on balance sheet" along with a finance lease liability.

The Council also operates a Waste Management PPP contract. In this case the Council determined that a "qualifying asset" had not been created and that the Council did not have significant control over the services being provided. The appropriate accounting treatment was therefore determined to be "off balance sheet" and that payments to the contractor are charged to the appropriate service line within the Comprehensive Income and Expenditure Account.

Holiday Pay Accrual: Unused holiday entitlement earned at 31 March 2013 but not taken at that date has been quantified on the basis of a 5% sample of all non-term time Council employees. The calculation in respect of unused holidays for term time staff in schools is based on actual leave entitlement as at 31 March and no estimation is required for these staff. The liability shown in the 2012-13 financial statements in respect of the holiday pay accrual is £4.712m.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.3m for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:

Sensitivities at 31 March 2013	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000
0.5% decrease in real discount rate	12%	63,168
1 year increase in member life expectancy	3%	15,726
0.5% increase in salary increase rate	5%	27,094
0.5% increase in pension increase rate	9%	45,980

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2013, the Council had a balance of sundry debtors of £2.925m. A review of significant balances suggested an allowance of 27% (£0.791m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increase of the allowance by 10% would increase the bad debt provision required by £0.293m

5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £36.044m of the balance on the General Fund as follows:

Ring-fenced Balances	Balance 1 April 2012 £'000	Funds Used £'000	Contributions to Funds £'000	Balance 31 March 2013 £'000
Revenue from Additional Council Tax on Second Homes (Strategic Housing Fund)	8,689	(201)	1,695	10,183
Unspent Grants	477	(260)	1,256	1,473
Contributions Carried Forward	277	(34)	25	268
Unspent Budget Carried Forward	5,244	(2,289)	5,216	8,171
School Budget Carry Forwards	1,221	(1,221)	946	946
Unspent Budget Required for Existing Legal Commitments	148	(73)	155	230
CHORD	475	-	182	657
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	12,500	(9,500)	-	3,000
Investment in Affordable Housing	-	-	9,500	9,500
Severance Costs	423	(187)	-	236
Reserve Committed for 2013-14 Budget	-	-	1,054	1,054
Reserve Committed for 2014-15 Budget	-	-	326	326
Total Ring-fenced	**29,454**	**(13,765)**	**20,355**	**36,044**
Unallocated	5,118		4,976	10,094
Total General Fund Balance	**34,572**	**(13,765)**	**25,331**	**46,138**

The unallocated balance of £10.094m is 4.1% of the Council's budgeted net expenditure for 2013-14.

6. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Strategic Management Team on the basis of budgets analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows, (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- Certain costs are deemed to be out with departmental control and are therefore reported separately to management, for example insurances across the Council.

6.1 Departmental Information for the year ended 31 March 2013

The income and expenditure of the Council's principal departments recorded in the budget reports for the 2012-13 year is as follows:

Departmental Income and Expenditure 2012-13	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000
Fees, Charges and Other Service Income	(16,131)	(38,760)	(19,438)	(186)	(74,515)
Government Grants	(2,317)	(62)	(24,310)	-	(26,689)
Total Income	**(18,448)**	**(38,822)**	**(43,748)**	**(186)**	**(101,204)**
Employee Expenses	83,892	21,936	14,961	5,530	126,319
Other Operating Expenses	67,620	48,514	59,147	700	175,981
Total Operating Expenses	**151,512**	**70,450**	**74,108**	**6,230**	**302,300**
Net Cost of Services	**133,064**	**31,628**	**30,360**	**6,044**	**201,096**

Departmental Income and Expenditure 2011-12 Comparative Figures	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000
Fees, Charges and Other Service Income	(16,138)	(41,949)	(19,532)	(160)	(77,779)
Government Grants	(2,519)	(458)	(23,665)	-	(26,642)
Total Income	**(18,657)**	**(42,407)**	**(43,197)**	**(160)**	**(104,421)**
Employee Expenses	84,217	22,247	15,903	5,468	127,835
Other Operating Expenses	65,916	53,216	60,234	715	180,081
Total Operating Expenses	**150,133**	**75,463**	**76,137**	**6,183**	**307,916**
Net Cost of Services	**131,476**	**33,056**	**32,940**	**6,023**	**203,495**

6.2 Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

The reconciliation below shows how the figures in the analysis of departmental income and expenditure relate to the total Net Cost of Services in the Comprehensive Income and Expenditure Statement.

	2012-13 £'000	2011-12 £'000
Cost of Services in Service Analysis	**201,096**	**203,495**
Add Services not included in Main Analysis	16,297	21,400
Add Amounts not Reported to Management	14,899	16,560
Remove Amounts Reported to Management not Included in Comprehensive Income and Expenditure Statement	(772)	(1,263)
Net Cost of Services in Comprehensive Income and Expenditure Statement	**231,520**	**240,192**

6.3 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2012-13	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(74,515)	(375)	-	538	(74,352)	(354)	(74,706)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	(57)	(57)
Interest and Investment Income	-	-	-	-	-	(1,037)	(1,037)
Income from Council Tax	-	-	-	-	-	(47,376)	(47,376)
Government Grants and Contributions	(26,689)	-	-	-	(26,689)	(226,801)	(253,490)
Total Income	**(101,204)**	**(375)**	**-**	**538**	**(101,041)**	**(275,625)**	**(376,666)**
Employee Expenses	126,319	1,785	1,293		129,397	-	129,397
Other Service Expenses	175,981	1,656	3,781	(2)	181,416	-	181,416
Depreciation, Amortisation and Impairment	-	-	9,825		9,825	-	9,825
Interest Payments	-	-			-	17,512	17,512
Precepts, Levies and Requisitions	-	13,231		(1,308)	11,923	1,308	13,231
Gain or Loss on Disposal of Assets	-	-			-	2,077	2,077
Total Operating Expenses	**302,300**	**16,672**	**14,899**	**(1,310)**	**332,561**	**20,897**	**353,458**
Surplus or Deficit on the Provision of Services	**201,096**	**16,297**	**14,899**	**(772)**	**231,520**	**(254,728)**	**(23,208)**

2011-12 Comparative Figures	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(77,779)	(345)	-	418	**(77,706)**	(327)	**(78,033)**
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	**-**	(46)	**(46)**
Interest and Investment Income	-	-	-	-	**-**	(4,286)	**(4,286)**
Income from Council Tax	-	-	-	-	**-**	(47,309)	**(47,309)**
Government Grants and Contributions	(26,642)	-	-	-	**(26,642)**	(225,237)	**(251,879)**
Total Income	**(104,421)**	**(345)**	**-**	**418**	**(104,348)**	**(277,205)**	**(381,553)**
Employee Expenses	127,835	4,758	20	-	**132,613**	-	**132,613**
Other Service Expenses	180,081	1,585	2,295	(354)	**183,607**	-	**183,607**
Depreciation, Amortisation and Impairment	-	-	14,245	-	**14,245**	-	**14,245**
Interest Payments	-	-	-	-	**-**	19,602	**19,602**
Precepts, Levies and Requisitions	-	15,402	-	(1,327)	**14,075**	1,327	**15,402**
Gain or Loss on Disposal of Assets	-	-	-	-	**-**	442	**442**
Total Operating Expenses	**307,916**	**21,745**	**16,560**	**(1,681)**	**344,540**	**21,371**	**365,911**
Surplus or Deficit on the Provision of Services	**203,495**	**21,400**	**16,560**	**(1,263)**	**240,192**	**(255,834)**	**(15,642)**

7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £0.954m shown in the Other Operating Income and Expenditure line on the Statement of Comprehensive Income and Expenditure consists of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board of £1.308m offset by £0.354m of backdated VAT income received as a result of claims being made under the "Fleming" case law principle.

8. SIGNIFICANT TRADING ORGANISATIONS

Details of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations are as follows:

8.1 Roads and Lighting Trading Account

The Council runs its Roads and Lighting Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service maintains the road network throughout Argyll and Bute excluding Trunk Roads (which are the responsibility of the Scottish Government). The Roads and Lighting Trading account returned a surplus of £0.357m in 2012-13. The trading objective is to break-even over a three year period, the trading account has achieved this objective with a 3 year surplus.

Roads and Lighting Trading Account	2010-11 Actual £'000	2011-12 Actual £'000	2012-13 Actual £'000	3 year Cumulative £'000
Turnover	19,406	19,944	18,202	57,552
Expenditure	18,805	19,587	17,845	56,237
Net Surplus/(Deficit)	**601**	**357**	**357**	**1,315**

8.2 Catering and Cleaning Trading Account

The Council runs its Catering and Cleaning Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Catering and Cleaning to all Schools and Council Offices as well as providing a Cleaning Service to external clients such as Police Stations and Outdoor Centres. The Catering and Cleaning Trading account returned a surplus of £0.052m in 2012-13. The trading objective is to break-even over a three year period, the trading account has achieved this objective with a 3 year surplus.

Catering and Cleaning Trading Account	2010-11 Actual £'000	2011-12 Actual £'000	2012-13 Actual £'000	3 year Cumulative £'000
Turnover	8,643	6,831	6,284	21,758
Expenditure	8,337	6,509	6,232	21,078
Net Surplus/(Deficit)	**306**	**322**	**52**	**680**

9. AGENCY INCOME

The Council have an on-going agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2012-13 income from this agreement amounted to £0.244m.

Agency Income	2012-13 Actual £'000	2011-12 Actual £'000
Scottish Water	244	266
Total	**244**	**266**

The Council also acts as agent for the Scottish Government in the collection of non-domestic rate income. Further information on the collection of non-domestic rate income can be found on pages 94-95.

10. COMMUNITY CARE AND HEALTH (SCOTLAND) ACT 2002

During 2012-13, under the Community Care and Health (Scotland) Act 2002, the Council continued to develop services which centred on joint working with the Argyll & Bute Community Health Partnership (CHP) and NHS Highland within the Argyll and Bute Health and Social Care Partnership.

The aspiration of the Partnership is to work together to fully integrate the delivery of health and social care services, focusing on achieving good outcomes for all those who use our services and have an efficient, cost effective and seamless delivery of service.

During 2012-13 the Partnership included provision of services to older people, supporting people with a learning disability and provision of support to adults who have a mental health difficulty.

Budgets are currently aligned which means that each Partner organisation holds their own element of the budget and records the income and expenditure that relates to the part of the service for which they are responsible.

During 2012-13 income received by the Council from this source amounted to £5.064m and the related expenditure was £6.557m. This can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,194	3,108
Provision of Services for People with Learning Disabilities	2,134	2,739
Provision of Services for People with Mental Health Needs	736	710
Total	**5,064**	**6,557**

11. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

The Council has entered into a Public Private Partnership for the provision of its waste disposal service. This agreement requires the provider to upgrade or replace three waste disposal sites, two transfer stations and five civic amenity sites. In addition, the provider will also provide composting facilities to meet waste diversion targets. When the agreement ends in September 2026 the provider will hand back to the Council the waste disposal facilities with a life of 5 years.

The Council has paid a service charge of £5.176m (2011-12 £4.893m) which represents the value of the service provided from 1 April 2012 to 31 March 2013. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2013 - 2014	5,418
2014 - 2019	28,245
2019 - 2024	31,824
2024 - 2027	16,400
Total	**81,887**

This equates to £5.328m per annum over the life of the contract.

12. FEES PAYABLE TO AUDIT SCOTLAND

In 2012-13 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2012-13 £'000	2011-12 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	253	250
Total Remuneration	**253**	**250**

13. GRANT INCOME

The Council credited the following grants to the Comprehensive Income and Expenditure Statement in 2012-13:

Grant Income	2012-13 £'000	2011-12 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	188,864	187,818
Non Domestic Rates	26,479	25,582
Specific Capital Grant	97	98
General Capital Grant	8,746	11,005
European Regional Development Fund (ERDF)	1,049	414
SUSTRANS	161	140
Sport Scotland	316	-
Other Grants	248	68
Other Government Capital Grants	841	112
Total	**226,801**	**225,237**
Credited to Services		
Scottish Government Specific Grants	375	385
General Capital Grant - Private Sector Housing Improvement Grants	1,074	1,517
Housing Benefit Subsidy	23,355	22,843
Council Tax Benefit Subsidy	5,913	5,972
Other Revenue Government Grants	1,800	1,898
Total	**32,517**	**32,615**

14. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The aim of the Financial Reporting Standard dealing with Related Parties is to highlight instances where influence and control has been exercised over an external organisation by the Council, and where an elected member, their close family or someone in their household, has the ability to exercise the influence or control. Elected members and Senior Officers have completed a signed declaration on Related Party Interests and these have been used to compile this disclosure.

14.1 Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 6 on reporting for resource allocation decisions and also in Note 13 – Grant Income.

14.2 Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2012-13 is shown in the Remuneration Report on page 17.

During the year there were two companies in which members had a significant interest and where the total of transactions exceeded £10,000.

Transactions in which Members have a significant interest	Expenditure £'000
Bute Conservation Trust	19
MacDougall's Garage	29

14.3 Other Related Bodies

This category relates to transactions with entities which are controlled or significantly influenced by the Authority.

During the year transactions with other related bodies were as follows:

Related Bodies	Expenditure £'000
Transactions with related bodies during the year totalled	1,155
Of these, transactions with the following exceeded £10,000:	
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board	149
Scotland Excel	69
Convention of Scottish Local Authorities (COSLA)	61
Cowal Council on Alcohol and Drugs	103
Helensburgh Addiction Rehabilitation Team	76
Kintyre Alcohol and Drugs Advisory Service	24
Argyll and Bute Citizens Advice Bureaux	55
Mid Argyll Community Enterprise	41
Oban Addiction Support and Information Services (OASIS)	42
Oban and Lorn Community Enterprise - Atlantis Leisure	517
West Highland Housing Association	37
Total	**1,174**

Given the relationships the Council has with other organisations and partners it is possible that some related party transactions may exist. However, the purpose of the requirement to complete the disclosure is to provide additional information to the users of the Financial Statements and, by declaring possible instances, there is no suggestion that any inappropriate transactions have taken place.

15. PROPERTY, PLANT AND EQUIPMENT

15.1 Movement in Property, Plant and Equipment

Movements in 2012-13	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2012-13 £'000
Cost or Valuation							
At 1 April 2012	**319,897**	**19,940**	**199,895**	**1,340**	**5,506**	**11,723**	**558,301**
Additions	6,989	4,872	8,889	128	(2)	14,262	35,138
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(11,871)	-	-	-	148	-	(11,723)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,004)	-	-	-	(918)	-	(2,922)
Derecognition - Disposals	(1,229)	(2,621)	-	-	(1,068)	-	(4,918)
Derecognition - Other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(110)	-	-	-	(60)	-	(170)
Other movements in cost or valuation	2,609	-	5,926	-	50	(8,585)	-
At 31 March 2013	**314,281**	**22,191**	**214,710**	**1,468**	**3,656**	**17,400**	**573,706**
Depreciation and Impairments							
At 1 April 2012	**(23,434)**	**(13,156)**	**(46,134)**	**(2)**	**(389)**	**-**	**(83,115)**
Depreciation Charge for 2012-13	(11,627)	(2,821)	(4,754)	-	(154)	-	(19,356)
Depreciation written out to the Revaluation Reserve	13,690	-	-	-	60	-	13,750
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	579	-	-	-	241	-	820
Derecognition - Disposals	335	2,608	-	-	60	-	3,003
Other movements in depreciation and impairment	22	-	-	-	36	-	58
At 31 March 2013	**(20,435)**	**(13,369)**	**(50,888)**	**(2)**	**(146)**	**-**	**(84,840)**
Balance Sheet amount at 1 April 2013	**293,846**	**8,822**	**163,822**	**1,466**	**3,510**	**17,400**	**488,866**
Balance Sheet amount at 1 April 2012	**296,463**	**6,784**	**153,761**	**1,338**	**5,117**	**11,723**	**475,186**

Comparative Movements in 2011-12	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2011-12 £'000
Cost or Valuation							
At 1 April 2011	**319,491**	**17,870**	**187,181**	**1,274**	**14,476**	**8,597**	**548,889**
Additions	4,818	3,166	8,938	66	61	8,422	25,471
Revaluation increases/(decreases) recognised in the Revaluation Reserve	598	-	-	-	247	-	845
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,602)	-	-	-	(25)	-	(3,627)
Derecognition - Disposals	(459)	(1,124)	-	-	(390)	-	(1,973)
Derecognition - Other	-	-	-	-	-	(669)	(669)
Assets reclassified (to)/from Held for Sale	-	-	-	-	(3,545)	-	(3,545)
Other movements in cost or valuation	(949)	28	3,776	-	(5,318)	(4,627)	(7,090)
At 31 March 2012	**319,897**	**19,940**	**199,895**	**1,340**	**5,506**	**11,723**	**558,301**
Depreciation and Impairments							
At 1 April 2011	**(17,687)**	**(12,157)**	**(41,627)**	**(2)**	**(2,339)**	**-**	**(73,812)**
Depreciation Charge for 2011-12	(11,575)	(2,111)	(4,507)	-	(116)	-	(18,309)
Depreciation written out to the Revaluation Reserve	4,712	-	-	-	62	-	4,774
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	700	-	-	-	20	-	720
Derecognition - Disposals	161	1,113	-	-	62	-	1,336
Other movements in depreciation and impairment	255	(1)	-	-	1,922	-	2,176
At 31 March 2012	**(23,434)**	**(13,156)**	**(46,134)**	**(2)**	**(389)**	**-**	**(83,115)**
Balance Sheet amount at 1 April 2012	**296,463**	**6,784**	**153,761**	**1,338**	**5,117**	**11,723**	**475,186**
Balance Sheet amount at 1 April 2011	**301,804**	**5,713**	**145,554**	**1,272**	**12,137**	**8,597**	**475,077**

15.2 Valuation of Property, Plant and Equipment

IAS 16 – Property, Plant and Equipment has been adapted for the public sector by IPSAS 17 – Property, Plant and Equipment. Under IPSAS 17 each category of Property, Plant and Equipment is valued as follows:

- Infrastructure, community assets and assets under construction are valued at historical cost
- Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for fair value
- All other classes of assets are valued at fair value. Where there is no market based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold then an estimate of fair value is made using a depreciated replacement cost approach.

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. This includes Other Land and Buildings and Surplus Assets.

Revaluations of council owned Land and Property were carried out at 31 March 2013 in accordance with the Council's rolling programme of revaluations. The revaluations have been carried out by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following statement shows the progress of the Council's rolling programme for the revaluation of Property, Plant and Equipment:

Valued at Fair Value as at:	Other Land & Buildings £'000	Corporate Surplus Assets £'000
31 March 2013	138,627	715
31 March 2012	19,572	530
31 March 2011	51,680	829
31 March 2010	63,059	1,071
31 March 2009	20,908	365
Total Cost or Valuation	**293,846**	**3,510**

15.3 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer (20 to 50 years)
- Infrastructure – straight-line allocation over 40 years
- Vehicles, Plant and Equipment - straight-line allocation over the useful life of the asset as determined by a suitably qualified officer (3 to 20 years)
- Vessels – straight line allocation over 25 years

15.4 Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rates and council taxpayers. It is financed from borrowing, capital receipts and capital grants. The cost of the asset is effectively borne over a period of years. In 2012-13 total spending on capital projects was £35.140m.

		2012-13 £'000	2011-12 £'000
Opening Capital Financing Requirement		**256,617**	**264,977**
Capital Investment:			
Property Plant and Equipment:	Other Land and Buildings	6,989	4,818
	Vehicles, Plant, Furniture and Equipment	4,872	3,166
	Infrastructure Assets	8,889	8,938
	Community Assets	128	66
	Surplus Assets	(2)	61
	Assets Under construction	14,262	8,422
Heritage Assets		-	8
Intangible Assets		2	96
Total Capital Investment		**35,140**	**25,575**
Sources of Finance:			
Capital Receipts		(394)	(190)
Government Grants		(11,428)	(11,479)
Capital Financed from Current Revenue		(1,650)	(124)
Repayment of External Loans		(18,679)	(20,584)
Capital Element of Finance Lease Payments		(25)	(157)
Capital Element of Schools NPDO Payments		(1,424)	(1,412)
Capital Receipts transferred to Capital Fund		394	190
Capital Receipts Used from Capital Fund		(94)	-
Other		(59)	(179)
Total Funding		**(33,359)**	**(33,935)**
Closing Capital Financing Requirement		**258,398**	**256,617**

15.5 Commitments under Capital Contracts

At 31 March 2013, the Council had commitments on capital contracts of £7.162m. This expenditure will be funded from a combination of government grants, borrowing and income from selling assets and contributions from Revenue Accounts. Similar commitments at 31 March 2012 were £11.206m. The major commitments are:

	£'000
Roads Reconstruction (Various Locations)	2,332
School Building Improvements (Various Locations)	1,495
Vehicle Purchase Orders	1,484
Campbeltown Infrastructure Marine Works	265
Kintyre Renewables Hub	250
PC Replacement Programme	242
Beachmeanach Bridge	146

16. HERITAGE ASSETS

Financial Reporting Standard (FRS) 30 – *Heritage Assets* was adopted in 2011-12 as part of the 2011-12 Code of Practice.

The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the balance sheet. Further details on the council's heritage assets policy can be found in note 1.11 on page 42.

Reconciliation of the carrying value of heritage assets held by the Council:

Movements in 2012-13	Art Collections £'000	Heritage Property £'000	Total £'000
Cost or Valuation			
Net Book Value at 1 April 2012	**1,148**	**176**	**1,324**
Additions	-	-	-
Disposals	-	-	-
Revaluations	-	-	-
Depreciation	-	-	-
At 31 March 2013	**1,148**	**176**	**1,324**

17. INTANGIBLE ASSETS

Intangible assets relate wholly to software licences purchased during the year and these are shown at cost. This cost is charged to the relevant service lines within the Comprehensive Income and Expenditure Account over the economic life of the licences, assessed as five years. The movement in intangible assets during the year was:

Movements in 2012-13	Purchased Software Licences 2012-13 £'000
Cost or Valuation	
At 1 April 2012	**811**
Additions	2
Disposals	-
Reclassifications	-
At 31 March 2013	**813**
Depreciation and Impairments	
At 1 April 2012	**(479)**
Charge for 2012-13	(131)
Disposals	-
At 31 March 2013	**(610)**
Balance Sheet amount at 1 April 2013	**203**
Balance Sheet amount at 1 April 2012	**332**

Comparative Movements in 2011-12	Purchased Software Licences 2011-12 £'000
Cost or Valuation	
At 1 April 2011	**715**
Additions	96
Disposals	-
Reclassifications	-
At 31 March 2012	**811**
Depreciation and Impairments	
At 1 April 2011	**(350)**
Charge for 2011-12	(129)
Disposals	-
At 31 March 2012	**(479)**
Balance Sheet amount at 1 April 2012	**332**
Balance Sheet amount at 1 April 2011	**365**

18. INVESTMENT PROPERTY

Investment property has been accounted for in accordance with IAS 4 - Investment Property, except where interpretations or adaptations to fit the public sector are detailed in the Code. The definition of an investment property in the context of the public sector is one that is used solely to earn rentals or for capital appreciation or both.

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2013. Revaluations of investment properties were carried out at 31 March 2013 by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council.

18.1 Movement in Investment Property

The movement in investment property during 2012-13 was:

Movements in 2012-13	Investment Properties £'000
Cost or Valuation	
At 1 April 2012	**5,647**
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	750
Transfers	-
At 31 March 2013	**6,397**

Comparative Movements in 2011-12	Investment Properties £'000
Cost or Valuation	
At 1 April 2011	**1,290**
Acquisitions	-
Disposals	(3)
Net Gains/Losses from fair value adjustments	(1,280)
Transfers	5,640
At 31 March 2012	**5,647**

18.2 Investment Property Income and Expenditure

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2012-13 £'000	2011-12 £'000
Rental Income from Investment Property	95	91
Direct operating expenses arising from investment property	-	-
Net gain/(loss)	**95**	**91**

19. SCHOOLS NON-PROFIT DISTRIBUTING ORGANISATION (NPDO)

During 2007-08 two secondary schools, two joint campuses and one primary campus, developed as part of the non-profit distributing organisation (NPDO) variant of a public private partnership, became operational. When the agreement ends in 2035 the provider will hand the five school complexes back to the Council, it is expected at that point in time each school will have an estimated life of 30 years remaining.

19.1 Assets Held under Schools NPDO Contract

Five schools were constructed under the Schools NPDO Contract; Hermitage Academy, Dunoon Grammar, Lochgilphead Joint Campus, Rothesay Joint Campus and Oban Primary Campus. The construction costs of the buildings, adjusted for revaluations on 31 March 2013 and depreciation to date are included as part of Other Land and Buildings as follows:

Movements in 2012-13	Land & Buildings £'000
Cost or Valuation	
At 1 April 2012	**87,573**
Additions	-
Revaluations	5,606
At 31 March 2013	**93,179**
Depreciation and Impairments	
At 1 April 2012	**(5,855)**
Charge for 2012-13	(1,466)
Revaluations	7,316
At 31 March 2013	**(5)**
Balance Sheet amount at 1 April 2013	**93,174**
Balance Sheet amount at 1 April 2012	**81,718**

19.2 Schools NPDO Finance Lease Liability

The finance lease liability arising from the Schools NPDO contract is as follows:

Movements in 2012-13	£'000
Balance at 1 April 2012	**(82,576)**
Repayments	1,424
Schools NPDO Finance Lease Liability at 31 March 2013	**(81,152)**
Split:	
Obligations payable within 1 year	(1,548)
Obligations payable after 1 year	(79,604)
Schools NPDO Finance Lease Liability at 31 March 2013	**(81,152)**

19.3 Payments due to Operator under Schools NPDO Contract

The Council is committed to paying the following sums under the Schools NPDO contract:

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2013 - 2015	3,281	-	16,221	8,299	27,801
2015 - 2020	10,205	-	37,601	24,289	72,095
2020 - 2025	14,888	939	31,953	28,403	76,183
2025 - 2030	22,156	2,871	23,215	32,568	80,810
2030 - 2035	30,622	3,159	9,866	33,567	77,214
Total	**81,152**	**6,969**	**118,856**	**127,126**	**334,103**

20. FINANCE AND OPERATING LEASES

20.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.039m.

	2012-13 £'000	2011-12 £'000
Vehicles	39	304
Total	**39**	**304**

20.2 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2012-13 were as follows:

	2012-13 £'000	2011-12 £'000
Land and Buildings	278	107
Vehicles	559	884
Plant and Equipment	53	108
Total	**890**	**1,099**

20.3 Assets Held Under Finance Leases

The following values of assets are held under finance leases by the Council, accounted for as part of long term assets.

Movements in 2012-13	Vehicles, Plant and Equipment £'000
Value at 1 April 2012	**42**
Additions	-
Depreciation	(24)
Value at 31 March 2013	**18**

Outstanding obligations to make payments under these finance leases (excluding finance costs) as at 31 March 2013, accounted for as part of other liabilities are as follows:

Finance Lease Liability	Vehicles, Plant and Equipment £'000
Obligations payable within 1 year	18
Obligations payable between 1 and 5 years	-
Obligations payable after five years	-
Total Liabilities at 31 March 2013	**18**

20.4 Assets Held Under Operating Leases

The Council was committed at 31 March 2013 to making payments of £0.516m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	10	38
Leases expiring between 1 and 5 years	65	202
Leases expiring after 5 years	191	10
Value at 31 March 2013	**266**	**250**

21. LONG TERM DEBTORS

	31st March 2013 £'000	31st March 2012 £'000
House Loans	76	85
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	824	965
Strategic Housing Fund Loans to Registered Social Landlords	1,813	1,900
Other Long Term Debtors	100	100
Total Long Term Debtors	**3,563**	**3,800**

22. DEBTORS

		31 March 2013		31 March 2012	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	12,091		11,949	
	Less: Provision for Bad Debts	(10,007)		(9,756)	
			2,084		2,193
	Community Charge	7,550		7,550	
	Less: Provision for Bad Debts	(7,550)		(7,550)	
			-		-
Housing Benefits Overpayments		823		877	
Less: Provision for Bad Debts		(589)		(657)	
			234		220
Debtor Accounts		2,925		4,243	
Less: Provision for Bad Debts		(791)		(804)	
			2,134		3,439
VAT Recoverable from HMRC			1,610		3,323
Other Debtors			8,409		5,972
Total Debtors			**14,471**		**15,147**

23. ASSETS HELD FOR SALE

The movement in assets held for sale during 2012-13 was:

Movements in 2012-13	2012-13 £'000	2011-12 £'000
Balance outstanding at start of year	**2,153**	**1,722**
Assets newly classified as held for sale (Property, Plant and Equipment)	177	2,820
Revaluation losses	-	(2,273)
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as held for sale (Property, Plant and Equipment)	(65)	-
Assets Sold	(557)	(116)
Balance outstanding at year-end	**1,708**	**2,153**

24. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2013 £'000	31 March 2012 £'000
Cash held by the Authority	62	64
Cash in transit	2,813	105
Short term deposits with banks	14,032	17,962
Bank Current Accounts (Overdraft)	(5,039)	(2,644)
Total Cash and Cash Equivalents	**11,868**	**15,487**

25. CREDITORS

	31 March 2013 £'000	31 March 2012 £'000
Accrued Payrolls and Superannuation	5,418	5,677
Accrued Employer's National Insurance Contributions and PAYE	2,264	2,292
Accrual for Short Term Accumulating Absences	4,712	4,593
Creditors System Liability	6,121	6,949
Accrued Expenditure	5,899	5,164
Other Creditors	10,881	8,407
Total Creditors	**35,295**	**33,082**

26. FINANCIAL INSTRUMENTS DISCLOSURES

26.1 Types of Financial Instruments

Accounting regulations require the "financial instruments" (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the Balance Sheet are made up of the following categories of "financial instruments":

	31 March 2013		31 March 2012	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
Investments and Lending				
Loans and Receivables	3,563	61,339	3,800	50,634
Borrowing				
Financial Liabilities at amortised cost	240,225	40,600	242,148	37,737

26.2 Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the following assumptions:

- Estimated interest rates at 31 March 2013 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2013		31 March 2012	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending				
Loans and Receivables	64,902	64,981	54,434	54,581
Borrowing				
Financial Liabilities	280,825	319,323	279,885	310,724

The fair value is greater than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above the current market rates increases the amount the Council would receive if it agreed the early repayment of loans.

The fair value is greater than the carrying amount because the Council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest above the current market rates increases the amount the Council would have to pay if it agreed to early repayment of the loans.

26.3 Gains and Losses on Financial Instruments

There are no gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments.

26.4 Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

26.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality UK banks whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amount at 31 March 2013 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2013 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks	14,032	-	-

The information in respect of the Council's debtors can be found in note 21 and 22. The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 22 represents the Council's assessment of the likely recoverability of the debt outstanding.

The credit risk around unprovided for debt is considered to be low. Debtors relate to the normal business of the council and credit is issued on the council's standard credit terms. There are no significant amounts past due but not impaired where recoverability is considered to be an issue.

26.6 Liquidity Risk

The Council's main source of borrowing is the Treasury's Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowings does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 30% of the loans are due to mature within any financial year and 60% within a rolling five-year period through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity analysis of financial liabilities is as follows:

Maturity analysis of financial liabilities	31 March 2013 £'000	31 March 2012 £'000
Less than one year	40,600	37,737
Between one and two years	9,901	1,424
Between two and five years	38,485	41,058
More than five years	191,839	199,666

All other amounts due to the Council for council tax, non-domestic rates and other income are due to be paid in less than one year.

26.7 Market Risk

Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the income received on lending at variable rates and a reduction in cost for the taxpayer.

Changes in market rates also affect the notional “fair value” of lending and borrowing. For example, a rise in interest rates would reduce the “fair value” of both lending and borrowing at fixed rates. Changes in “fair value” of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The Council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the Council.

It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% of what it borrows.

During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.

The Council takes the daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

Any potential for a financial impact on the Council is also significantly limited by the Scottish Government’s grant distribution mechanism that automatically adjusts for changes in interest rates in the government grant support the Council receives for “loan charges”.

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2013, with all other variables held constant:

Impact on tax-payer	31 March 2013 £'000
Increase on interest payable on variable rate borrowings	7
Increase in interest receivable on variable rate lending	-
Increases in government grant receivable for "loan charges"	-
Net effect on Statement of Comprehensive Income & Expenditure	**7**

Other accounting presentational changes	31 March 2013 £'000
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	23,159

The impact of a 1% fall in the interest rates would be as above but with the changes being reversed.

26.8 Price Risk

The Council has no investment classified as "available-for-sale".

26.9 Foreign Exchange Risk

The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

26.10 Short-Term Deposits

The short-term deposits arise as a result of the timing of expenditure and associated income and movements in fund and revenue balances. The Council adopts a proactive but prudent approach to its Treasury Management operations, which are governed by the fully revised edition of CIPFA's Code of Practice on Treasury Management.

	31 March 2013 £'000	31 March 2012 £'000
Banks	14,032	17,962

26.11 Short-Term Borrowing

The Common Good and the various Trust Funds administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2013 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and Trust Funds are shown in notes 34 and 35 on pages 88 to 89.

	31 March 2013 £'000	31 March 2012 £'000
Common Good	100	100
Trust Funds	1,246	1,234

27. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £81.920m as at 31 March 2013 and comprise the following:

Movements in 2012-13	Opening Balance 31 March 2012 £'000	Movement in Year £'000	Closing Balance 31 March 2013 £'000
Finance Lease Liability (See note 20.3)	(42)	24	(18)
Schools NPDO Finance Lease Liability (See note 19.2)	(82,576)	1,424	(81,152)
Land Contamination	(750)	-	(750)
Total Other Liabilities	**(83,368)**	**1,448**	**(81,920)**
Split:			
Short Term Liabilities (due within 1 year)			(1,566)
Long Term Liabilities (due after 1 year)			(80,354)
Total Other Liabilities			**(81,920)**

28. PROVISIONS

	Opening Balance 31 March 2012 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2013 £'000
SRC Insurance Claims	(195)		5	9	(181)
Equal Pay Claims	(191)		159		(32)
Income due to Registered Social Landlords	(82)		22		(60)
Reorganisation Redundancy Costs	(1,779)	(469)	1,339		(909)
Care Charges Provision	(7)		7		-
Utlities Provision	(781)	(232)			(1,013)
Other Provisions	(215)	(149)	70	5	(289)
Total Provisions	**(3,250)**	**(850)**	**1,602**	**14**	**(2,484)**
Split:					
Short Term Provisions (due within 1 year)					(2,183)
Long Term Provisions (due after 1 year)					(301)
Total Other Liabilities					**(2,484)**

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.181m. Additional provision has also been made for asbestos related cases, full provision for the amounts notified have been made.

A provision was created at the end of 2005-06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. The Council is nearing agreement on the final settlement for Equal Pay claims, a number of claims were settled during 2012-13 and the provision for these claims was utilised to fund the costs. There are further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2012-13 amounted to £1.732m; this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected, due to be paid to registered social landlords, has been created amounting to £0.060m.

As with previous years, liabilities have arisen in respect of employees who will be made redundant as a result of restructuring. The Council has had significant budget savings to make and there will be an ongoing requirement to make savings in future years. The Council invited all employees to express an interest in voluntary redundancy. As a result of service review and other savings agreed as part of the budget process for 2011-12 to 2013-14 a number of employees have subsequently either taken or have been offered a redundancy package. The additional costs for employees terminated on or before 31 March 2013 were incurred in-year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2013, a provision of £0.469m has been created during 2012-13. For further information refer to note 33 - Termination Benefits.

The utilities provision of £0.781m was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, an additional amount of £0.232m has been added to this during 2012-13 resulting in a total provision of £1.013m.

The "other" provisions include funds to cover legal expenses in respect of recent court cases which the council will have to incur and also an amount in relation to the schools NPDO service charges which have been withheld from the operator. These amounts will require to be settled during 2013-14.

29. DEFINED BENEFIT PENSION SCHEMES

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

Local Government Pension Scheme

This is administered by Strathclyde Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

29.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2013. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2013. The amounts are as follows:

- Local Government Pension Scheme – £1.094m
- Teachers' scheme – £0.640m

29.2 Transactions in Respect of the Local Government Pensions Scheme

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2011. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2013 remains substantially stable with new entrants replacing any leavers.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

	2012-13 £'000	2011-12 £'000
Comprehensive Income and Expenditure Statement:		
Cost of Services:		
Current Service Cost	10,659	10,438
Past Service Cost/(Gain)	33	-
Settlements and Curtailments	1,337	2,931
Net Cost of Services	**12,029**	**13,369**
Financing and Investment Income and Expenditure		
Interest Cost	22,006	22,516
Expected Return on Scheme Assets	(22,024)	(26,448)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**12,011**	**9,437**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial (Gains) and Losses	21,580	57,154
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**33,591**	**66,591**
Statement of Movement in Reserves: Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	**808**	**4,289**
Actual Amount charged against the General Fund Balance for pensions in the year: Employer's Contributions Payable to the Scheme	**12,819**	**13,726**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £124.489m (£102.909m loss in 2011-12).

29.3 Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2012-13 £'000	2011-12 £'000
Defined Benefit Obligation at 1 April	**459,779**	**408,953**
Current Service Cost	10,659	10,438
Interest Cost	22,006	22,516
Contributions by Scheme Participants	3,265	3,374
Actuarial (Gains) and Losses	55,858	27,423
Estimated Unfunded Benefits Paid	(1,707)	(1,811)
Estimated Benefits Paid	(16,256)	(14,045)
Losses on Curtailments	1,337	2,931
Past Service Costs (Gains)	33	-
Defined Benefit Obligation at 31 March	**534,974**	**459,779**

Reconciliation of fair value of the scheme (plan) assets:

	2012-13 £'000	2011-12 £'000
Fair Value of Employer Assets at 1 April	**380,687**	**382,726**
Expected Rate of Return	22,024	26,448
Actuarial Gains and (Losses)	34,278	(29,731)
Employers Contributions	12,819	13,726
Contributions by Scheme Participants	3,265	3,374
Estimated Unfunded Benefits Paid	(1,707)	(1,811)
Estimated Benefits Paid	(16,256)	(14,045)
Fair Value of Employer Assets at 31 March	**435,110**	**380,687**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £56.363m (2011-12: £4.105m).

29.4 Scheme History

Local Government Pension Scheme	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Present Value of Scheme Liabilities	(289,681)	(462,085)	(408,953)	(459,779)	(534,974)
Fair Value of Assets	257,164	354,116	382,726	380,687	435,110
(Deficit) in the Scheme	**(32,517)**	**(107,969)**	**(26,227)**	**(79,092)**	**(99,864)**

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £10.477m.

29.5 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels, etc.

The principal assumptions used by the actuary have been:

Long Term expected rate of return on assets in the scheme:	2012-13 %	2011-12 %
Equity Investments	4.5%	6.3%
Bonds	4.5%	3.9%
Property	4.5%	4.4%
Cash	4.5%	3.5%

Mortality assumptions		2012-13 Years	2011-12 Years
Longevity at 65 for current pensioners:	Men	21.0	21.0
	Women	23.4	23.4
Longevity at 65 for future pensioners:	Men	23.3	23.3
	Women	25.3	25.3

Financial Assumptions	2012-13 %	2011-12 %
Rate of Inflation (CPI)	2.8%	2.5%
Rate of Increase in Salaries	5.1%	4.8%
Rate of Increase in Pensions (CPI)	2.8%	2.5%
Rate for discounting scheme liabilities	4.5%	4.8%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

The Pension Fund's assets consist of the following categories by proportion of the total assets held:

	2012-13 %	2011-12 %
Equity Investments	76.0%	77.0%
Bonds	14.0%	11.0%
Property	7.0%	7.0%
Cash	3.0%	5.0%
Total	**100.0%**	**100.0%**

29.6 History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012-13 can be analysed into the following categories:

Local Government Pension Scheme Scheme	2008-09 %	2009-10 %	2010-11 %	2011-12 %	2012-13 %
Experience gains and losses on assets	-35.55%	22.60%	0.64%	-7.81%	7.88%
Experience gains and losses on liabilities	12.35%	-0.21%	-0.55%	-0.04%	0.03%

29.7 Teachers Pensions – Administered By Scottish Public Pensions Agency

This is an unfunded scheme administered by the Scottish Government. The pension cost charged in the accounts is the contribution rate set by the Scottish Government on the basis of a notional fund.

	2012-13 £'000	2011-12 £'000
Amount Paid Over (£'000)	5,026	5,152
Rate of Contribution (%)	14.90%	14.90%
Amount of Added Years Awarded by the Council (£'000)	527	519

30. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Statement of Movement in Reserves on pages 28 to 29.

30.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

30.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting on non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

30.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

30.4 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority had set aside to meet them. The statutory arrangements will ensure funding will have been set aside by the time the benefits come to be paid.

30.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Statement of Movement in Reserves on pages 28 to 29.

31.1 Capital Funds

The Authority holds two funds which make up the Capital Funds total in the Statement of Movement in Reserves, these are:

Usable Capital Receipts Reserve

During the 2006-07 financial year and prior to the transfer of the Council's housing stock during November 2006, the receipts from the sale of council houses were transferred to the Usable Capital Receipts Reserve. The amounts held in this reserve can only be used for social housing capital expenditure.

Capital Fund

During the 2007-08 financial year the Council established a Capital Fund under Section 22 of Schedule 3 of the Local Government (Scotland) Act 1975. All receipts from capital disposals are to be paid into this fund with effect from 14 February 2008.

The movement in the Usable Capital Receipts Reserve and Capital Fund are as follows:

Movements in 2012-13	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
Balance at 1 April 2012	**2,823**	**269**	**3,092**
Proceeds of Disposals	-	394	394
Transfer to Capital Adjustment Account	(90)	(93)	(183)
Contribution to Loans Fund Charges	-	-	-
Interest Earned	11	2	13
Balance at 31 March 2013	**2,744**	**572**	**3,316**

The movement in the Repairs and Renewals Funds are as follows:

Movements in 2012-13	Balance at 31 March 2012 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2013 £'000
Education	463	382	2	(66)	781
Vehicles	69	-	-	-	69
Total	**532**	**382**	**2**	**(66)**	**850**

32. CONTINGENT LIABILITIES

The outlook for all public sector organisations is challenging. The Council has had significant savings to make over the last few years and will continue to have significant budget savings to make from 2013-14 onwards. Over the last 3 years a programme of service reviews was undertaken to identify savings of between 15% and 20% from service budgets and an approach is being developed to ensure that the savings required over the next 7 years are delivered. As part of the requirement for savings all Council employees were asked to express an interest in voluntary redundancy. Termination costs for all employees who have since been accepted for redundancy have been accounted for either in 2012-13, or previous financial years. All of the savings required are yet to be identified therefore although all known severance costs have been provided for it is possible that there may be further redundancies required to meet future savings from the revenue budget.

During the 2006-07 financial year the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. Some of the outstanding land title issues were resolved during 2012-13 however there are still some landowners where a price has yet to be negotiated and therefore a reliable estimate cannot be made of the obligation at this stage.

The Council settled a number of equal pay claims during 2012-13, however there are a small number remaining where the outcome of the applications are unknown and there is insufficient information to allow the potential cost of these claims to be provided for. There is also the potential for other equal pay claims whose costs may be met by the Council. Some claims which had previously been provided for were settled during 2012-13 (see Note 28).

The Council owns and operates three active landfill sites on the Islands of Mull, Islay and Tiree. As a result it has responsibilities regarding the restoration and aftercare costs of these sites. IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* requires that these costs should be recognised as a provision on its Balance Sheet. The Council has decided not to include a provision in these financial statements on the grounds that the amount is not material and that an updated valuation of the aftercare and restoration costs at the balance sheet date will be required. A provision for these costs will be made in future years.

33. TERMINATION BENEFITS

A number of savings options as a result of service reviews and other savings have been agreed at Council budget meetings to balance the Council budget. A number of these savings options were reliant on a reduction in the Councils staffing levels. The Council had forewarning of the level of savings required to balance the budget and had previously asked all Council employees to express an interest in voluntary redundancy. As a result of the budget savings options approved by the Council a number of employees have had their redundancy application accepted.

Redundancy costs as part of the programme of service reviews have been incurred by the Council since the 2010-11 financial year in relation to the budget savings agreed. In each year provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employee who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2011-12 was £4.958m for 167 employees and in 2012-13 was £1.259m for 145 employees. These costs are detailed further in the Remuneration Report on page 26.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2013 have been accounted for in 2012-13, or in previous financial years. There is only one group of employees where there is insufficient information to allow for redundancy costs to be estimated reliably, therefore no actual financial provision can be made for these costs. An amount of £0.236m has been earmarked within the General Fund balance to accommodate these costs as and when the outstanding issues have been resolved.

The reduction in the staffing establishment includes posts from all services across the Council and reductions were in line with the service review and other savings agreed by the Council. There are likely to be further redundancy costs incurred as the Council is required to make further savings to balance the budget in future years.

34. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

The Council acts as sole or custodian trustee for 75 trust funds. The funds do not represent assets of the Council, and as such have not been included in the Balance Sheet.

Funds for which Argyll and Bute Council act as sole trustee:

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	12	5	399	399
GM Duncan Trust	1	1	87	87
MacDougall Trust	2	-	607	607
Various Other Trust Funds	4	1	537	537
Total Trust Funds	**19**	**7**	**1,630**	**1,630**

Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. MacDougall Trust: for the provision of sheltered housing on the Ross of Mull.

Further information on the Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

A number of the trust funds administered by Argyll and Bute Council are charitable trusts and as such are required to comply with current Office of the Scottish Charities Regulator (OSCR) financial reporting requirements. Arrangements have been put in place to ensure that all charities administered by Argyll and Bute Council comply and will continue to comply with these requirements.

35. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray, Cove and Kilcreggan. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2013. The Common Good Funds are for the benefit of the geographical areas of the former burghs. Further information on the Common Good Funds can be obtained from Strategic Finance within the Chief Executive's Unit.

35.1 Common Good Income and Expenditure Account for the year ended 31 March 2013

2011-12 Actual £'000		2012-13 Actual £'000
80	Expenditure	195
(79)	Income	(87)
1	**(Surplus)/Deficit for the Year**	**108**

35.2 Common Good Balance Sheet at 31 March 2013

2011-12 Actual £'000		2012-13 Actual £'000
243	Tangible Fixed Assets	278
1,766	Investments	2,647
158	Current Assets	137
(2)	Current Liabilites	(2)
2,165	**Total Assets less Liabilities**	**3,060**
370	Revaluation Reserve	481
1,795	Common Good Fund	2,579
2,165	**Total Net Worth**	**3,060**

36. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The Net Cash Flows for Operating Activities can be reconciled to the Net (Surplus)/Deficit on the Provision of Services as follows:

	2012-13 £'000	2011-12 £'000
Net (Surplus)/Deficit on Provision of Services	**(23,208)**	**(15,642)**
Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:		
Statutory Adjustments through Statement of Movement in Reserves	11,311	14,996
Transfer to/from Other Statutory Reserves	331	(19)
Increase/(Decrease) in Inventories	276	413
Increase/(Decrease) in Debtors	(904)	3,048
(Increase)/Decrease in Creditors and Provisions	(3,162)	2,264
Other Revenue Adjustments	(20,990)	(21,056)
	(13,138)	**(354)**
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:		
Non Cash Capital	10,604	11,027
Capital Element of Finance Lease Payments	(1,449)	(1,569)
	9,155	**9,458**
Net Cash Flows from Operating Activities	**(27,191)**	**(6,538)**
The cash flows for Operating Activities include the following items:		
Interest Paid on Borrowings	9,855	8,673
Interest Paid on Finance Leases	8,286	8,535
Interest Received on Bank Deposits	(746)	(260)
Net Cash Outflow from Servicing of Finance	**17,395**	**16,948**

37. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2012-13 £'000	2011-12 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	26,465	13,273
Investments made during year	15,000	20,000
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(394)	(313)
Other Receipts from Investing Activities	(11,598)	(11,390)
Net Cash Outflow from Investing Activities	**29,473**	**21,570**

38. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2012-13 £'000	2011-12 £'000
Cash Receipts of Short and Long Term Borrowing	(296)	(209)
Other Receipts from Financing Activities	97	(1,600)
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	1,449	1,569
Repayments of Short and Long Term Borrowing	87	167
Other Payments from Financing Activities	-	-
Net Cash Outflow from Financing Activities	**1,337**	**(73)**

Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council tax levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Authority.

2011-12 Actual £'000		2012-13 Actual £'000
53,622	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	54,038
	Add Back:	
1,817	RSL Second Home Discount Additional Income	1,654
	Less:	
(7,621)	Other Discounts and Reductions	(7,793)
(1,081)	Provision for Bad and Doubtful Debts	(994)
46,737	**Total**	**46,905**
572	Adjustment to Previous Years' Community Charge and Council Tax	471
47,309	**Transfers to General Fund**	**47,376**

Notes to the Council Tax Income Account

1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2012-13 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Up to £27,000	67%	785.33
B	£27,001 - £35,000	78%	916.22
C	£35,001 - £45,000	89%	1,047.11
D	£45,001 - £58,000	100%	1,178.00
E	£58,001 - £80,000	122%	1,439.78
F	£80,001 - £106,000	144%	1,701.56
G	£106,001 - £212,000	167%	1,963.33
H	Over £212,000	200%	2,356.00

2. CALCULATION OF THE COUNCIL TAX BASE 2012-13

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,712	9,751	9,323	5,936	7,242	3,998	2,698	236	46,896
Less - Exemptions / Deductions	983	766	1,007	506	608	245	174	48	4,337
- Adjustment for Single Chargepayers	856	986	729	443	406	190	100	6	3,716
Effective Number of Properties	**5,873**	**7,999**	**7,587**	**4,987**	**6,228**	**3,563**	**2,424**	**182**	**38,843**
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	**3,915**	**6,221**	**6,744**	**4,987**	**7,612**	**5,146**	**4,040**	**364**	**39,029**
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									497
Nominal Tax Yield									**39,526**
Less Provision for Non-Collection - 3.25%									1,284
Council Tax Base 2012-13 - Number of Band D equivalents									**38,242**

Non Domestic Rate Income Account

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2011-12 Actual £'000		2012-13 Actual £'000
34,770	Gross rates levied and Contributions in Lieu	36,757
	Less:	
(8,598)	Reliefs and other deductions	(9,427)
-	Payment of Interest	-
(284)	Provision for Bad and Doubtful Debts	(75)
25,888	**Net Non-Domestic Rate Income**	**27,255**
(306)	Contribution (to)/from national non-domestic rate pool	(776)
25,582	**Transfers to General Fund**	**26,479**

Notes to the Non Domestic Rate Income Account

1. ANALYSIS OF RATEABLE VALUES

	2012-13 £	2011-12 £
Industrial and freight transport subjects	6,286,330	6,262,945
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	51,996,975	52,744,894
Commercial subjects:		
Shops	12,958,360	12,980,910
Offices	5,033,860	5,033,860
Hotels, Boarding Houses etc.	6,628,775	6,529,025
Others	2,095,090	2,102,185
Total Rateable Value	**84,999,390**	**85,653,819**

2. NON-DOMESTIC RATE CHARGE

	2012-13 Pence	2011-12 Pence
Rate Per Pound	45.0p	42.6p
Supplementary Rate Per Pound for Properties over £35,000	0.8p	0.7p

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

Group Statement of Movement in Reserves

This statement shows the movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts. The Council's reserves are analysed into those which are "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Council's share of the reserves of Associates is an unusable reserve (i.e. it cannot be used to fund expenditure or reduce taxation).

Movements in 2012-13	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves								
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Council			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2012	(34,572)	(532)	(3,092)	(38,196)	(138,891)	(177,087)	217,454	(2,147)	38,220
Surplus/(Deficit) on Provision of Services	(23,208)	-	-	**(23,208)**	-	**(23,208)**	13,370	(107)	**(9,945)**
Other Comprehensive Income and Expenditure	-	-	-	-	19,553	**19,553**	30,851	(806)	**49,598**
Total Comprehensive Income and Expenditure	(23,208)	-	-	(23,208)	19,553	(3,655)	44,221	(913)	39,653
Total Statutory Adjustments (See Page 29)	11,311	-	(394)	10,917	(10,917)	-	-	-	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(11,897)	-	(394)	(12,291)	8,636	(3,655)	44,221	(913)	39,653
Other Transfers required by Statute									
Transfer to/from Other Statutory Reserves	331	(318)	170	**183**	(183)	-	-	-	-
(Increase)/Decrease in Year	(11,566)	(318)	(224)	(12,108)	8,453	(3,655)	44,221	(913)	39,653
Balance at 31 March 2013 Carried Forward	(46,138)	(850)	(3,316)	(50,304)	(130,438)	(180,742)	261,675	(3,060)	77,873

The Council's Statement of Movement in Reserves on 28 to 29 gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2012-13.

Group Statement of Movement in Reserves

This statement shows the comparative movement in the year on reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts.

	Argyll and Bute Council								
	Usable Reserves								
Comparative Movements in 2011-12	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Council	Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2011	**(33,907)**	**(497)**	**(2,972)**	**(37,376)**	**(175,604)**	**(212,980)**	**202,907**	**(2,013)**	**(12,086)**
Surplus/(Deficit) on Provision of Services	(15,642)	-	-	**(15,642)**	-	**(15,642)**	14,329	91	(1,222)
Other Comprehensive Expenditure and Income	-	-	-	-	51,535	**51,535**	218	(225)	51,528
Total Comprehensive Expenditure and	**(15,642)**	**0**	**0**	**(15,642)**	**51,535**	**35,893**	**14,547**	**(134)**	**50,306**
Total Statutory Adjustments (See Page 30)	**14,996**	**-**	**(313)**	**14,683**	**(14,683)**	**-**	**-**	**-**	**-**
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**(646)**	**-**	**(313)**	**(959)**	**36,852**	**35,893**	**14,547**	**(134)**	**50,306**
Other Transfers required by Statute									
Transfer to/from Other Statutory Reserves	(19)	(35)	193	**139**	(139)	-	-	-	-
(Increase)/Decrease in Year	**(665)**	**(35)**	**(120)**	**(820)**	**36,713**	**35,893**	**14,547**	**(134)**	**50,306**
Balance at 31 March 2012 Carried Forward	**(34,572)**	**(532)**	**(3,092)**	**(38,196)**	**(138,891)**	**(177,087)**	**217,454**	**(2,147)**	**38,220**

The Council's Statement of Movement in Reserves on 30 to 31 gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2011-12.

Group Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 28 to 29.

2011-12					2012-13		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Service	Note	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
102,771	7,013	95,758	Education Services		105,237	6,767	98,470
31,336	26,615	4,721	Housing Services (Non-HRA)		31,079	27,234	3,845
12,143	2,449	9,694	Cultural and Related Services		12,918	2,351	10,567
25,535	4,739	20,796	Environmental Services		21,559	4,542	17,017
25,411	6,735	18,676	Roads and Transport Services		24,913	7,018	17,895
7,425	4,435	2,990	Trading Services		7,086	4,373	2,713
10,452	5,845	4,607	Planning and Development Services		8,251	4,054	4,197
64,775	9,549	55,226	Social Work		66,738	9,379	57,359
			Central Services:				
3,945	17	3,928	- Corporate and Democratic Core		4,126	103	4,023
8,373	1	8,372	- Non Distributed Costs		1,812	5	1,807
2,777	1,189	1,588	- Central Services to the Public		3,248	1,279	1,969
9,168	-	9,168	Strathclyde Police Joint Board		7,308	-	7,308
4,839	-	4,839	Strathclyde Fire and Rescue Joint Board		4,548	-	4,548
45,036	30,707	14,329	Associates Accounted for on an Equity Basis		42,891	29,521	13,370
353,986	**99,294**	**254,692**	**Net Cost of Services**		**341,714**	**96,626**	**245,088**

Group Statement of Comprehensive Income and Expenditure

		Other Operating Income and Expenditure:	
	442	Net (Gain)/loss on Disposal of Fixed Assets	2,077
	(46)	(Surplus)/deficit on trading undertakings	(57)
	1,000	Other Operating Income and Expenditure	954
	1,396	**Total Other Operating Income and Expenditure**	**2,974**
		Financing and Investment Income and Expenditure:	
	19,602	Interest Payable and Similar charges	17,512
	(434)	Interest and Investment Income	(1,324)
	(3,932)	Pension Interest Cost and Expected Return on Pensions Assets	(18)
	15,236	**Total Financing and Investment Income and Expenditure**	**16,170**
		Taxation and Non-Specific Grant Income:	
	(187,818)	General Government Grants	(188,864)
	(11,837)	Government Capital Grants and Other Capital Contributions	(11,458)
	(25,582)	Non-domestic Rates Redistribution	(26,479)
	(47,309)	Council Tax Income	(47,376)
	(272,546)	**Total Taxation and Non-Specific Grant Income**	**(274,177)**
	(1,222)	**(Surplus)/Deficit on Provision of Services**	**(9,945)**
	(5,844)	(Surplus)/Deficit on revaluation of Fixed Assets	(2,833)
	57,154	Actuarial (Gains)/Losses on Pension Assets/Liabilities	21,580
	218	Share of Other Comprehensive Income and Expenditure of Associates	30,851
	51,528	**Other Comprehensive Income and Expenditure**	**49,598**
	50,306	**Total Comprehensive Income and Expenditure**	**39,653**

Group Balance Sheet

31 March 2012 £'000	31 March 2012 £'000		31 March 2013 £'000	31 March 2013 £'000
		Long Term Assets		
		Property Plant & Equipment		
296,463		- Other Land and Buildings	293,846	
6,784		- Vehicles, Plant, Furniture and Equipment	8,822	
153,761		- Infrastructure Assets	163,822	
1,581		- Community Assets	2,408	
5,117		- Surplus Assets	3,510	
11,723		- Assets Under Construction	17,400	
	475,429	Property Plant & Equipment		**489,808**
	1,324	Heritage Assets		1,324
	332	Intangible Assets		203
	5,647	Investment Property		6,397
	3,800	Long-Term Debtors		3,563
	1,766	Long-Term Investments		1,983
	2,557	Investment in Associates		2,646
	490,855	**Total Long Term Assets**		**505,924**
		Current Assets		
516		Inventories	631	
15,154		Short Term Debtors (Net of Impairment)	14,477	
2,153		Assets Held for Sale	1,708	
20,000		Short Term Investments	35,000	
15,538		Cash and Cash Equivalents	11,899	
	53,361	**Total Current Assets**		**63,715**
		Current Liabilities		
(3,126)		Short-term Borrowing	(3,639)	
(33,101)		Short-term Creditors	(35,297)	
(278)		Capital Grant Receipts in Advance	(116)	
(2,831)		Provisions	(2,183)	
(1,449)		Other Short Term Liabilities	(1,566)	
	(40,785)	**Total Current Liabilities**		**(42,801)**
		Long-term Liabilities		
(160,210)		Borrowing Repayable within a Period in Excess of 12 Months	(159,871)	
(81,919)		Other Long-term liabilities	(80,354)	
(419)		Provisions	(301)	
(79,092)		Other Long-term liabilities (Pensions)	(99,864)	
(220,011)		Liabilities in Associates	(264,321)	
	(541,651)	**Total Long-term Liabilities**		**(604,711)**
	(38,220)	**Total Assets less Liabilities**		**(77,873)**

Group Balance Sheet

31 March 2012 £'000	31 March 2012 £'000		31 March 2013 £'000	31 March 2013 £'000
		Unusable Reserves		
55,562		- Revaluation Reserve	55,339	
172,873		- Capital Adjustment Account	185,215	
(5,634)		- Financial Instruments Adjustment Account	(5,262)	
(79,092)		- Pensions Reserve	(99,864)	
(4,593)		- Accumulated Absences Account	(4,712)	
	139,116			130,716
		Usable Reserves		
3,092		- Capital Funds	3,316	
532		- Repairs and Renewals Funds	850	
34,572		- General Fund Balance	46,138	
	38,196			50,304
	(217,454)	**Group Reserves**		(261,675)
	1,922	**Common Good Reserves**		2,782
	(38,220)	**Total Reserves**		**(77,873)**

The Balance sheet is a snapshot of the value at the 31 March 2013 of the assets and liabilities recognised by the Council and its share of the net assets or liabilities of its associates and Common Good funds. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).

Bruce West
Head of Strategic Finance
30 September 2013

1. INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13: Based on International Financial Reporting Standards places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to show "a true and fair view" of the financial performance and position of the Council's Group.

2. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 37 to 49.

- The Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee financial statements have been prepared under the historic cost convention.

3. COMBINING ENTITIES

The Council has an interest in a number of Associate Entities. For the purposes of consolidation and incorporation within the Group Accounts recognition has been made of the Council's significant influence over Joint Boards and other entities.

The Associates which have been incorporated are:

- Strathclyde Joint Police Board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

Under accounting standards, the Council is required to include the results of the above organisations as "associates" because it has "significant influence" over their financial and operating policies. The Council has no shares in or ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Four of the five Joint Boards (Police, Fire and Rescue, SPT and Concessionary Travel) are included within the Group Accounts under the wider definition of an "associate" although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements between the constituent Councils and the Joint Boards.

The accounting period for all entities is 31 March 2013.

4. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.068m towards Scotland Excel in the 2012-13 financial year.

The Council also has an interest in the Highlands and Islands Transport Partnership (HITRANS). The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport (Scotland) Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well-being; promote safety; social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

These entities are part of the Council's group for the purposes of Group Accounts. As such it is recognised that the nature of the relationship with these bodies should be included within these notes. However, it has been decided that the Council's share of the net worth of these entities is not material to a fair understanding of the financial position of the Council, and so they have not been consolidated into the Group Accounts.

5. NATURE OF COMBINATION

The Council inherited its interest in these entities following the reorganisation of local government in 1996. An acquisition basis has been used as the basis of consolidation. However, as no consideration was given for this interest there is no goodwill involved in these instances.

6. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to decrease both reserves and net worth by £258.615m. This gives an overall net liability position for the Group of £77.873m. This reduced net asset position is due to the IAS19 Pension Liability within the Associates' Single Entity Accounts. This can be summarised as follows:

	Pension Liability per Associates Accounts £'m	Argyll and Bute Council's Group Share £'m
Strathclyde Joint Police Board	5,125.615	213.226
Strathclyde Fire and Rescue Joint Board	1,285.840	49.891
Dunbartonshire and Argyll and Bute Valuation Joint Board	3.810	1.833
Total Pension Liability of Associates	**6,415.265**	**264.950**

The Police and Fire and Rescue Schemes are unfunded with no attributable assets. However, the Scottish Government effectively underwrites these liabilities through provision within the Revenue Support Grant System. This means that the financing of police and fire pensions is raised in the year the pensions are actually paid and offset by recognition within the revenue stream from the Scottish Government.

All associates have prepared their accounts on a 'going concern' basis. Statutory arrangements are in place with the Scottish Government and constituent authorities for the funding of the deficit due to Police and Fire and Rescue pensions. This means that the financial position of these two Boards remains assured. Similarly, for Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Government and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

7. FURTHER DETAILS ON CONSOLIDATION

Due to the significant impact upon the reported figures of the Group Accounts further information in respect of the Associate Entities outlined above can be summarised as follows:

Strathclyde Police Joint Board

Strathclyde Police Joint Board is the statutory corporate body established under the Strathclyde Combined Police Area Amalgamation Order 1975 and provides a comprehensive range of policing services on behalf of the 12 constituent Councils in the West of Scotland. During 2012-13 the Council contributed £7.278m or 4.16% of the Board's estimated running costs and accounted for £217.385m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and can be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU.

Strathclyde Fire and Rescue Joint Board

This is the statutory body responsible for supervising the activities of Strathclyde Fire and Rescue Service. Strathclyde Fire and Rescue provides fire and emergency cover for the 12 constituent Councils in the West of Scotland. The Council contributed £4.548m to the Boards revenue costs in 2012-13 or 3.88% and has accounted for £45.727m as its representative share of the Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit scrutiny and available from the Treasurer to Strathclyde Fire and Rescue Joint Board, South Lanarkshire Council, Almada Street, Hamilton ML3 0AA.

Strathclyde Partnership for Transport

Strathclyde Partnership for Transport was formed on 1 April 2006 as the successor to the Strathclyde Passenger Transport Authority. It is a Joint Committee of all Councils in the West of Scotland plus Dumfries and Galloway Council. In association with the related Structure Planning Committees, the Partnership's remit included the promotion of joint working to set out the policy framework for achieving the most effective management, development and integration of the transport network across boundaries in the medium to longer term through the Joint Transport Strategy. The Council contributed £0.606m or 1.62% of the Board's estimated net running costs during 2012-13 and accounted for £2.588m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

Strathclyde Concessionary Travel Scheme Joint Board

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Government. During 2012-13 the Council contributed £0.160m or 4.14% of the net annual running costs and accounted for £0.058m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

Dunbartonshire and Argyll and Bute Valuation Joint Board

This body was formed in October 1995 at local government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2012-13 Argyll and Bute Council contributed £1.308m towards estimated running costs and accounted for £1.067m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Dunbartonshire and Argyll and Bute Valuation Joint Board because the Council's interest exceeds the 25% threshold for accounting purposes:-

	2012/13 £'m	2011/12 £'m
Argyll and Bute Council has a 48.1% share of:		
Gross Income	2.458	2.551
Net (Surplus)/Deficit	0.203	(0.153)
Long Term Assets	0.873	0.822
Current Assets	0.876	0.808
Liabilities due within one year	(0.452)	(0.165)
Liabilities due over one year	-	-
Pension Liability	(3.810)	(2.823)
Capital and Revenue Reserves	(2.513)	(1.358)

8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages 32 to 33) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 35 of the Notes to the Financial Statements on page 89 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £3.060m.

9. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on page 36. Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.

10. SCOTTISH POLICE AND FIRE REFORM

The Police and Fire Reform (Scotland) Act 2012 creates a single Police Service of Scotland and a single Scottish Fire and Rescue Service to serve local communities and meet the demands and challenges of the 21st century.

The formation of the new single police and fire and rescue services took place from 1 April 2013, from that date Strathclyde Police Joint Board and Strathclyde Fire and Rescue Board has ceased operating.

Independent auditor's report to the members of Argyll and Bute Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Argyll and Bute Council and its group for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority only Statements of Movement in Reserves, Statements of Comprehensive Income and Expenditure and Balance Sheets, the authority only Cash-Flow Statement, the Council Tax Income Account, the Non-domestic Rate Account, the Common Good Funds, the Trust Funds and Other Third Party Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Head of Strategic Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Strategic Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the state of the affairs of the group and of the body as at 31 March 2013 and of the income and expenditure of the group and the body for the year then ended;
- have been properly prepared in accordance with IFRS's as adopted by the European Union, as interpreted and adapted by the 2012/13 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement of Governance and Internal Control does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight

Fiona Mitchell-Knight FCA

Assistant Director, Audit Services

Audit Scotland

4th Floor

8 Nelson Mandela Place

Glasgow G2 1BT

30 September 2013

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 Agenda Item 7

ARGYLL AND BUTE COUNCIL	AUDIT COMMITTEE
STRATEGIC FINANCE	13 DECEMBER 2013

EXTERNAL AUDIT ANNUAL REPORT

1 SUMMARY

1.1 This report introduces the external auditors annual audit report for 2012-13.

2 RECOMMENDATION

2.1 The external audit annual report for 2012-13 is noted.

3 DETAIL

3.1 The report is the summary of the external auditor's findings arising from the 2012-13 audit of Argyll and Bute Council. The report is addressed to the members and the Controller of Audit. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee in March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland. The purpose of the annual report is to summarise the audit opinions on the financial statements and to report any significant issues arising.

3.2 A number of reports have been issued in the course of the year in which recommendations for improvements were made and these have been reported or will be reported to the Audit Committee. Implementation of the actions in these reports is also monitored by the Audit Committee. This final report focuses on the financial statements and any significant findings from the wider audit review of Argyll and Bute Council. Appendix B of the report is an action plan setting out the high level risks identified from the audit.

3.4 The key findings are summarised below but members are requested to read the detailed report (attached) to gain full understanding of the findings of Audit Scotland.

- The external auditor has given an unqualified opinion that the financial statements of Argyll and Bute Council for 2012-13 give a true and fair view of the financial position and expenditure and income of the council and its group for the year.
- The Council's financial management arrangements are sound.
- The Council's governance arrangements were adequate in 2012/13, except for the political arrangements which have not been effective. This is covered in the separate report by Audit Scotland.
- No material weaknesses in the accounting and internal control systems were identified during the audit although management have agreed some improvement actions.
- The report refers to the targeted Best Value audit work, on the Council's leadership and culture, specifically the effectiveness of councillor to councillor and councillor to officer working relationships

which is subject of a separate report.

3.5 There are 4 actions contained in the action plan and these relate to:

- The need to monitor potential exposure to future equal pay claims.
- Changes in the audit requirements for charities administered by the Council.
- The challenging financial outlook.
- Potential risks where other councils are not yet approved for connection to the Public Service IT Network.

4 CONCLUSION

4.1 This report introduces and summarises the key points from the external audit annual report for 2012-13. Members are requested to read the detailed report to gain full understanding of the findings of Audit Scotland. An action plan has been prepared to address the issues raised by Audit Scotland.

5 IMPLICATIONS

5.1 Legal – None directly from this report
5.2 Policy - None directly from this report
5.3 Financial- None directly from this report
5.4 Human Resources- None directly from this report
5.5 Equalities- None directly from this report
5.6 Risk- None directly from this report
5.7 Customer Service- None directly from this report

For further information contact Bruce West, Head of Strategic Finance 01546-604151.

Bruce West
Head of Strategic Finance
20 November 2013

Argyll and Bute Council

Annual report on the 2012/13 audit

AUDIT SCOTLAND

Prepared for Members of Argyll and Bute Council and the Controller of Audit

October 2013

Contents

Key messages

2012/13 Key Facts

This report summarises the findings from our 2012/13 audit of Argyll and Bute Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance

Financial Statements

We have given an unqualified opinion on the financial statements of the council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date.

Financial position

The council's financial management arrangements are sound and the figures below indicate a stable financial position going forward into 2013/14. In 2012/13, the council spent £298.657 million on the provision of public services and achieved a surplus on the provision of services of £23.208 million. The general fund balance increased by 11.556 million to £46.138 million as at 31 March 2013. This balance is made up of earmarked commitments of £36.044 million leaving an unallocated general fund balance of £10.094 million.

Governance and accountability

The council's governance arrangements were adequate in 2012/13, except for the political arrangements which have not been effective. No material weaknesses in the accounting and internal control systems were identified during the audit although management have agreed some some improvement actions.

Performance and best value

The results of targeted Best Value audit work, on the council's leadership and culture, specifically the effectiveness of councillor to councillor and councillor to officer working relationships is included within a statutory report, considered by the Accounts Commission on 17 October 2013. The Accounts Commission published its findings on the report on 29 October.

The report concludes that:

- "The political instability in Argyll and Bute Council means that there is a lack of collective strategic leadership by councillors.
- The council's current political management arrangements are contributing to the problems rather than helping the council do business effectively.
- Working relationships between councillors and between a few councillors and officers are strained and the challenges facing the council are affecting the capacity of senior managers.
- The problems are not yet affecting frontline services, but they are beginning to inhibit progress with strategic planning and there is a risk that services may suffer in the future if the current difficulties are not addressed.
- There is widespread acceptance within the council that the current situation is not sustainable and that rapid improvement is needed. This acceptance is an important foundation on which to build."

The council's plans to address the findings of this report, will be monitored and reported by us in 2013/14.

In November 2012, the council approved an updated Corporate Improvement Plan. The plan sets out the council's aims for a comprehensive plan of activity to improve service delivery and how the council works, as well as driving out financial efficiencies to meet budgetary constraints. The Plan includes 12 projects (including Workforce Planning and Health and Social Care Integration) which are intended to make a significant contribution to the public sector reform agenda. The Corporate Improvement Board is responsible for overseeing the successful delivery of the plan. The Planning and Performance Management Framework (PPMF) is core to reporting progress against delivery of the Council's plans.

Outlook

Scotland's public bodies will continue to face increasing demand and cost pressures for their services in the foreseeable future. Argyll and Bute council faces a significant challenge as a result of overall levels of public sector funding and population projections for Argyll and Bute. The council is faced with a significant funding gap forecast at £40.635 million over the next seven years (equivalent to around 2.9% of service revenue budgets year on year).

In this context, the council recognises it will have to review its priorities and make difficult decisions on service provision. In June 2013 the council agreed an outline of the service prioritisation process including the first package of service activity reviews commencing July 2013. Going forward, members will need to to provide consistent and clear leadership on priorities.

The co-operation and assistance given to us by officers during the audit is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Argyll and Bute Council. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the council.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the audit committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. Auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Argyll and Bute Council for 2012/13 give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Head of Strategic Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern and group accounts

12. The council has prepared the financial statements on the assumption that both the council and its group can continue to operate as a going concern in future.

13. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations. For the purpose of consolidation and incorporation within the group accounts the council has five associates (Strathclyde Police Joint Board, Strathclyde Fire and Rescue Joint Board, Dunbartonshire and Argyll & Bute Valuation Joint Board, Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee) and the Common Good Funds.

14. The overall effect of inclusion of all of the council's associates and common good funds on the group balance sheet is to reduce both reserves and net assets by £258.615 million. The group

balance sheet as at 31 March 2013 discloses an excess of liabilities over assets of £77.873 million (2011/12 £38.220 million) due to the accrual of pension liabilities in accordance with International Accounting Standards.

15. For a number of years the group financial statements have reported a net liability due to the impact of accounting for Strathclyde Police and Fire Pensions. The council has given consideration to this and deem it appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding policy of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, the funding policy seeks to ensure that these are met over the long term.

16. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. The group balance sheet position will improve, in future years, as the council will no longer be required to accrue the pension liabilities of Police and Fire into its group accounts.

17. By way of illustration, the group balance sheet as at 31 March 2013, without the inclusion of the Strathclyde Police and Fire financial statements, would disclose an excess of assets over liabilities of £185.239 million. Therefore a going concern issue would no longer be a consideration.

Statement of governance and internal control

18. As part of our annual audit we review the disclosures made in the Statement of governance and internal control, included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.

19. We are satisfied that the disclosures in the Statement of governance and internal control are in line with the guidance contained in the CIPFA publication *Delivering Good Governance in Local Government*. Also, we are satisfied with the adequacy of the process put in place to obtain the necessary assurances.

20. The Statement of governance and internal control refers to a number of planned improvements including:

- Continued development and support of the corporate improvement plan
- Continued development of performance management
- Developing and embedding risk management and business continuity
- Improving the response times on Freedom of Information requests (in 2012/13 the council received 983 FOI requests of which 883 were responded to within the required timescale).

21. Statements of governance and internal control are also prepared for the joint boards, which assisted in the assessment of the wider group governance arrangements.

Remuneration report

22. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

Accounting issues

23. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). Overall we are satisfied that the council prepared the 2012/13 financial statements in accordance with the 2012/13 Code.

Accounts submission

24. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. A comprehensive working papers package was also available soon after this date. This enabled us to conclude the audit and certify the financial statements prior to the target date of 30 September 2013. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

25. A number of monetary amendments were made in accordance with normal audit practice. A number of presentational amendments were also made to improve the disclosures within the financial statements.

26. A number of immaterial unadjusted errors were identified. As is normal practice these errors were reported to the Head of Strategic Finance and included within our Report to Those Charged With Governance, submitted to the Audit Committee on 20 September 2013.

Pension costs

27. Argyll and Bute Council is a member of the Strathclyde Pension Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation as at 31 March 2013 provided by the scheme's actuaries increased the council's share of the deficit from £79.092 million in last year to £99.864 million this year.

28. There has been an increase in pension liabilities of £20.772 million as at 31 March 2013 compared with the liabilities at 31 March 2012. This is principally due to the financial assumptions about the cost of pension payments being less favourable than at 31 March 2012. The continuing challenging investment environment and an increase in the inflation rate have lead to an increase in the net liability faced by the council. The scale of the movements in the council's pension liability over the last 5 years, arising from the annual valuation, can be seen in exhibit 1 below.

Exhibit 1: Movement in Pension liability 2008/09 - 2012/13

	2008/09 £ million	2009/10 £ million	2010/11 £ million	2011/12 £ million	2012/23
Liability	32.517	107.969	26.227	79.092	99.864

Source: Argyll and Bute Councill audited financial statements

29. It is important to note however that this additional liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

Equal pay

30. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. Argyll and Bute Council settled most of the remaining outstanding claims in 2012-13. The equal pay provision remaining at 31 March 2013 was £0.032 million. There are further outstanding claims where the settlement figure cannot be estimated reliably enough to provide for the costs. There is also the potential for other equal pay claims whose costs may be met by the council. These have been disclosed as a contingent liability.

Refer to Action Point No.1

Asset de-commissioning costs - landfill sites

31. The council owns three active landfill sites. As a result it has responsibilities regarding the restoration and aftercare costs of the sites. To comply with accounting requirements, IAS 37 Provisions, contingent liabilities and contingent assets, the council should recognise these costs as a provision in its Balance Sheet. The council has not included a provision in the accounts for this liability At 31 March 2012 the Valuation Office Agency placed a value of £1.147 million on the necessary works for a period of 60 years, following the cessation of tipping operations. This amount should have been recognised as a provision in the accounts. The council chose not to account for these costs in the accounts but will review their treatment for 2013/14. As restoration and aftercare work is capital in nature the adjustment would have no impact on the council's general fund balance at the year end.

Whole of government accounts

32. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack to support

its 2012/13 WGA return to the Scottish Government on 12 September. This has now been audited and the audited return submitted.

The Charities Accounts (Scotland) Regulations 2006

33. The Charities Accounts (Scotland) Regulations 2006 as amended (the 2006 Regulations) set out the accounting and auditing rules for Scottish registered charities. These apply to all local authority registered charities. These require an audit of a registered charity's financial statements where the local authority is sole trustee and where certain thresholds apply (i.e. income of £500,000 or above or gross assets of £3,260,000). An independent examination is required for the financial statements of charities below aforementioned threshold values.

34. A full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations. In 2013/14 we will require to audit and report on 22 charities.

35. The Assistant Auditor General (AAG) wrote to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor if its relevant charities. This is likely to result in an increase in audit costs and will form part of the fee discussions as part of the 2013/14 audit planning process.

36. Also, the AAG has indicated that councils that have not made any progress in reducing the number of registered charities using the reorganisation provisions of the charities legislation might want to consider doing so in order to reduce the number of separate audits required. Furthermore, the AAG also suggested that councils might also like to consider whether they can use the connected charities provisions in the regulations to reduce the number of separate reports and accounts required to be submitted to OSCR.

Refer to Action Point No.2

Outlook

37. CIPFA/LASAAC guidance on significant trading operations (June 2013) states that where services are provided internally, the decision to operate a trading account is at the discretion of the local authority. Any internal trading is subject to the legislative duty of local authorities to secure best value. The council intend to review the operation of its Roads and Lighting and its Catering and Cleaning services with effect from 1 April 2013 on this basis.

38. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 the Audit Committee will be required to approve the accounts by 30 September 2014.

Financial position

39. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

40. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

41. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

42. In 2012/13 as recorded in the comprehensive income and expenditure statement, the council spent £250.969 million on the provision of public services. It achieved a surplus on the provision of services of £23.208 million and an accounting surplus of £3.655 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there is an increase in the general fund balance of £11.566 million.

Budgetary control

43. The council has sound financial management arrangements in place to monitor delivery of the financial plan including comprehensive quarterly budget monitoring reports.

44. The explanatory foreword reported an underspend in expenditure excluding Joint Board requisitions and severance of £0.288 million.

- **Chief Executive's:** the £0.5 million underspend relates to the Workforce Deployment element of Process for Change where savings have been made in IT costs.
- **Community Services**: there was an overall underspend of £1.378 million due to a reduction in demand for adult care services such as elderly care home placements and vacancy savings across the department.
- **Customer Services**: the £1.191 million underspend is due to procurement savings in School and Public Transport, savings on the NPDO contract and additional savings achieved in advance of the savings requirement for 2013/14.
- **Development & Infrastructure Services**: the £1.459 million overspend relates mainly to the additional costs associated with winter maintenance

45. Joint Board payments were £0.976 million below budget due to the police and fire joint boards returning uncommitted usable reserves to constituent authorities. Severance costs were £2.468 million compared with a budget of £1.638 million resulting in an overspend of £0.830 million. Loan charges were £0.083 million below budget.

Financial position

46. The general fund reported a net surplus for 2012/13 of £11.566 million, increasing the general fund balance to £46.138 million as at 31 March 2013. This balance is made up of earmarked commitments of £36.044 million leaving an unallocated general fund balance of £10.094 million. This unallocated balance equates to 4.1% of the net revenue expenditure for 2013/14 which exceeds the council's policy to maintain uncommitted reserves of 1.5% of budgeted net revenue expenditure.

47. Exhibit 3, shows the balances in the council's funds at 31 March 2013 compared to the previous year. The council's funds at 31 March 2013 totalled £50.304 million, an increase of £12.108 million on the previous year. As stated above, £36.044 million (or 78%) of the total general fund balance has been earmarked for future use.

48. £10.183 million of the earmarked balance relates to the Strategic Housing Fund generated from Council Tax on second homes. £9.5 million of the £12.5 million balance previously earmarked as a contribution to capital to fund the Dunoon and Campbeltown schools was transferred towards investment in affordable housing following Council approval in August 2012. There is also £8.171 million earmarked from service budget undespends to support corporate and service improvement plans.

Exhibit 3: Usable reserves

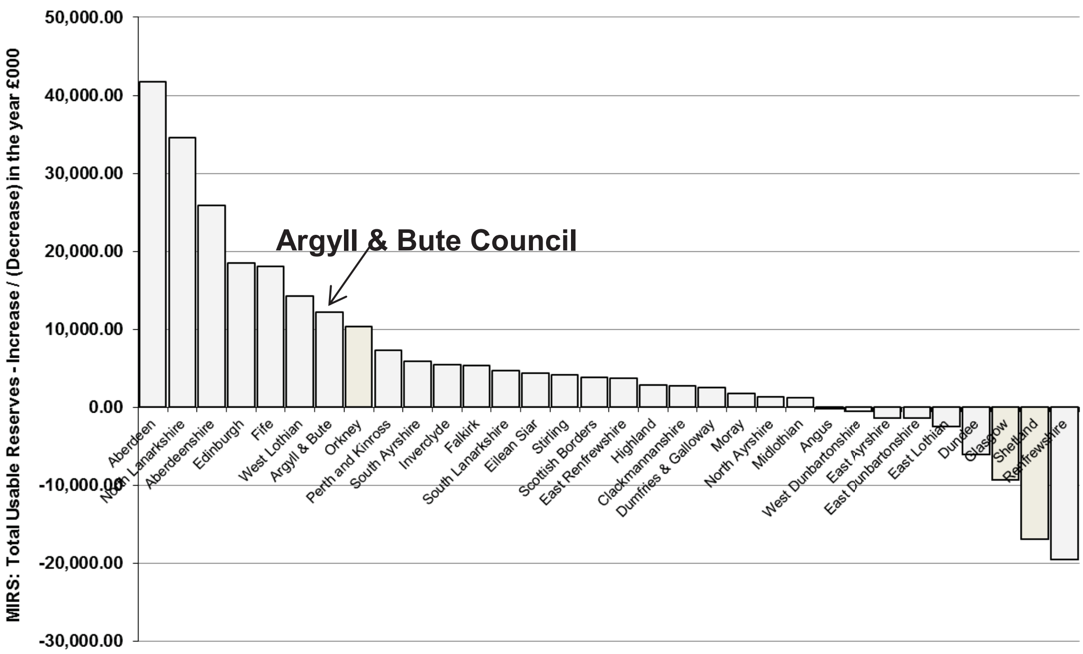
Description	31 March 2011 £ million	31 March 2012 £ million	31 March 2013 £ million
General Fund	33.907	34.572	46.138
Capital Funds	2.972	3.092	3.316
Repairs & Renewal Funds	0.497	0.532	0.850
Total Usable Reserves	**37.376**	**38.196**	**50.304**

Source: Argyll and Bute Council 2012/13 financial statements

49. The overall increase in total usable reserves in 2012/13 is consistent with the picture across the majority of Scottish local authorities, as demonstrated in Exhibit 4 below. Argyll and Bute Council's usable reserves have increased by 32% on the previous year, which is above the median for all Scottish local authorities. This upward movement in usable reserves is a pattern being seen by the majority of Scottish local authorities as reported in their unaudited accounts.

This indicates a stable financial position going forward into 2013/14. The balances held by the council are discussed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with members.

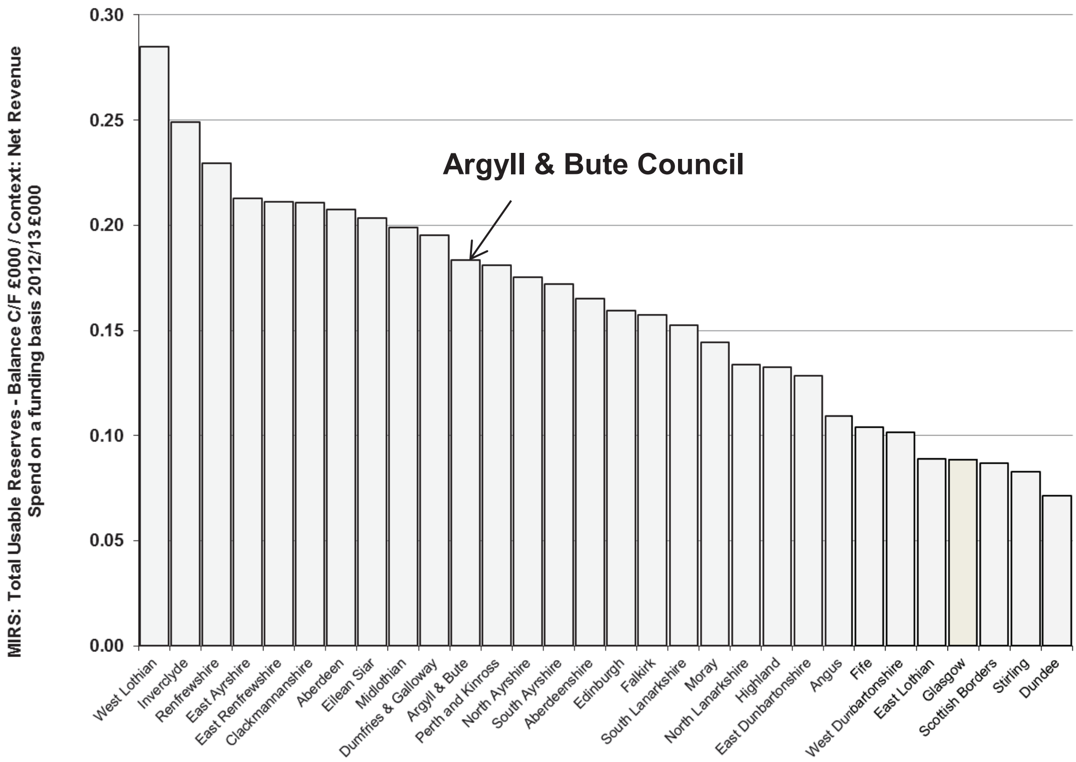
Exhibit 4 : Total usable reserves including earmarked, uncommitted and capital funds



Source: Audit Scotland- 2012/13 analytical review of council accounts

50. Exhibit 5 below presents the council's usable reserves position in relation to net revenue spends for the year in comparison to other Scottish local authorities. The graph demonstrates that Argyll and Bute Council lies just above the median point in relation to this financial ratio. The council needs to continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and or reductions in funding.

Exhibit 5: Total usable reserves carried forward as a proportion of net revenue spend



Source: Audit Scotland - 2012/13 analytical review of council accounts

Capital investment and performance 2012/13.

51. Capital expenditure per the Capital Plan in 2012/13 totalled £35.140 million compared with a budget of £29.811 million, giving an overspend of £5.329 million. Two main factors contributed to the overspend; acceleration of roads reconstruction works and the purchasing and financing of vehicles through borrowing rather than leasing.

52. The 3 year Capital Plan of £101.597 for the period to 2015/16 million was agreed in February 2013. This will be financed through borrowing, capital grants and capital receipts. The focus is on roads reconstruction and schools. Other major projects include the Helensburgh office project and the new Helensburgh swimming pool.

53. The most recent capital monitoring report forecasts expenditure of £42.646 million compared to an annual budget of £43.006 million giving forecast slippage of £0.360 million.

54. Exhibit 6 shows the sources of finance for capital expenditure in 2012/13 and the previous year.

Exhibit 6: Sources of capital expenditure funding 2011/12 - 2012/13

	2011/12 Actual £000	*2012/13 Actual £000*
Capital expenditure	25,575	35,140
Resourced by:		
Capital receipts	190	394
Capital grants	11,479	11,428
Revenue	124	1,650
Borrowing	13,782	21,668

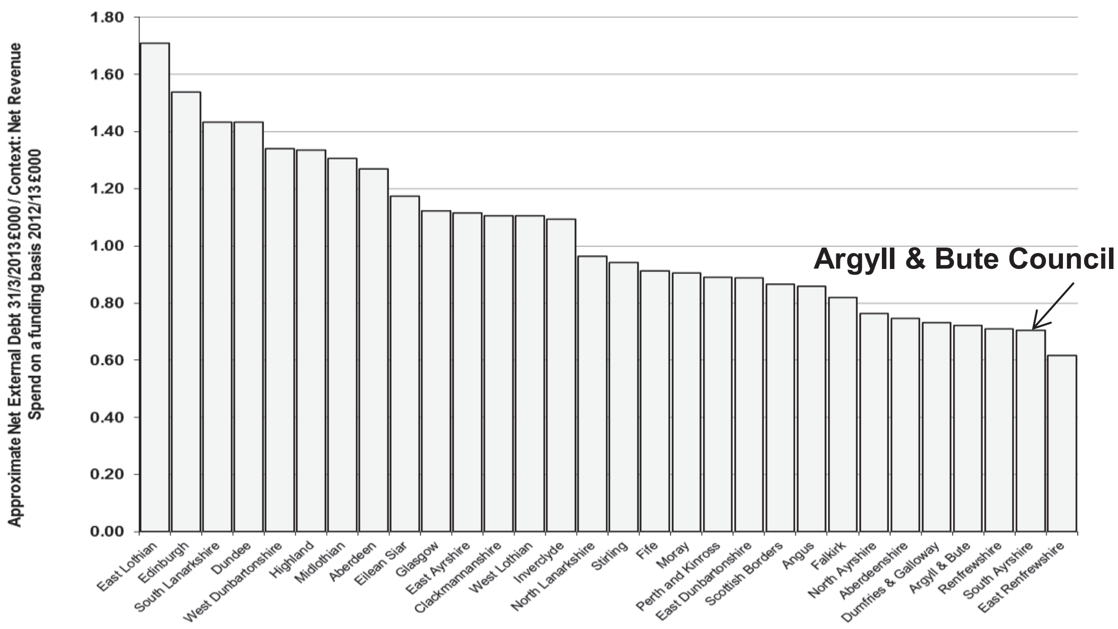
Source: Argyll and Bute Council 2012/13 financial statements

Treasury management

55. The council's level of borrowing in 2012/13 has increased marginally, however the council's net external debt as a proportion of net revenue spend continues to remain low relative to other Scottish councils (refer exhibit 7). At 31 March 2013 the council had total borrowings of £160.968 million (2011/12: £160.763 million). The majority of this is financed by the Public Works Loans Board with the remainder coming mainly from the money market.

56. As at 31 March 2013 the council held cash and temporary investments totalling £49.032 million (£37.962 million at 31 March 2012). £20 million was held in a one year fixed rate bond.

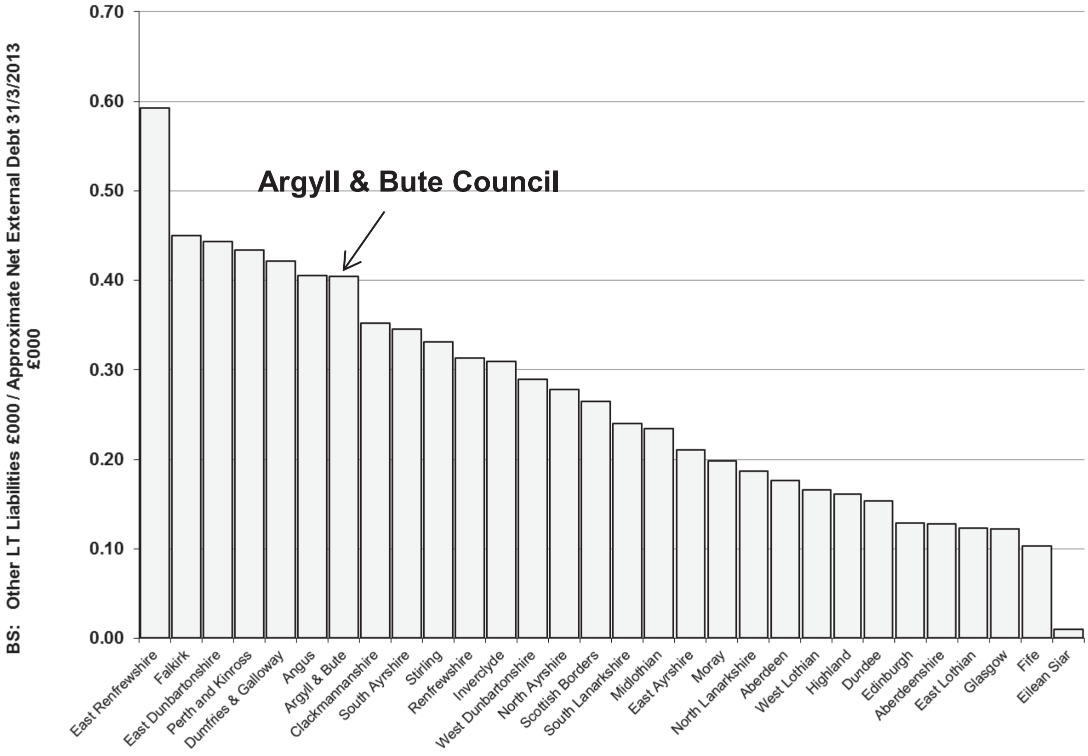
Exhibit 7 : Net external debt as a proportion of net revenue spend



Source: Audit Scotland - 2012/13 analytical review of council accounts

57. The council's exposure to other long term liabilities, including PFI, is much greater relative to other Scottish councils as illustrated by Exhibit 8 because the council has a schools projects which has been delivered under a PFI contract. Under IFRS requirements, the council must recognise both the asset acquired under the PFI scheme and the related liability in its balance sheet.

Exhibit 8: Long term PFI / PPP and lease debt as a proportion of net external debt



Source: Audit Scotland - 2012/13 analytical review of council accounts

58. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Head of Strategic Finance reviews the capital financing requirement on an annual basis and reports to the council on a series of prudential indicators as recommended by the Prudential Code. This helps the council to plan its capital investment prudently and to demonstrate to the public that it is doing so.

Financial planning to support priority setting and cost reductions

Service reviews

59. The council is facing a potential funding gap of £40.635 million (equivalent to around 2.9% of service revenue budgets year on year) over the next seven years, requiring annual incremental savings of £5.805 million. The council has identified the required 2013/14 savings

and an approach is being developed to identify the further required savings of £34.830 million over the following 6 years.

Refer to Action Point No.3

60. During 2009/10 the council commenced a programme of service reviews designed to look radically at each service over a 3 year period with a target for services to identify options to reduce costs by 15 to 20%. In the council's opinion, this programme of reviews was successful in putting in place a structured and managed approach to delivering significant savings to address the budget gap in financial years 2010/11 through to 2012/13. However, they recognise that the service review process cannot simply be repeated to take a further 15-20% out of service budgets.

Procurement

61. The public procurement reform programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. In 2012 the council achieved a PCA score of 53%, which is classed as Level 2 'improved performance status' and demonstrates a significant improvement on the 2011 score of 41%. It should also be noted that the council's score meets the national PCA target of 50% by March 2013. The council has reported procurement related efficiency savings of £0.991 million in 2012/13.

Workforce reduction

62. Redundancy costs as part of the programme of service reviews have been incurred by the council since 2010/11 in relation to the budget savings agreed. The total cost accounted for in 2012/13 was £1.259 million for 145 employees (2011/12: £4.958 million for 167 employees). Termination costs for all employees who have accepted redundancy by 31 March 2013 have been accounted for in 2012/13 or in previous financial years.

63. There are likely to be further redundancy costs incurred as the council is required to make further savings to balance the budget in future years. The savings options for 2013-14 will see a reduction in the number of full time equivalent posts of 93. A provision for severance of approximately £1.560 million within 2013/14 will be required. This was recognised as part of the budget process for 2013/14 and will be met from unallocated general fund balances.

Partnership working

64. The Scottish Government and Convention of Scottish Local Authorities reviewed community planning and Single Outcome Agreements in 2012 following which they published their 'Statement of Ambition'. It makes clear that significant changes to improve community planning are needed to respond the challenges of reducing public finances while demand for services increases.

65. As a rural authority Argyll and Bute Council recognise that there are limited opportunities to develop and share services with neighbouring authorities. However, shared services and joint working continue to be considered with other councils and across community planning. Discussions are progressing with NHS Highland on health and social care integration. In partnership with the NHS, independent sector, care and voluntary groups, the council has developed a joint commissioning strategy as part of the national re-shaping care for older people.

66. In June 2013, following a member seminar, the council approved the Single Outcome Agreement 2013/2023 for the Community Planning Partnership. The draft was significantly revised to create a focus on stabilising and increasing the population and the economy. It sets out how the Community Planning Partnership will address the 6 national priorities for community planning.The overall objective is that "Argyll and Bute's economic success is built on a growing population". It is supported by 6 long term outcomes.

67. The Audit Scotland report *Improving community planning in Scotland (March 2013)* concluded that partnerships have not been able to show that they have had a significant impact on delivering improved outcomes across Scotland. It too early to determine whether some of the new initiatives being implemented in Argyll and Bute will help deliver efficiencies to support the council's financial position.

Outlook

2013/14 budget and beyond

68. The Audit Scotland report Responding to challenges and change: An overview of local government in Scotland 2013 (March 2013) highlights the continuing pressures faced by council in terms of resources and demands on services (see Exhibit 9 below). These pressures are not going to abate and this means that members will need to to provide consistent and clear leadership on service priorities in the future.

Exhibit 9: Demand and resource pressures on local government in Scotland

Source: Responding to challenges and change: An overview of local government in Scotland 2013

69. In October 2012 the council adopted a medium/longer term approach to managing its budget by reviewing its financial position over a 7 year period. It comprises a detailed 1 year budget, summary budgets for years 2 and 3 and high level forecasts for years 4 to 7. The revenue budget and savings required are to be reviewed and updated each year along with the corporate and service plans.

70. The net revenue expenditure budget set for 2013/14 of £242.029 million shows a decrease of 5.1% on that set for 2012/13 (£254.930 million). It utilises £1.054 million of reserves to manage the phasing of the savings agreed as part of the 2013-14 budget.

71. In September 2013 we issued Scotland's Public Finances: addressing the challenges a targeted follow-up report. This report looked at the way that the council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.

72. Our report highlighted a number of good practices including:

- The budget pack was supported by a comprehensive package of budget papers outlining key assumptions, proposals, cost and demand pressures and financial risks;

- The completed 3 year programme of service reviews identified and delivered the targeted savings.

73. Additionally, we identified a number of areas of challenge and improvement for the council including the need to :
    - The council have identified a potential funding gap over the period 2013/14 to 2019/20 of £40.635 million. The gap is based on various assumptions and projections that may alter, perhaps significantly, as events develop;
    - The council has identified required 2013/14 savings of £5.805 million. An approach/process is being developed to identify the further required savings of £34.830 million over the following 6 years;
    - Achieving the significant year on year incremental savings will require fundamental decisions to be made by elected members about service provision and delivery. As such there is scope for the council to improve how it uses cost information to support decision making.

74. The council have agreed an action plan of improvements that will address the issues outlined above. We will monitor progress in implementing the action plan.

75. At its meeting of 27 June 2013, the council considered a report by the Head of Strategic Finance which set out proposals on how to take forward the revenue and capital budget process for 2014/15 and also provided summary information on the current budgetary outlook through to 2019/20 (long term position still around a £5.8m gap per annum). The proposals included a recommendation that the council need to consider whether it wants to continue with balancing the budget over the period to 2019/20 or whether the focus should be on a shorter period of time. A further update on the revenue budget outlook was reported to members on 29 August 2013. In overall terms this outlined a similar position to that reported in June.

Governance and accountability

76. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

77. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance, including audit committees, in monitoring these arrangements.

78. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
    - corporate governance and systems of internal control
    - the prevention and detection of fraud and irregularity
    - standards of conduct and arrangements for the prevention and detection of corruption.

79. In this part of the report we comment on key areas of governance.

Corporate governance

Political structures and arrangements

80. In 2011/12 we reported on the changes in the council arising from the May 2012 elections. In 2013 these arrangements were considered in targeted Best Value audit work. The findings from this work are discussed from paragraph 135. The report includes a number of conclusions regarding the council's political instability and management arrangements concluding that changes made following the 2012 election have not been effective.

Internal control

81. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by their assessment of risk and the activities of internal audit.

82. As part of our audit we reviewed the high level controls in a number of the council's financial systems. Our work covered eight main financial systems. The findings from this work were reported to management in June 2013 and an action plan of improvements agreed.

83. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report

financial and other relevant data so as to result in a material misstatement in the financial statements. In addition, the Annual Assurance Report presented by the Chief Internal Auditor to the Audit Committee concluded that reasonable assurance can be taken that the systems of governance and internal control are operating effectively.

Internal audit

84. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standards on Auditing 610 (Considering the work of internal audit). The findings from our review of internal audit were reported in February 2013 and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.

85. Also, we placed formal reliance on aspects of the work of internal audit in a number of areas, as detailed within our annual audit plan. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.

ICT Service Review

86. As part of our 2012/13 audit work we carried out a follow-up to the ICT service review performed in 2011/12 using a standard methodology developed by Audit Scotland.

87. The ICT service review in 2011/12 recorded a total of seven agreed action points. Of these we can report that four are complete. The outstanding action relating to ITIL implementation remains on track but will be slightly delayed as a result of work on Public Service Network (PSN) accreditation.

88. The remaining two outstanding actions relate to the review of the Information Security Policy (ISP) and Disaster Recovery arrangements for closure of the Campbeltown server room Our follow-up enquiries have established that the ISP will be reviewed and updated as part of the on-going development of the council's records management plan and the disaster recovery changes have experienced delays as a result of commissioning of the Helensburgh server room. The disaster recovery changes are currently under review by the project team.

Public Services Network

89. The council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. For example, the council shares benefit information with the Department of Works and Pensions while social work and education departments exchange information with the police, Criminal Justice Partnership and Children's' Hearings.

90. The Government Secure Intranet (GSi) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to

connect to the government secure network. This year, the government is replacing GSi with the PSN.

91. From November 2012 all applicants have to apply to connect to PSN which requires compliance with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations. There have been indications that under future requirements there is a possibility of further measures, including changing the network encryption level which could have a significant impact on budgets.

92. The council's initial application in early 2013 was not successful however after continued work with Cabinet Office assessors the council was able to meet the enhanced compliance requirements for continued connection to PSN and is now accredited till September 2014. To meet these requirements the council has invested in a number of areas including an e-mail classification system and a mobile phone upgrade. The council will also need to look at a longer term approach to patching and deploy a suitable system to automate as much of the server and desktop patching as possible.

93. We are aware that the council is currently monitoring a neighbouring authority's accreditation process. The authority hosts a number of key services which Argyll and Bute Council access or connect to over GSx/PSN – Carejust (Criminal Justice) and the Joint Valuation Board. Alternative arrangements are being considered to access these systems, but as there continues to be a risk of interruption to all GSx/PSN arrangements, the council should consider its longer term business continuity options.

Refer to Action Point No. 4

Prevention and detection of fraud and irregularities

94. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. The council has appropriate arrangements in place to help prevent fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud strategy, a public interest disclosure policy and codes of conduct for councillors and staff. We are not aware of any specific issues that should be brought to your attention in this report.

NFI in Scotland

95. Argyll and Bute Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

96. NFI allows public bodies to investigate these matches and, if fraud or error, has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

97. NFI is co-ordinated by internal audit although services are responsible for the initial investigation of data matches. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013.

98. The current NFI data exercise identified 10,262 data matches of which 1,313 are considered high quality and recommended for investigation. Currently, 292 of these high quality matches have been investigated with 168 in progress. To date there have been no identified cases of fraud.

99. The Internal Audit Manager has completed a self-appraisal checklist which accompanied the national report on NFI. Our review of the completed checklist confirmed that the council is proactive in investigating data matches. Additionally, members of the Audit Committee receive bi-annual reports on NFI activity.

100. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Standards of conduct and arrangements for the prevention and detection of corruption

101. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Argyll and Bute Council are satisfactory and we are not aware of any specific issues that we need to identify in this report.

The Council's dealings with Actual Reality

102. In February 2013 Audit Scotland was asked by Argyll and Bute Council to investigate some issues raised about the council's dealings with an external company, The Actual Reality Learning and Leadership Company Limited, which became The Actual Reality Trust in March 2013. Our response explained that it was not appropriate for Audit Scotland carry out work on all of the issues raised. However it was confirmed that the sales of Castle Toward and Ardentinny would be reviewed as part of the 2012/13 annual audit, and that targeted audit work would be carried out to review member to member and member to officer relationships. The results of the work on the property sales are reported below. The work on member to member and member to officer relationships is discussed from paragraph 135.

103. On 21 March the council considered a report from the Chief Executive that provided an update on the review of issues relating to Castle Toward and Actual Reality. This included consideration of the issues raised not being investigated by Audit Scotland. On the basis of this report, the council agreed that no further action was necessary in respect of this matter.

104. We subsequently considered whether the council took appropriate steps to address the issues it raised with Audit Scotland in February. This included consideration of the report and appendices discussed at the group leaders meeting and endorsed by the council meeting in March 2013. As we would expect in such cases, this included external legal advice, sought by the council on a number of health and safety issues. On the basis of the council's considerations and decision, we are satisfied that appropriate steps have been taken to address the issues raised with Audit Scotland in February.

Sale of Properties

105. The council inherited the Ardentinny and Castle Toward properties at local government reorganisation in April 1996. Both properties were occupied by the Actual Reality Trust for the provision of outdoor education services. No rent was charged to the Trust by the council and no formal lease or license agreement was entered into at that time between the two parties. The council determined that Actual Reality should be allowed to continue to occupy the property until such time as they chose to leave Castle Toward or the property was sold.

106. If a formal lease or license had been entered into between the council and Actual Reality it would have clarified responsibilities for both parties regarding maintenance of the sites. We have no evidence to indicate that the council is a party to any similar informal arrangements but to provide clarity the council should ensure all other similar leasing or licensing arrangements are covered by a formal lease or license.

Refer to Action Point No. 5

Disposal of Castle Toward

107. In carrying out the audit work on the sale of Castle Toward, we considered information and explanations provided by council officers and external parties. We also examined a range of documentary evidence relating to the sale that we considered appropriate for completing our work.

108. On 20 November 2008 the Executive considered a report on options for the disposal of Castle Toward. An options appraisal was carried out by a group of senior officers. This demonstrated the most financially appropriate solution was to market the property on the open market. The options considered included an informal offer from the property's occupier, Actual Reality. The Executive took the decision to authorise the Director of Community Services to deal with all matters related to the possible disposal of Castle Toward, through marketing the property on the open market. On 17 December 2009 the Executive continued the delegation to the Director of Community Services. In February 2010 the council's agents (Baird Lumsden) marketed the property at offers over £2.25 million. This approach reflects the council's disposals policy.

109. By the closing date, four bids had been received. In December 2010, the council's Strategic Management Team noted offers received and authorised follow up interviews. An application to register a community interest was received on 20 January 2011 and no consideration of the offers could be made until this was rejected by the Scottish Government on 9 September

2011. On 3 November 2011, the council's Executive received a report on bids received for the property; the report included a summary of the assessment criteria used to evaluate the bids. The assessment criteria included potential for economic development, capital receipts, planning considerations and legal considerations. Minutes of the November meeting of the council's Executive record that the Executive Director of Community services would exercise his delegated authority to accept the bid from Seasons Holidays plc, which received the highest overall assessment score.

110. The successful bidder's proposal involved redevelopment around and within the listed building and a scheduled ancient monument. An initial meeting took place on 26 November 2011 attended by council officers, Seasons Holidays' CEO and other advisers to determine the way forward in relation to planning and legal issues. However as the result of various issues including an issue in relation to Title, that process remained unresolved and at its meeting on 24 June 2013, the council were informed that Seasons Holidays were now of the view that it was no longer possible to proceed with the transaction and development as envisaged by them. The reasons for reaching this decision are included in the paper submitted to the council and were principally due to Seasons Holidays being unable to secure investment and delivery partners to deliver the project.

111. We have concluded that the council complied with its disposals policy and sought to obtain best value in the disposal of Castle Toward through open competition and by use of an acceptable assessment process. We have not found any evidence of preferential treatment being given to any of the bidders for the property. We have also concluded that members of the council's Executive meeting of 3 November 2011 were provided with reasonable and adequate information to evaluate the bids.

112. Now that Seasons Holidays have withdrawn from the purchase of Castle Toward, progress is being made regarding re-marketing the property through specialist external agents. Progress made by the council in disposing of the property will be monitored in 2013/14.

113. Subsequently there has been an informal expression of interest from the South Cowal Community Development Company in relation to a potential registration of a community interest and/or buy out of Castle Toward in terms of the Land Reform (Scotland) Act 2003

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Disposal of Ardentinny.

114. In carrying out the audit work on the sale of Ardentinny, we considered information and explanations provided by council officers and external parties. We also examined a range of documentary evidence relating to the sale that we considered appropriate for completing our work.

115. At its meeting on 3 November 2011, the council's Executive agreed that officers should look at ways in which the council could continue to support Actual Reality Trust in provision of outdoor education services with particular regard to Ardentinny. On 19 April 2012, the council's Executive provided delegated authority to the Executive Director – Community Services to negotiate terms to sell the council's property at Ardentinny to Actual Learning and Leadership

Limited on such terms as to him seem appropriate; including a purchase price of no less than £250,000. This valuation was provided by the District Valuer and took into account the property's condition and the recognised use classification of the Centre as 'Residential Institution'. The valuation consisted of £100,000 for the main premises on an Existing Use basis and two houses valued at £75,000 each on an Open Market Value basis. The District Valuer also noted that he considered the best potential method of disposal at that time would be a negotiated sale to the occupiers.

116. The Trust submitted a lower bid figure for the whole property, on the basis that the houses were essential to the operation of the centre (and should therefore be valued on an existing use basis along with the main premises) and offered the council a right of pre-emption should the houses be sold within twelve years. Following further correspondence, on 18 September 2012 the District Valuer concluded that the Trust's offer did reflect current use value of the whole site and also that the pre-emption provision proposed adequately protects the financial position of the council on any disposal of the houses.

117. At its meeting on 20 December 2012, based on the District Valuer's conclusion, the council agreed to dispose of Ardentinny to the Trust for the sum of £130,000 with pre-emption provisions to protect the council in relation to any future sale or development by the Trust of the property included within the terms of sale. The purchase negotiations were concluded on 31 January 2013 and the Trust took ownership on 7 February 2013.

118. The proceeds from the sale are included in the 2012/13 financial statements in accordance with accounting requirements.

119. We have concluded that the council complied with its disposals policy and obtained best value in the disposal of Ardentinny through a negotiated sale to the occupiers. The sale price reflected the District Valuer's revised valuation of the whole property on an existing use basis. In addition, the District Valuer considers that the overage provision adequately protects the financial position of the council on any disposal of the houses. We have also concluded that members of the council meeting of 20 December 2012 were provided with reasonable and adequate information to conclude the sale. We have not found evidence of the parties involved in the disposal of the property causing deliberate delay to any stage of the sale process referred to above.

Equality Act 2010

120. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

121. The council's equality outcomes and mainstreaming report was developed in consultation with community planning and other public sector partners. The report sets out the council's

approach to mainstreaming equality. It provides details of their seven quality outcomes (2013-2017) which cover all of the protected characteristics and employment data.

122. The council also has a number of initiatives to embed the equality agenda in its work. These include, for example:

- a revised Equality and Diversity Policy was approved in December 2012
- promoting commitment to equality in the corporate plan
- inclusion of "promoting equality" in service planning guidance
- reinstatement of the employee equality forum
- carrying out equality impact assessments on new policies and functions.

123. The council is proactive in promoting the equality agenda and is well placed to mainstream equality within everyday work.

Welfare Reform

124. The council has been proactive in planning for the impact of the Welfare Reform Act 2012. In 2012/13 preparations were completed to implement the Housing Benefit under occupancy restrictions, to replace Council Tax Benefit with the new Council Tax Reduction scheme and to deliver the new Scottish Welfare Fund from 1 April 2013. In March 2013 the Council approved new policies for Discretionary Housing Payments and Financial Inclusion.

125. The council also prepared for the implementation of the Benefit Cap from July 2013 although this is only expected to affect a handful of households. The council is working closely with Registered Social Landlords and other organisations through its Welfare Reform Working Group to mitigate against these impacts through a range of interventions including income maximisation checks, information and advice. Preparation is also underway for the provision of appropriate Local Support Services to support the introduction of Universal Credit.

Outlook

126. Welfare reform will continue for several years to come and from October 2013 the Universal Credit will start to be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age. Research by the Rowntree Institute, and others, indicates that welfare reform will increase the number of families in poverty, lead to rising rent and council tax arrears and a growing homelessness problem. This will also increase the demand for social work services and put greater pressure on the council's resources. It is important therefore that council continues to monitor the situation closely and develop efficient and effective strategies that address the welfare reform agenda.

Best Value, use of resources and performance

127. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors are also required to review and report on audited body's progress against its Best Value improvement plan.

128. Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

129. Furthermore, as part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

130. This section includes a commentary on the Best Value/ performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the council's response to these.

Assurance and improvement plan update 2013-16

131. The Local Area Network of scrutiny partners for the council, conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan (AIP) covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the Audit Committee on 23 May 2013 for information and consideration by members.

132. The AIP identified one area where scrutiny was required - Leadership and Culture: Member to member and member to officer relationships. This was the focus of targeted BV audit work undertaken between May and August 2013. The results of this work are considered below.

133. The AIP identified three areas where further information was required - Asset management: management of the school estate; Our older people are supported to live more active, healthier and independent lives; and the protection and welfare of vulnerable people (children and adults) including access to opportunities.

134. In relation to the school estate, in May 2013, the council agreed to defer any consideration of the school estate strategy until the Scottish Government publishes statutory guidance and makes the relevant legislative changes. In relation to the support of older people, the care inspectorate will gather further information through ongoing monitoring activity in relation to the development of older people's services. An updated position will be reported by the LAN in the next AIP. For the protection and welfare of vulnerable people, the Care Inspectorate carried out a Pilot Inspection of Services for Children in the Argyll and Bute Community Planning Partnership area. They reported their results in September 2013. A number of areas for development were identified but this was a positive inspection and inspectors identified key strengths in:

- impact on children and young people
- Improving the wellbeing of children and young people
- providing help and support at an early stage
- the leadership of improvement and change.
- Participation of children, young people, families and other stakeholders

Statutory report under Section 102(1)(b) of the Local Government (Scotland) Act 1973.

135. As outlined above, the AIP for 2013-2016, identified that scrutiny was required on some aspects of Argyll and Bute Council's leadership and culture, specifically the effectiveness of councillor to councillor and councillor to officer working relationships.

136. As a result of this work, the Controller of Audit decided to make a statutory report under Section 102(1)(b) of the Local Government (Scotland) Act 1973. This provides for the Controller of Audit to make reports to the Commission about any matters arising from the accounts of local authorities, or the auditing of those accounts, that he thinks should be considered by the local authority or brought to the attention of the public.

137. The report concludes that:

- "The political instability in Argyll and Bute Council means that there is a lack of collective strategic leadership by councillors.
- The council's current political management arrangements are contributing to the problems rather than helping the council do business effectively.
- Working relationships between councillors and between a few councillors and officers are strained and the challenges facing the council are affecting the capacity of senior managers.
- The problems are not yet affecting frontline services, but they are beginning to inhibit progress with strategic planning and there is a risk that services may suffer in the future if the current difficulties are not addressed.

- There is widespread acceptance within the council that the current situation is not sustainable and that rapid improvement is needed. This acceptance is an important foundation on which to build."

138. The statutory report was considered by the Accounts Commission at their meeting of 17 October 2013. The Accounts Commission published its findings on the report on 29 October.

139. As reported, the council recognises the seriousness of the current situation. It is in the process of developing new political management arrangements. It is introducing a training and development programme to support councillors and it has commissioned external support from the Improvement Service. It is also in discussion with other external sources of support. The council's plans to implement the improvements identified from the report, will be monitored and reported by us in 2013/14.

Management arrangements

Corporate improvement plan

140. Audit Scotland conducted a full best value audit during 2005 with the report being published in February 2006. A follow-up report was published in December 2008, and in January 2009 the council agreed its first Corporate Improvement Plan which contained the council's response to the findings in the follow-up report. A second (2011/12) Corporate Improvement Plan built upon the improvements made since adoption of the first Plan.

141. In August 2012, the council developed an updated Corporate Improvement Plan to take forward corporate improvement, deliver the annual requirement for efficiency savings and support continuous improvement. It was considered by the council in November 2012. The plan sets out the council's aims for a comprehensive plan of activity to improve service delivery and how the council works, as well as driving out financial efficiencies to meet budgetary constraints. The Plan includes 12 projects (including Workforce Planning and Health and Social Care Integration) which are intended to make a significant contribution to the public sector reform agenda. The Corporate Improvement Board is responsible for overseeing the successful delivery of the plan. Update reports are submitted by the Board to the Performance Review and Scrutiny Committee (PRSC). The update report submitted to the PRSC meeting of 22 August 2013 records that the Corporate Improvement Plan is broadly on track with 11 of the 12 projects having a green status and one (Environmental Sustainability) having amber status.

Performance management

142. The Planning and Performance Management Framework (PPMF) remains a core component of the improvement process for the council, helping ensure delivery of the Corporate Improvement Plan. The Framework draws together improvement activities within the council to ensure that improvement is taking place in a coordinated manner. The PPMF was updated in October 2012.

143. The council uses a performance management software system (Pyramid) to record performance information and generate performance scorecards. The PPMF sets out the structure and content of scorecards. The system includes Council, Department, Service, Thematic and Area scorecards to provide the key management information required at all levels in the organisation and to measure achievement of Corporate Plan and Single Outcome Agreement deliverables.

144. Quarterly performance reports including council and departmental scorecards are presented to the PRSC. The reports outline performance during the period including a review of successes, key challenges and improvement actions for the coming period. Service annual performance reviews for all 12 services are also presented to this committee. These include key successes, key challenges and key improvement actions to address the challenges. An Annual Report is also produced as part of the public performance reporting strategy.

145. The council's 2012/13 Annual Report was approved by the council at its September 2013 meeting. At this meeting it was also noted that the Chief Executive has instructed a review of the council's Public Performance Reporting.

Overview of performance in 2012/13

Argyll and Bute Council performance measurement outcomes

146. As outlined above performance is monitored via council and departmental scorecards. There are 287 success measures monitored through the council and departmental scorecards. These were analysed for 2012/13 to show progress against target. The analysis showed an overall improvement position with 202 (70%) of indicators meeting or exceeding target and 85 (30%) adrift of target.

147. Some of the performance measures achieved in 2012/13 include:

- Percentage of waste re-cycled and composted
- The number of times libraries are used by external agencies
- The number of pupils accessing youth services
- Job starts delivered by the Employability Team
- Provision of free personal care at home
- 100% of children affected by disability have a transition plan

148. Some of the performance measures not achieved in 2012/13 include:

- *Sickness absence* - the council intends to improve sickness absence through a consistent and rigourous application of the council's Maximising Attendance procedure which involves tailored improvement plans and interventions
- *Local planning applications processed within 2 months* - planning applications performance reduced by 1% from last year which was the highest performance achieved since the indicator was introduced. Performance achieved was 69% which is the

statutory target. The reduction was attributed to a focus on clearing out "legacy" cases and greater emphasis on pre-application throughput which increased by 6%.

- *Trading Standards - % of consumer complaints resolved within 14 days* - The reduction in the trading standards indicator reflected an increase in the number of complaints and the reactive demands on the services across Regulatory Services.
- *Completion of Performance, Review and Development (PRD) forms* - Outstanding PRD forms are being followed up. In addition, the council are currently implementing an online PRD system and providing training to improve performance.

Statutory performance indicators

149. In 2012/13, a total of 20 SPIs were required and these indicate a mixed picture of performance. 5 indicators improved, 4 declined, 10 were broadly similar and for 1 there was no direct comparison.

150. Some performance indicators that have improved in 2012/13 include payment of invoices, visits to museums, attendance at pools, percentage of household waste recycled and the overall percentage of road network that should be considered for maintenance treatment. Performance indicators that have declined in 2012/13 include:

- *sickness absence* - average days lost per teacher increased to 8.2 days (7.6 days in 2011/12) and for other local government employees increased to 10.9 days (9.1 days in 2011/12). As outlined at para 136 above, the council intends to consistently and rigourously apply its Maximising Attendance procedure to improve sickness absence rates.
- *Cost of collecting Council Tax per dwelling* - the Council Tax collection indicator of £8.61 has increased by £1.39 (or 19.25%). Staffing costs increased due to a staff member being transferred from NDR to Council Tax and there were fewer periods of staff vacancies. Postage costs also increased and there was a drop in income resulting from fewer collections via sheriff officer in the year.
- *Total attendance at indoor sports facilities excluding pools* - this indicator declined from 179,196 in 2011/12 to 168,140 in 2012/13 (a reduction of 6.2%). The council is currently implementing a leisure services review. This should be evidenced by improved performance in 2013/14.

National performance reporting

151. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports of direct interest in 2012/13 are outlined in the exhibit below.

Exhibit 10: A selection of National performance reports 2012/13

- Responding to challenge and change - An overview of local government in Scotland 2013
- Improving community planning in Scotland
- Major capital investment in councils.
- Protecting consumers
- Using cost information to improve performance - are you getting it right?
- Health inequalities in Scotland
- Reducing reoffending in Scotland.

Source: www.audit-scotland.gov.uk

152. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local, performance against them and, identify local improvement actions where appropriate. The national reports are accompanied by checklist which officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.

153. We have confirmed that national reports together with completed checklists and/or action plans are presented to the council's audit committee. Relevant managers attend to answer points raised by members and provide updates on progress.

Single Outcome Agreement

154. The PPPMF sets out the process for presentation of the Community Planning Partnership’s performance reports to the CPP Management Committee and Full Partnership. The June 2013 PRSC considered the combined Single Outcome Agreement / Community Plan scorecard for performance in FQ4 2012-13 (Jan-Mar 2013). The scorecard recorded that of 154 SOA success measures, 109 were meeting the agreed target (70%).

155. As outlined at para 68 Above, the new Single Outcome Agreement for the period 2013/23 for Argyll and Bute Community Planning Partnership was approved by the Council on 27 June 2013. It has also now been approved by the Scottish Government. A process for monitoring and managing performance on its delivery is to be developed and reported to the PRSC. This will include the development of specific success measures.

Outlook

156. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. Sites for the second round of Community Planning Partnership audits have been agreed. Argyll and Bute Council has not been chosen as for a full CPP audit in 2014.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of the Adequacy of Internal Audit	1 February 2013	25 March 2013
Annual Audit Plan	4 March 2013	15 March 2013
Assurance and Improvement Plan	20 March 2013	28 June 2013
Internal controls management letter	13 September 2013	20 September 2013
Scotland's Public Finances - local follow-up audit	13 Sepember 2013	20 September 2013
ICT services review	Included within this report	
Report on financial statements to those charged with governance	19 September 2013	20 September 2013
Audit opinion on the 2012/13 financial statements	19 September 2013	20 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	22 October 2013	
Report to Members on the 2011/12 audit	31 October 2013	

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	30	**Equal pay** The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases. ***Risk: There is a risk that the ultimate cost to the council is greater than anticipated.***	The equal pay provision will be reviewed on an annual basis and take account of any legal developments.	Head of Strategic Finance	April each year
2	36	**Charity accounts** The council has not yet considered use of the connected charities provisions in the current Charity Regulations to reduce the number of accounts to be audited. ***Risk: charity accounts may not be audited in accordance with the timescales required by OSCR.***	An action plan is being prepared that will identify and address the issues arising from the change in audit arrangements and will also review options around reorganisation.	Head of Strategic Finance	Review progress at 31 May 2014
3	59	**Funding gap** The council has identified the required 2013/14 savings however it faces a significant challenge to identify the further required savings of £34.830 million over the following 6 years. ***Risk: the council may not be able to generate***	This will be addressed as the council reviews its corporate plan and develops with community planning partners the detailed action plans to support delivery of the Single Outcome Agreement. These priorities will then be reflected in	Head of Strategic Finance	Review progress at 30 June 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		sufficient efficiencies and cost savings to bridge the funding gap.	spending plans through the programme of service prioritisation reviews that will align resources with council priorities.		
4	93	**Public Services Network (PSN)** A neighbouring authority has yet to have its application to connect to PSN approved. ***Risk: the council may not be able to access data on the systems hosted by a neighbouring authority that it relies on.***	Argyll and Bute Council continues to monitor progress on PSN certification by the local authority in question. Contingency plans have been prepared in the event of not being able to access shared systems hosted by them over the Public Services Network. It should be noted that the risk of them having PSN service withdrawn has decreased significantly as the Cabinet Office announced on 4th October that they would now remove the immediate suspension risk for organisations demonstrating to the PSN compliance team satisfaction, genuine appetite and realistic plans to achieve compliance.	Head of Customer and Support Services	Ongoing
5	106	***Lease Agreements*** The council should undertake a review to	A review will be undertaken as outlined but this will be a	Head of Governance and Law	30 June 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		confirm that all properties leased to or occupied under license by outside parties are covered by valid legal agreements. **Risk: disputes may arise over future maintenance and upkeep costs.**	significant piece of work that will need to be spread over a number of months.		

 Agenda Item 8

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
13 DECEMBER 2013

UPDATE ON INTERNAL AUDIT IMPROVEMENT PLAN

1. SUMMARY

This report highlights progress made against the improvements identified as a result of the Internal Audit Review against the Public Sector Internal Audit Standards.

2. RECOMMENDATIONS

2.1 The Audit Committee to note progress made to date in completion of the improvement plan.

3. DETAILS

3.1 A report was presented at the September Audit Committee introducing the outcome of a review of Internal Audit which was carried out as part of the strategic development and performance improvement partnership with Grant Thornton and CIPFA.

3.2 Nine actions for improvement were identified within that report along with details of how they will be progressed. Of the nine improvement actions:

- 6 have been completed; and
- 3 are in progress

4. CONCLUSION

Good progress has been made to date in completion of the improvement plan.

The improvement plan will continue to be progressed by internal audit.

5. IMPLICATIONS

5.1	Policy:	Action plan sets out a number of areas of improvement in how Internal Audit operate.
5.2	Financial:	None
5.3	Legal:	Not a legal requirement but sets out actions to improve compliance with professional standards.
5.4	HR:	Requirement for staff training

5.5	Equalities:	None
5.6	Risk:	Will improve risk focus on Internal Audit.
5.7	Customer Service:	Sets out improvements that should lead to better customer service for internal customers.

For further information please contact Internal Audit on (01546 604759)

6 December 2013

Argyll & Bute Council

Update on Internal Audit Improvement Plan

December 2013

1 Executive Summary

1.1 Background

In September 2013, we presented a progress report to the Audit Committee on the initial findings of the Internal Audit team's self-assessment against the PSIAS. The progress report proposed a plan for the remainder of the calendar year for Audit Committee consideration and approval.

1.2 Progress to date

Section 2 of this report highlights the key actions taken against each improvement plan point.

Key developments are presented separately on this committee's agenda. These include:

- The development of an Audit Charter
- Changes to engagement planning, including the development of a revised Terms of Reference template
- Changes to the reporting template.

Other actions are in progress, including the delivery of training to the audit team. We have also re-aligned the 2013-14 Annual Audit Plan to ensure that the effectiveness of Internal Audit for the remainder of 2013-14 and the assurance provided by the programme of work is optimised.

1.3 Next steps

During January and February 2014, we will conduct our review of the Council's risk management arrangements. This will inform the extent to which we can place reliance on the Strategic Risk Register, and where we believe that Internal Audit can add most value to this Committee.

2 Detailed Findings

Attribute Standards			
Number	**Finding and Implication**	**Proposed action**	**Update at 13 December**
1000	**Purpose, Authority and Responsibility**		
1.	The Internal Audit Team has an audit manual in place which is reviewed on an annual basis and meets the requirements of the 2006 Code. Under the PSIAS, internal audit must develop an Audit Charter which will make explicit links to the Council's objectives and priorities.	An Audit Charter will be developed which confirms how the work of internal audit contributes to the achievement of the Council's objectives and priorities by: - considering the nature of assurance provided to the Audit Committee and service departments by the work of internal audit - clarifying reporting responsibilities; and - ensuring that audit activity is focused on the key risks facing the Council. Drafted by December 2013	Complete. An Audit Charter has been drafted and included on the agenda for approval.
1200	**Proficiency and due professional care**		
2.	The Internal Audit Team participate in the Council's PDR/ PRD programme and have attended relevant training provided. Individual auditors ensure that their	We will review training requirements both across the team and individually. We propose a period of intensive refresher training and development on: - internal audit core skills	Good progress and on target to complete by end of December. Training delivered on internal audit core skills and IDEA training. Risk management

Number	Finding and Implication	Proposed action	Update at 13 December
	CPD requirements are fulfilled, but there is no systematic approach to developing and maintaining internal audit skills. There is no up to date induction programme for members of staff who join the team.	- identifying and managing risk - audit tools and techniques, including the use of IDEA - Best value and performance audit (including value for money audit techniques). Training programme complete by December 2013	training is scheduled for December 2013.
1300	**Quality Assurance and Improvement Plan**		
3.	The QAIP is a new requirement under PSIAS. The Internal Audit Team has a team plan in place, and reports on performance using the Council's Pyramid performance management system. There is, however, scope to improve the performance monitoring framework.	We will review the key performance indicators and targets in place and consult with the Audit Committee and Senior Management Team to establish indicators that are more focused on the outcomes and impact of internal audit work. Proposed indicators submitted to December Audit Committee.	The current performance monitoring framework focuses on inputs, including the number of direct audit days and progress against the plan. We propose to develop revised indicators based on our impact on the Council's risk, but this will not be possible until we have assessed the risk management processes. We will therefore defer this action until February 2014. It is planned to have revised key performance indicators considered at the March meeting of the Audit Committee. In the meantime we will look to engage members of the Audit Committee in the revision of key performance indicators

Number	Finding and Implication	Proposed action	Update at 13 December
Performance Standards			
2000	**Managing the Internal Audit Activity**		
4.	The Internal Audit Team has a methodology in place for risk assessment and identifying audit work to be performed each year. The risk assessment is based on financial materiality, risk, controls effectiveness and performance management. We have, however, identified that there is scope for improvement, including the relative weighting of factors.	We will revisit the risk assessment and audit planning process. This process will include: - a risk management workshop to ensure the team fully understand the core principles, and the risks facing Argyll & Bute Council - consideration of alternative approaches at other councils - an assurance mapping exercise to ensure that each internal audit adds value to the Audit Committee Revised risk assessment process as outlined above in place and reported to Audit Committee in December.	In progress. We have presented our approach to this Committee. The full risk assessment process will be adopted following our review of risk management arrangements, in preparing and developing the 2014-15 Annual Internal Audit Plan.
2100	**Nature of Work**		
5.	Where Internal Audit can make use of CIPFA matrices, a full systematic and disciplined approach is taken and can be evidenced. Where this is not possible, we found that there is not always a link to key aspects of risk and internal control.	We will use refresher training to ensure that risks and mitigating controls are identified on each audit. An updated audit approach will be adopted to ensure that each audit considers key risks and controls, and is supported by a strong and systematic evidence base. Actioned by December 2013	Complete. Revised Audit Terms of Reference are on the agenda for discussion and approval. The revised approach ensures that each audit will be focused on risks. Quality review checkpoints will ensure that each audit is supported by systematic evidence.

Number	Finding and Implication	Proposed action	Update at 13 December
2200	**Engagement Planning**		
6.	Audit Agreement Documents are prepared for each engagement, but in some instances the reasons for the audit, the objectives and the key risks and controls were not identified. We are clear that the same level of rigour needs to be applied to every audit undertaken by the team.	As part of the consideration of risk assessment and audit planning processes, we will identify a prioritised revised audit plan for the remainder of 2013-14. The revision will be based on the current plan but will present our rationale for coverage, and the risks and objectives associated with each review. Engagement planning will make direct reference to the risks associated with each audit area and our revised audit approach will ensure that each risk is addressed in a systematic and evidence based manner. New approach in place from December 2013	Complete. Revised Audit Terms of Reference are on the agenda for discussion and approval.
2300	**Performing the engagement**		
7.	Auditors currently use discussions with management to prepare the Audit Approach Document and to identify key information necessary for the audit. There is a limited approach to documenting: - a testing strategy - work required to fulfil the engagement objectives - work performed and findings	We will review the approach to planning and documenting internal audit work used by other teams, including Grant Thornton and other Councils. As above, we will develop a revised audit approach which ensures that each risk is a addressed in a systematic and evidence based manner. New approach developed and in place from December 2013	Complete. Revised Audit Terms of Reference are on the agenda for discussion and approval. The revised approach ensures that each audit will be focused on risks. Quality review checkpoints will ensure that each audit is supported by systematic evidence.

Number	Finding and Implication	Proposed action	Update at 13 December
2400	**Communicating results**		
8.	Audit reports are prepared for every engagement within timescales agreed with services. The reports are distributed to key stakeholders including service management, senior management. external audit and the audit committee. We found that there is scope to improve the focus of reporting to ensure that: - each risk is identified and addressed - findings include a clear and evidence based audit opinion - audit reports are clear, focused on risk and control and provide the audit committee with the assurance they need	We will use our work on risk assessment and engagement planning to propose a revised audit report format. Consideration will be given to the development of a rating system to allow for objective monitoring and comparison of audit reports across the Council, and comparison to previous audits. We will consult with services and the audit committee to ensure that changes to the format meet the needs of our users. Revised format of reports submitted to Audit Committee in December for approval.	Complete We have presented a revised reporting template to the committee. A key change is the development of an overall rating for each review to ensure that findings are clear, and allow comparison across the Council.
2600	**Communicating acceptance of risk**		
9.	As for 2400, we found that it is not always clear within reports that internal audit has made a	As above, we will ensure that the audit opinion and assessment of managed and unmanaged risk is incorporated within a revised audit report format.	Complete We have presented a revised reporting template to the committee. A key

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Number	Finding and Implication	Proposed action	Update at 13 December
	judgement on the level of risk within each review, and therefore whether that level of risk is acceptable to the organisation.	Revised format of reports submitted to Audit Committee in December for approval.	change is the development of an overall rating for each review, which will provide clarity on the risk implications emerging from internal audit findings.

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Agenda Item 9

ARGYLL AND BUTE COUNCIL | **AUDIT COMMITTEE**

STRATEGIC FINANCE | **13 December 2013**

UPDATE ON STRATEGIC RISK REGISTER

1. SUMMARY

1.1 This report updates members on the key strategic risks facing the Council, the associated mitigating actions and changes in these risks.

1.2 The strategic risk register (draft) is reviewed and updated on a live basis. As the process matures review updates will include the following key issues:

- The following risks have been added to the strategic risk register (SRR).
  - Topical – Political Leadership.

- The following risks have been deleted from the SRR (risk score now zero).
  - None this quarter but updated as required.

- The following risks are classed as red even after mitigation.
  - Population and Economic decline

- The following risks have a raw score which classifies them as red but mitigation reduces the assessment to amber.
  - Welfare Reform
  - Income & Funding
  - Asset Base
  - Reputation
  - Demographics
  - Health and Social Care Integration

- These are the risks which have moved risk category (red/amber/green) in the last quarter.
  - None this quarter but updated as required.

- These are the risks that are at variance from the agreed risk appetite.
  - None this quarter but updated as required.

2. RECOMMENDATIONS

2.1 Audit Committee to consider the SRR and key risks, changes, trends and exceptions highlighted in this report and identify any issues it would like officers to investigate further.

3. DETAIL

Background

3.1 The Council deferred a decision on a revised strategic risk register. The current version therefore is still in “draft” format. Members requested a seminar to review the SRR. This has still to take place and will be combined with a training session on risk management. This will be built into the programme of training / members seminar.

3.2 Subject to Council approval, the process for reviewing the strategic risk register is outlined below:

- Designated risk owner to update during quarter in consultation with appropriate chief officers /service managers and spokespersons.
- SMT to consider quarterly review report.
- Strategic Risk Group consider the SRR at its quarterly meeting.
- Performance Review and Scrutiny Committee to consider the quarterly review report.

3.3 There are currently no material changes to the draft Strategic risk register.

3.4 As the review process matures quarterly review reports will provide a summary of the main changes and trends in scoring and /or mitigation from quarter to quarter and from the start of the financial year. The quarterly review will also identify any new or emerging risks and any risks which have been closed off or removed.

3.5 Appendix 1 details the draft SRR. There are currently 13 strategic risks identified. PRS are requested to consider whether these risks are appropriate to the Council and whether the associated score is reflective of their status.

3.6 PRS are asked to consider the inclusion of an additional / topical risk in relation to political leadership. Arising from the recent Audit Scotland section 102 report the Accounts Commission have stated “the Councils’ ability to set and maintain a clear strategic direction is at risk of being compromised, in time, negatively affecting the services that the council provides for the people of Argyll and Bute.”

Risks Added To And Deleted From The SRR

3.7 The table below sets out any new risks that have been added to the SRR in the last quarter.

(Consideration to be given to additional Topical Risk below)

Theme - Topical	Risk – Political Leadership	Description – Political instability means there is a lack of collective strategic leadership by councillors. Current political management arrangements are contributing to the problem. Whilst not

		affecting front line services these issues are beginning to affect strategic planning.
Raw 4	Raw Impact 5	Raw Score 20
Mitigation – A new Administration is in place with 27 out of 36 members. The Short Life Working Group is developing revised political management arrangements. External support from COSLA on the Improvement Service has been brought in.		
Residual Likelihood 3	Residual Impact 4	Residual Score 12

3.8 The table below sets out any risks that have been removed from the SRR in the last quarter. This is because the likelihood and/or impact has now reduced or been mitigated to zero. (None this quarter)

Theme	Risk	Description	Previous Residual Score	Explanation For Removal

Red Risks

3.9 It is important to consider those risks that remain red even after mitigation and management action. The table below sets out detail of all of the risks where the residual risk category is red.

Theme /Risk/Description	Raw Score	Mitigation	Residual Score
Operating Market Population and Economic decline Projected population decline and potential economic decline and failure to identify factor causing the decline and then develop and action strategies to address that decline.	20	Single outcome agreement targets population and economic recovery. Plans to be developed to action commitments in SOA. Economic Development Action Plan	16

3.10 Those risks which were initially assessed as red but where mitigation and management action has reduced the risk score to amber are also important. The table below sets out detail of all of the risks where the raw risk category is red.

Theme - Risk - Description	Raw Score	Mitigation	Residual Score
Topical Welfare Reform Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis	20	Separate project established to manage welfare reform with clear plans, resources and risks identified. Joint working with DWP, CPP and other Agencies to plan response to potential impact. Discussions on-going at national level re local services support framework	12
Finance: Income & Funding: A major reduction in income /funding as result of a reduction in grant funding, reduced collection of council tax or fees and charges	16	Effective framework for longer term financial planning that takes account of longer term funding projections. Monitoring of grant funding formula. Effective management arrangements for billing and collection of council tax and fees and charges	12
Infrastructure: Asset Base: Infrastructure and asset base does not meet current and future requirements. Infrastructure and asset base is not being used or managed efficiently or effectively.	16	Corporate Plan. Capital planning process. Asset Management planning process	12
Operating Market: Demographics: The Council fails to recognise, plan and deliver services in a way that takes account of demographic trends.	16	Monitoring of population trends. Corporate and service planning process. Planning and performance management framework (PPMF).	12

		Community Engagement Strategy. Workforce planning.	
Reputation: Reputation	16	Community Engagement Strategy. Communications Strategy. Action plans to improve customer services.	12
Topical: Health & Social Care Integration	16	Establish a separate project to focus on implementation and identifying and addressing the issues arising	12

Risk Changes And Trends

3.11 It is important to draw out for consideration those risks where the residual score has changed during the quarter and these are set out below. (None this Quarter)

Theme	Risk	Description	Previous Residual Score	Revised Residual Score	Explanation Of Change

3.12 Appendix 2 contains a number of charts that show the trend in residual risk scoring since the review of SRR/start of the financial year. (No trend data available)

Variation From Risk Appetite

3.13 The residual risk scores when the SRR was reviewed have been adopted as the risk appetite for each risk in the SRR. The table below sets out the risks which are currently assessed as being above or below the risk appetite. If a risk is assess as being above the risk appetite the Council is exposed to more risk than originally planned. If a risk is assessed as being below the risk appetite the Council may be directing too much resource to managing the risk or the risk is reducing. (None this quarter)

Theme	Risk	Description	Risk Appetite	Current Residual Score	Variance From Risk Appetite

Risks Where Current Score Exceeds Risk Appetite					
Risks Where Current Score Is Less Than Risk Appetite					

4. CONCLUSION

4.1 This report sets out the purpose and process associated with strategic risk register quarterly review reports and summarises the current position.

5. IMPLICATIONS

5.1 Policy – None directly but the SRR should be used to assist the Council in setting and reviewing its strategic direction and performance.

5.2 Financial – None directly from this report but effective risk management assists with effective governance and stewardship of council resources

5.3 Personnel – None

5.4 Equal Opportunities – None

5.5 Legal – None.

5.6 Risk – The report sets out the strategic risks facing the Council and changes to these over the last quarter.

5.7 Customer Service – None.

Bruce West
Head of Strategic Finance
7 November 2013

UPDATED STRATEGIC RISK REGISTER – APPENDIX 1

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Control Processes/ Mitigation	Residual Risk			Risk Owner
			Li	Im	Sc			Li	Im	Sc	
Finance – Income and funding	A major reduction in income /funding as result of a reduction in grant funding, reduced collection of council tax or fees and charges This may arise from global or local economic circumstances, government policy on public sector budgets and funding or data that determines grant funding formula.	Lack of income /funding to support Council objectives. Requirement to reduce service provision or budget allocations. Reduced income impacts on performance levels.	4	4	16	The Councils finances are managed effectively.	Effective framework for longer term financial planning that takes account of longer term funding projections. Monitoring of grant funding formula. Effective management arrangements for billing and collection of council tax and fees and charges.	3	4	12	Head of Strategic Finance and Head of Customer and Support Services
Finance - Expenditure	Major unforeseen expenditure creates significant overspend or a need to make significant and unplanned reductions in expenditure or redirection of budgets.	Resources need to be diverted. Reduced levels of performance.	3	4	12	The Councils finances are managed effectively.	Revenue and capital budget preparation including review of base budget, inflation, cost and demand pressures. Revenue and capital budget monitoring.	2	4	8	Head of Strategic Finance

							Maintaining an adequate contingency within General Fund reserve. Adequate insurance coverage.				
Infrastructure – Leadership and management	A lack of Strategic Leadership and Direction will have a negative impact on the ability of the Council to set out strategic objectives and then align service delivery and resources to ensure these objectives are achieved. May also the impact on development of the community planning partnership. Risk that organisation is not focussed on outcomes /objectives resulting in poor decision making	No clear strategic direction/set of objectives. Objectives not achieved as services and resources are not fully aligned to objectives. Opportunities missed to demonstrate community leadership. Confidence in, and reputation of, the Council harmed. Fail to adapt to changing environmental, social and economic conditions.	3	4	12	The Council has a clear strategic direction and service and resources are aligned to ensure Council objectives are achieved.	Corporate Plan sets out overall Council objectives. Community Plan/SOA sets out CPP objectives with clear links to Council contributions (being developed). Corporate Improvement Plan. PPMF and service planning and performance monitoring to ensure service outcomes and activity is in line with Council objectives and performance is meeting targets. Community	3	4	12	Chief Executive

	and inadequate governance arrangements	Fail to meet service needs of citizens.					engagement and consultation to understand activity local needs. Development of a corporate plan				
Infrastructure - Management of services and resources	Services and resources are not effectively managed. Services fail to achieve agreed performance levels and as a result are not contributing fully to Council objectives Resources are poorly managed with result that agreed outcomes and objectives are not fully achieved. Unable to achieve continuous improvement and improve effectiveness and efficiency.	Poor performance. Increased costs. Negative publicity. Unable to demonstrate best value.	3	3	9	Performance targets achieved. Performance improves over time and compared to others. Improved use and management of resources.	Regular performance monitoring and review. Performance scorecards and Pyramid. PPMF and service planning. Corporate Improvement Plan and monitoring of progress. Argyll and Bute Manager Programme.	2	3	6	Executive Directors Heads of Service

Infrastructure - Condition and suitability of overall infrastructure and asset base.	Infrastructure and asset base does not meet current and future requirements. Infrastructure and asset base is not being used or managed efficiently or effectively.	Infrastructure and asset base do not support overall Council objectives. Infrastructure and asset base do not support delivery of service outcomes. Infrastructure and asset base is allowed to deteriorate resulting in cost, lost opportunities and wasted resource.	4	4	16	The Council has an infrastructure and asset base that is maintained, safe, efficient and fit for purpose and which supports development of the area and achievement of objectives.	Corporate Plan. Capital planning process. Asset Management planning process.	3	4	12	Executive Director of Development and Infrastructure Head of Facility Services.
Infrastructure - Civil Contingencies and Business Continuity	The arrangements in place for civil contingencies and business continuity are not effective.	Ineffective management of major emergencies affecting Council services and communities in Argyll and Bute in response to a major emergency. Incident and recovery phase of an emergency lead to greater inconvenience and hardship and a longer timescale for return to normal.	3	4	12	Effective plans and procedures in place to respond to a major event affecting Council services and/or the general public.	On-going training programme in place and continual update of Emergency Plans and procedures. Recent review of business continuity arrangements in 2012. All critical activities identified.	2	4	8	Head of Improvement and HR Head of Governance and Law

		Council unable to effectively deliver its own services as a result of an emergency.									
Operating - Demographic Change	The Council fails to recognise, plan and deliver services in a way that takes account of demographic trends.	Mismatch of resources and service requirements. Services not configured to meet user/citizen requirements.	4	4	16	Performance of key priority services and other key areas identified by the public maintained or improved	Monitoring of population trends. Corporate and service planning process. Planning and performance management framework (PPMF). Community Engagement Strategy. Workforce planning.	3	4	12	Head of Improvement and HR
Operating Market - Population and economic decline	Projected population decline and potential economic decline and failure to identify factor causing the decline and then develop and action strategies to address that decline.	Economic decline results in a circle of decline with reduced employment, lower earnings, failing businesses and poor perception of the area. Population decline reduces funding	5	4	20	Sustainable economic growth and population growth in Argyll and Bute.	Single outcome agreement targets population and economic recovery. Plans will need to be developed to action commitments in SOA. Economic Development	4	4	16	Head of Economic Development

		and reduces scope for efficiencies and economies of scale in service delivery. Combined population and economic decline may increase need and costs for some services.					Action Plan.				
Operating Environment - Partnership Governance	Inadequate Partnership Governance Arrangements. Risk that partnership arrangements are poorly defined and constituted leading to an inability to deliver outcomes and objectives or being democratically deficient	Lack of Accountability. Lack of democratic input to key decisions. Partnership viewed as having failed and not achieving objectives. Wasted resources and effort. Reputational damage.	4	3	12	SOA outcomes achieved.	SOA (currently being drafted). Clear line of sight from SOA to individual partner contributions (being developed). CPP governance arrangements and partnership agreement.	3	3	9	Head of Improvement and HR Head of Governance and Law
Reputation	Poor image and reputation including negative external scrutiny. The Council fails to maintain its general reputation with residents, the Community and the	Reputation declines. Negative impact on morale. Poor reputation undermines action being taken to target population	4	4	16	The reputation of the Council is protected and enhanced.	Community Engagement Strategy. Communications Strategy. Action plans to improve customer services.	3	4	12	Head of Improvement and HR

	wider Local Government Community. Poor performance and poor audit and inspection results.	and economic growth. Increased risk of audit and inspection activity.					Planning and performance management framework to ensure services properly planned and managed and performance targets achieved.				
Engagement - Alignment of service delivery.	The Council fails to understand community needs and align service delivery to meet these.	Gaps between community needs and Council services. Also impacts on reputation.	3	4	12	The Council understands local needs and aligns service deliver accordingly.	Community Engagement Strategy. Operation & development of: Panels & Forums - Young Peoples Panel - Youth Website - Citizens Panel etc	2	4	8	Head of Improvement and HR
Topical – Welfare Reform	Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis.	Increase in demand or costs for Council services. Financial crisis and hardship for individuals. Adverse impact on local economic development. Adverse impact on communities. Potential widening of inequalities gap.	5	4	20	Well managed implementation of welfare reform in a way that minimises impact on individuals and communities but does not create a financial burden for the Council.	Separate project established to manage welfare reform with clear plans, resources and risks identified. Joint working with DWP, CPP and other Agencies to plan response to potential impact. Discussions on-going at national level re local services support framework.	3	4	12	Head of Customer and Support Services

Topical – Health and Social Care integration	Implementation of health and social care integration is not managed effectively.	Unable to proceed with health and social care integration on a managed basis and/or in accordance with timescales. Integration has a negative impact on health and social care service delivery.	4	4	16	Planned and managed implementation of health and social care.	Establish a separate project to focus on implementation and identifying and addressing the issues arising.	3	4	12	Executive Director – Community Services
Topical – Political Leadership	Political instability means there is a lack of collective strategic leadership by councillors. Current political management arrangements are contributing to the problem. Whilst not affecting front line services these issues are beginning to affect strategic planning.	Loss of Strategic direction. Deterioration in performance. Negative impact on reputation.	4	5	20	Improved Strategic focus. Performance level maintained. Support political leadership.	A new Administration is in place with 27 out of 36 members. The Short Life Working Group is developing revised political management arrangements. External support from COSLA on the Improvement Service has been brought in.	3	4	12	Chief Executive

Li = Likelihood
Im = Impact
Sc = Score

Risk Assessment Matrix – Appendix 2			
Likelihood		Impact	
Score	Description	Score	Description
1	Remote – Very unlikely to ever happen.	1	None – minimal impact on objectives, budget, people and time
2	Unlikely – Not expected but possible.	2	Minor – 1%/10% budget, first aid, minor impact objectives,1wk/3 months delay.
3	Moderate – May happen occasionally.	3	Moderate – 10%/30% budget, medical treatment required, objectives partially achievable, 3/12 months delay.
4	Likely – Will probably occur at some time.	4	Major – 30%/70% budget, permanent harm, significant impact on service delivery, 1/2 years delay.
5	Almost certain – Will undoubtedly happen and possibly frequently	5	Catastrophic – Over 70% budget, death, unable to fulfil obligations, over 2 years delay.

A combined score of 15 or more is classed as a red risk.
A combined score of between 6 and 14 is classed as an amber risk.
A combined score of less than 5 or less is classed as a green risk.

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ARGYLL AND BUTE COUNCIL	AUDIT COMMITTEE
CHIEF EXECUTIVE	13 DECEMBER 2013

ACCOUNTS COMMISSION STATUTORY REPORT

1 SUMMARY

1.1 This report advises the Audit Committee that the statutory report by the Controller of Audit and Accounts Commission findings have been submitted to the Council and that an action plan will be developed over the next 3 months.

2 RECOMMENDATION

2.1 The Audit Committee note the terms of this report.

3 DETAIL

3.1 The Statutory Report by the Controller of Audit relating to targeted best value work around member to member and member to officer working relations and the Accounts Commission findings related to that work were reported to the Council on 28 November.

3.2 At the Council meeting on 28 November the Council agreed to

- Accept the Statutory Report prepared by the Controller of Audit for the Accounts Commission.
- Accept the Accounts Commission's Findings.
- Agree that a Seminar be arranged and for an action plan to be developed by the Council for submission to the Accounts Commission within the three month's time scale.
- Agree that the action plan be approved by the Council prior to submission to the Accounts Commission.

3.3 Preparation of an action plan is underway and the Council's decision of 28 November commits to preparation of the action plan being finalised within 3 months. The Council decision also commits to a members seminar and approval of the action plan by the Council prior to its submission to the Accounts Commission as part of that process.

3.4 Since receipt of the report there has been engagement with the Improvement Service. Most recently a workshop for Elected Members was held on 18th November 2013, and outputs from this will inform the developing action plan which will deal with all the findings arising from the Statutory Report and the findings.

4 CONCLUSION

4.1 The Council has complied with the requirements for submitting the statutory report by the Controller of Audit with Accounts Commission findings to the Council. It has agreed a timescale for preparing the action plan. Work has already commenced in terms of engagement with the Improvement Services and a workshop for elected members.

5. **IMPLICATIONS**

5.1 Policy – The Council requires to have full regard to the terms of the Accounts Commission findings

5.2 Financial – None at this time

5.3 Legal – The Council requires to comply with the statutory requirements

5.4 HR – None

5.5 Equalities – None

5.6 Risk – Failure to comply with the requirements could result in further action by the Accounts Commission

5.7 Customer Service – None

Sally Loudon
Chief Executive
6 December 2013

ARGYLL & BUTE COUNCIL — **AUDIT COMMITTEE**
STRATEGIC FINANCE — **13 DECEMBER 2013**

INTERNAL AUDIT CHARTER

1. SUMMARY

This report introduces the Internal Audit Charter.

2. RECOMMENDATIONS

2.1 The Audit Committee approve the Internal Audit Charter.

3. DETAILS

3.1 Under the new Public Service Internal Audit Standards (PSIAS), Internal Audit is required to prepare an Internal Audit Charter.

3.2 The Internal Audit Charter is expected to:

- define the scope of internal audit activities
- establish the responsibilities and objectives of internal audit
- establish the organisational independence of internal audit
- establish the accountability, reporting lines and relationships between the chief audit executive (CAE) and:
  — the 'board' (the audit committee)
  — those to whom the CAE may report functionally
- recognise that internal audit's remit extends to the entire control environment of the organisation
- establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities
- the general arrangements for appointing staff and the skills required
- the role of internal audit (the scope and also limitations) in any fraud-related work
- the arrangements for avoiding conflicts of interest when carrying out non-audit activities, and
- a definition of the term 'board' (for the purposes of internal audit activity).

4. CONCLUSION

The Internal Audit Team working with Grant Thornton has prepared an Internal Audit Charter in line with the requirements of the Public Sector Internal Audit Standards.

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 Internal Audit on (01546 604759)

6 December 2013

Internal Audit Charter

November 2013

Table of Contents

1 INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards) detailed in the PSIA. The Chief Internal Auditor will review the Internal Audit Charter and present it to senior officers within the Council and the Audit Committee for approval on a biennial basis.

The authority for Internal Audit to operate in Argyll and Bute Council ("the Council") is contained in the Council's Standing Orders, in section 4.6 to 4.9 of the Financial and Security Regulations and the Local Code of Corporate Governance. This Internal Audit Charter expands upon that framework, defines the detailed arrangements and sets out Internal Audit's strategy for discharging their role and providing the necessary annual assurance opinion.

Argyll and Bute Council's Internal Audit service will comply with the PSIAS and will apply these standards to all Internal Audit service providers, whether in house, shared services or outsourced.

2 DEFINITION

Internal auditing is an independent, objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Argyll and Bute Council.

It assists Argyll and Bute Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the council's risk management, control, and governance processes.

3 ROLE

The Public Sector Internal Audit Standards require that the Internal Audit Charter defines the terms 'board', 'senior management' and 'Chief Audit Executive' in relation to the work of Internal Audit. For the purposes of Internal Audit work at Argyll and Bute Council:

- the 'board' refers to the Council's Audit Committee which has delegated responsibility for overseeing the work of Internal Audit;
- 'senior management' is defined as the Chief Executive and members of the Council's Senior Management Team; and
- 'Chief Audit Executive' refers to the Chief Internal Auditor.

4 PROFESSIONALISM

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). These include the 4 principles set out in the PSIAS of integrity, objectivity, confidentiality and competency.

Disciplinary procedures of professional bodies and the Council may apply to breaches of this Code of Ethics. Additionally, internal auditors are bound by the rules of confidentiality set out in their local conditions of service. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles and will adhere to relevant policies and procedures.

5 AUTHORITY

The Council has given the Internal Audit Service, for the purpose of its audit work, full, free and unrestricted access at any reasonable time to all the Council's records and other documentation (electronic and manual), personnel, Elected Members, premises, assets, and operations of the Council and partner organisations. It also has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. All employees, including senior management, are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.

Internal Audit has permission to be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council. Internal Audit can require any employee of the Council to produce cash, stores, or any other Council property under the employee's control.

Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an audit, investigation, or consultancy work. Internal Audit will make no disclosure of any information held unless this is authorised or there is a legal or professional requirement to do so.

6 ORGANISATION

Internal Audit reports to the Head of Strategic Finance (s95 officer) who is a member of the Strategic Management Team. The Head of Strategic Finance (s95 officer) reports to the Chief Executive.

However, there is also an unbroken line from the Chief Internal Auditor to the Chief Executive and the Council (through the Audit Committee) which can be used if, in the opinion of the Chief Internal Auditor, there are matters of concern that could place the Council in a position where the risks it faces are unacceptable or the independence of Internal Audit is under threat. The Chief Internal Auditor meets the Chief Executive, and the Head of Strategic Finance (s95 officer) at least four times a year to discuss the internal control environment, levels of residual risk and governance matters.

The Chief Internal Auditor has unrestricted access to the Chair of the Audit Committee, and the Committee Members, and discusses before each Audit Committee, the agenda with the Chair. Additionally, Internal Audit has unrestricted access to all Chief Officers and employees of the Council.

Internal Audit also reports to the Audit Committee. The Internal Audit Services reports 4 times a year to the Audit Committee, whose membership consists of 5 Elected Members, an independent Chair and an independent Vice Chair. This is compliant with separate CIPFA guidance on Audit Committees.

The Audit Committee will:

- approve the Internal Audit Charter;
- approve the Risk Based Internal Audit Plan;
- approve the Internal Audit budget and resource plan;
- receive communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters; and
- make appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations.

In addition, the Audit Committee reviews all Internal Audit reports including the Annual Assurance Statement.

7 INDEPENDENCE AND OBJECTIVITY

The Internal Audit activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's independence.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

At all times, management's responsibilities include:

- maintaining proper internal controls in all processes for which they have responsibility;
- the prevention, detection and resolution of fraud and irregularities;
- providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- agreeing Terms of Reference no later than the agreed deadline, to include agreements on duration, scope, reporting and response;
- sponsoring each audit at Head of Service level;
- considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so;
- implementing agreed management actions in accordance with the agreed timescales; and
- updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in process and systems, newly identified significant risks and cases of a criminal nature.

Given the safeguards in place outlined above and the access Internal Audit has to senior management, the Internal Audit service is free to act independently and objectively. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

8 RESPONSIBILITY AND PURPOSE

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the council's governance, risk management, and internal control processes in relation to the council's defined goals and objectives.

The Internal Audit Service's purpose is to support the Council in achieving its objectives by:

- supporting the Council in continuing to improve its governance arrangements;
- contributing to the Council's management of risk;
- supporting the Council in raising the standard of internal control;
- supporting the Head of Strategic Finance (s95 officer) and the Audit Committee in the discharge of their duties;
- contributing to the development and implementation of the Council's policies and procedures;
- supporting the Council with internal control, risk and governance advice in the development of new systems and improvement of existing systems;
- supporting the Council with internal control, risk and governance advice on projects;
- acting as an aid to ensure that the Council and its Members, managers and officers are operating within the law and relevant regulations;

- contributing towards the accuracy and reliability of financial statements and other published information;
- supporting of the Council in its management of human, financial and other resources in an efficient and effective manner;
- supporting the Council in meeting its social, environmental and community priorities;
- promoting and raising the standards of an anti-fraud and corruption culture; and
- contributing towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.

The Council's Internal Audit Service adds value to the Council by providing objective and relevant assurance, and contributing to the effectiveness and efficiency of governance, risk management and control processes.
Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to the Strategic Management Team, including fraud risks, governance issues, and any other matters arising. Management retain responsibility for Risk Management. Internal Audit is therefore not responsible for developing, monitoring or updating the Council's Risk Registers.

9 SCOPE

The scope of the work carried out by Internal Audit is designed to evaluate and recommend improvements to the Council's governance, risk management, and control processes using a systematic and disciplined approach.

Internal Audit shall review, appraise, make appropriate recommendations for improvement, and report upon:

- the Council's governance arrangements and processes;
- the design, implementation and effectiveness of the Council's ethics-related objectives, programmes and activities;
- the information technology governance of the Council in support of the Council's strategies and objectives;
- the systems and processes in place to ensure effective organisational performance management and accountability;
- the coordination of activities and communication among the Audit Committee, external and internal auditors and management;
- the identification and assessment of risk by management;
- the effectiveness and appropriateness of controls and other arrangements put in place to manage risk;
- the risk appetite of the part of the Council under review and the residual risk;
- the communication of risk and control information in a timely manner across the Council, enabling staff, management and the Audit Committee to carry out their responsibilities;

- the potential for the occurrence of fraud and how the organisation manages fraud risk;
- the completeness, reliability, integrity and timeliness of information, both financial and operational;
- the systems and processes established to ensure compliance with policies, plans, procedures, laws, and regulations, whether established by the Council or externally, and that employees' actions are in compliance;
- the action(s) taken to address significant legislative or regulatory issues;
- the economic acquisition of resources;
- the effectiveness of arrangements for safeguarding the Council's assets and interests;
- the economy, efficiency and effectiveness with which resources are deployed;
- the effectiveness and efficiency of operations and programmes; and
- the extent to which operations are being carried out as planned and strategic objectives and goals are met.

Internal Audit's work covers:

- all Council activities, systems, processes, controls, policies, and protocols;
- all Council departments, cost centres, other business units and establishments; and
- all services and other activities for which the Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

Where other assurance providers have undertaken relevant assurance work, Internal Audit will seek to rely on the work of these other assurance providers where professional standards and the nature and quality of the work they have undertaken would make it appropriate to do so.

10 DUE PROFESSIONAL CARE

Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor. This means Internal Auditors will be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified. Due professional care does not imply infallibility.

Internal auditors will exercise due professional care by considering:

- the extent of work needed to achieve the engagement's objectives;
- relative complexity, materiality or significance of matters to which assurance procedures are applied;
- adequacy and effectiveness of governance, risk management and control processes;
- probability of significant errors, fraud, or non-compliance; and

- cost of assurance in relation to potential benefits.

In exercising due professional care, internal auditors consider the use of technology-based audit and other data analysis techniques and significant risks that might affect objectives.

Specifically for consulting engagements, internal auditors should consider the:

- needs and expectations of clients including the nature, timing and communication of engagement results;
- relative complexity and extent of work needed to achieve the engagement's objectives; and
- cost of the consulting engagement in relation to the potential benefits.

11 INTERNAL AUDIT PLAN AND RESPONSIBILITIES

At least annually, the Chief Internal Auditor will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria.
The Chief Internal Auditor will establish the risk-based plan to determine the priorities of the Internal Audit activity, consistent with the Council's goals. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account:

- Argyll and Bute Council's risk registers and risk management framework, including risk appetite levels set by management for the different activities and parts of the Council;
- the balance of coverage required so External Audit can place reliance on Internal Audit's work;
- the experience gained from previous Internal Audit Reports;
- establishing whether previous audit recommendations have been implemented satisfactorily;
- the impact of national issues (e.g. economic factors, the introduction of new legislation);
- the impact of local issues (e.g. corporate or service action plans and issues raised by external assurance bodies);
- input from senior management and Members of the Audit Committee;
- the periodic review of core financial and operational systems;
- the available audit resource and skills;
- the need for specialist skills, where they are not available already;
- staff development and training;
- time needed for the management of the Internal Audit service e.g. audit planning, development of the annual opinion, attendance at meetings, the appraisal and follow-up process, the updating of relevant audit policies and procedures, compliance with PSIAS;
- contingency set aside for consultancy, reviews or investigations; and
- liaison with other assurance providers, to share information and audit plans, such as the External Auditor and other scrutiny bodies.

12 REPORTING, DOCUMENTING AND MONITORING

The risk-based plan and resource requirements, including significant interim changes, are reported to the Head of Strategic Finance (s95 officer) and the Audit Committee. The Audit Committee will approve, but does not direct the risk-based audit plan.

Internal auditors will develop and document a Terms of Reference for each engagement, including the engagement's objectives, scope, timing, resource allocations, management expectations and reporting format required. The Terms of Reference will be discussed and agreed with relevant managers and be approved at Head of Service level and by the Chief Internal Auditor or a Lead Auditor.

Audits are carried out using a risk based approach, and will consider the objectives of the activity being reviewed, the significant risks to the activity, the adequacy of the governance, risk management and internal control processes and the opportunities to make significant improvements to the activity's processes.

Internal auditors will conduct a preliminary assessment of the risks relevant to the activity under review and document these in the Terms of Reference and engagement objectives will reflect the results of this risk assessment. Adequate criteria are needed to evaluate an activity's governance, risk management and controls. Criteria should include value for money (e.g. the effective use of money, people or assets) and the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

The scope will be sufficient to satisfy the objectives of the engagement. The scope of the engagement will include consideration of relevant systems of internal control, records, personnel and physical properties, including those under the control of third parties. The Chief Internal auditor will determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

Internal auditors will develop and document work programmes that achieve the engagement objectives. Work programmes will include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme will be approved by the Chief Internal Auditor or a Lead Auditor prior to its implementation and any adjustments approved promptly.

Internal auditors will identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives. Also, internal auditors will document relevant information to support the conclusions and engagement results and base their conclusion on appropriate analyses and evaluation. Records for audit and consultancy engagements are compliant with the Council's retention policies. The Chief Internal Auditor will control access to engagement records. The Chief Internal Auditor will obtain the approval of senior management and Governance and Law prior to releasing such records to external parties.

All audit reports will be communicated to the Audit Committee. Draft reports will be agreed with relevant management for factual accuracy prior to submission to the

Audit Committee. Engagement results will specify the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans. The Internal Audit service will strive to ensure that communications are accurate, objective, clear, concise, constructive, complete and timely. Additionally, internal auditors are encouraged to acknowledge satisfactory performance in engagement communications. If a final communication contains a significant error or omission, the Chief Internal Auditor will communicate corrected information to all parties who received the original communication.

The following table describes the different assurance opinions that are provided by Internal Audit:

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

Most Internal Audit reports result in internal audit recommendations detailed on the Action Plan. The Head of Service with responsibility for the service/operation which has been audited will be responsible for the Action Plan. If the audit assignment examined is a corporate matter (impacting on more than one services, or all services), then a Head of Service will be designated by the Strategic Management Team to implement the Action Plan, across services.

At the conclusion of an audit assignment, the Chief Internal Auditor or Lead Auditor and Head of Service will agree recommendations and timescales for these, along with priority ratings (High, Medium or Low). These recommendations will then be added to the Council's Audit Follow-up Database and will be subject to quarterly performance reporting and Audit Committee scrutiny. In the unlikely event that appropriate actions to mitigate an identified risk cannot be agreed with management, this is recorded in the Action Plan section of the audit report and the residual risk will be explained and highlighted. If this risk is deemed to be high, then the risk will be reported to the Head of Strategic Finance (s95 officer), Strategic Management Team and Audit Committee and the Council's risk registers can be updated where appropriate.

The Chief Internal Auditor is responsible for reviewing and approving the final engagement communication before issue and deciding to whom and how it will be disseminated. When the Chief Internal Auditor delegates these duties, he or she retains overall responsibility.

The following table describes the three priority levels given to audit recommendations:

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.

The Chief Internal Auditor accepts that the responsibility of Internal Audit does not end when the Audit Report is issued, and that there will be a follow-up process to monitor and ensure that actions have been implemented. This will be achieved by issuing follow up reports via Strategic Management Team meetings, to confirm that the recommendations have been adequately addressed.

13 AUDIT RESOURCES AND WORK PRIORITISATION

Work is directed according to the assessed level of risk, the judgement of the Chief Internal Auditor, with direction from the Audit Committee. The annual risk based audit plan agreed by the Audit Committee will be the main determinant of the relative priority to be placed on each Internal Audit assignment. The risk-based plan will explain how Internal Audit's resource requirements have been assessed.

The plan will have within it the provision of resources to address unplanned work. This contingency will be directed towards unplanned work including consultancy engagements and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies and sickness.

The Chief Internal Auditor will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

The Chief Internal Auditor will hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. Each job post within the Internal Audit structure details the skills and competencies within the approved job description and person specification. Any development and training plans will be regularly reviewed, monitored and agreed with the Chief Internal Auditor. Auditors are also required to maintain a record of their continual professional development in line with their professional body.

14 PERIODIC ASSESSMENT

The Chief Internal Auditor shall be accountable to the Audit Committee and the Head of Strategic Finance (s95 officer) for:

- providing an opinion on the overall adequacy and effectiveness of Argyll and Bute Council's framework for, risk management, control and governance.
- periodically providing information on the results of the annual audit plan and the Internal Audit Service's resources;
- reporting to the Audit Committee on the Internal Audit Activity's performance relative to its plan;
- reporting on significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Audit Committee;
- periodically reporting on the status of audit recommendations; and
- co-ordinating with other significant assurance functions.

The opinion will incorporate a summary of work that supports the opinion, a statement of conformance with the PSIAS and the results of the quality assurance and improvement programme.

Additionally, the opinion will include details on the reliance on other assurance providers, risk management framework used when forming the opinion and the overall opinion reached.

The Chief Internal Auditor is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Chief Internal Auditor will communicate to Strategic Management Team and Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal assessments consist of all Internal Audit engagements being subjected to a thorough internal peer review of quality, to ensure that its work meets the standards expected from its staff.

These reviews include checks on:

- all work undertaken is in accordance with PSIAS;
- supervision is provided to all levels of staff ;
- work is allocated to staff with appropriate skills, competence and experience;
- work is monitored for progress, assessed for quality and to allow for coaching and training;
- the work is planned and undertaken in accordance with risks associated with areas under review; and
- the conclusions are fully supported by the detailed work undertaken and with sufficient and appropriate evidence held on file.

An external assessment will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. The Chief Internal Auditor will discuss options for the assessment with the Head of Strategic Finance (s95 officer) and the Chair of the Audit Committee

15 CONFLICTS OF INTEREST

Internal auditors will have an impartial, unbiased attitude and avoid any conflict of interest. A conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the Internal Audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Internal auditors will:

- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the Council's own policies);
- not use information obtained during the course of duties for personal gain;
- disclose all material facts known to them which, if not disclosed, could distort their reports; and
- comply with the Bribery Act 2010.

Internal auditors will refrain from assessing specific operations for which they were previously responsible. Objectivity, for the purpose of audit work, is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

If any member of the Internal Audit Service, considers that there is or is perceived to be a conflict of interest, this will be declared to the Chief Internal Auditor who will then consider the validity of the claim. If the Chief Internal Auditor's own independence is impaired, he or she will declare this in writing to the Chief Executive.

16 FRAUD

The responsibility for the prevention and detection of fraud and corruption rests with management.

Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

Where any matter arises which involves, or is thought to involve, a fraud, corruption or financial irregularity, the relevant Head of Service /Executive Director will immediately notify the Council's Monitoring Officer and the Chief Internal Auditor for consideration of appropriate action. Managers will only establish the basic facts of the suspicion and should not attempt to carry out any detailed investigation until agreed by the Council's Monitoring Officer, the responsibility can then be discharged to the Service with support from Internal Audit if required. Suspected fraudulent claims in relation to Housing and Council Tax Benefit are investigated by the Benefit Fraud Investigation Team. Further guidance can be found in the Council's Anti-fraud strategy and Public interest disclosure policy.

Further information on Internal Audit's role and responsibilities in relation to fraud, are detailed within the Council's Constitution– Anti-Fraud Strategy.

17 APPROVAL

The Charter was reported to and approved by the Audit Committee at its meeting on 13 December 2013 and shall be subject to regular review by the Head of Strategic Finance (s95 officer), the Chief Internal Auditor and the Audit Committee.

Version 1.0 December 2013

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 Agenda Item 12

ARGYLL & BUTE COUNCIL	**AUDIT COMMITTEE**
STRATEGIC FINANCE	**13 DECEMBER 2013**

UPDATED TERMS OF REFERENCE AND REPORTING TEMPLATES - DRAFT

1. SUMMARY

This report introduces updated terms of reference and reporting templates for internal audit work.

2. RECOMMENDATIONS

2.1 The Audit Committee review and comment on the revised templates.

2.2 The Audit Committee approve the proposed amendments to the Terms of Reference and Audit Reporting Templates.

3. DETAILS

3.1 In September 2013 the outcome of the self assessment against Public Sector Internal Audit Standards was reported to the Audit Committee. Included in the improvement plan were 2 actions relating to the development of a revised terms of reference for individual audits and a revised format for audit reports. The Terms of Reference document, Appendix 1 to this report, will replace the Audit Agreement Document (Appendix 2) and will include the engagement's objectives, scope, timing, resource allocations, management expectations and reporting format required. The Terms of Reference will be discussed and agreed with relevant managers and be approved at Head of Service level and by the Chief Internal Auditor or a Lead Auditor.

3.2 The key change to the approach is the preliminary assessment of the risks relevant to the activity under review and documenting and agreeing these in the Terms of Reference. Internal audit engagement objectives will reflect the results of this risk assessment.

3.3 Appendix 3 sets out our revised reporting template. We hope our revised template will make our reporting more focused, and with clearer outcomes based on the following table within the Audit Charter:

Level of Assurance	**Reason for the level of Assurance given**
High	Internal Control, Governance and the Management of

	Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

4. CONCLUSION

We have prepared an Audit Charter in line with the Public Sector Internal Audit Standards. A number of changes were required to current internal audit outputs to meet the requirements of the Standards, and of the Audit Charter. We have therefore made a number of proposals, but would welcome the view of the Audit Committee to ensure that the revised reporting templates meet the needs of the Committee.

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 Internal Audit on (01546 604759)

13 December 2013

ARGYLL & BUTE COUNCIL

Internal Audit Section

TERMS OF REFERENCE

CUSTOMER DEPARTMENT	Choose an item.
AUDIT DESCRIPTION	
AUDIT TITLE	
AUDIT DATE	

2013/2014

1. BACKGROUND

Contextual information included to outline the purpose/objectives/function of the activity being audited.

Include some key background information around budget, cost levels, income, monetary values, transactions, staff numbers and performance.

This section will give an indication of the scope and scale of the activity being audited.

2. RISK

This section will set out the risks related to the activity. These will fall into several categories:

Strategic risks - To what extent does the activity impact on the risk set out in the strategic risk register and single outcome agreement or corporate plan.

Operational risks - To what extent does the activity impact on the risk set out in operational risk registers and service and team plans/outcomes.

Specific activity risks - Set out any specific risks related to or inherent in the particular activity in question.

Historic risks – Set out issues arising from previous audit activity that suggest there are risk in relation to the activity being audited.

Finish with an overall summary of the key risks.

3. AUDIT SCOPE AND OBJECTIVES

Section 2 above sets out the key risks related to this activity. The purpose of this audit is to provide assurance on the following aspects:

Set out in list format the matters that the Council will be able to have assurance on as a result of this audit. Relate this to the risks in section 2 and the controls in section 4.

4. CONTROLS

Set out a summary of the main controls that would be expected to be in place to mitigate against the risks in section 2 and to provide the assurance set out in section 3. Explain that these controls will be reviewed and tested as part of the audit.

Indicate that the outcome of reviewing and testing these controls will determine the level of assurance and the extent to which there are effective systems and processes in place to mitigate against the risks set out in section

5. AGREEMENT

Head of Service ____

Auditor ____

Dated ____________________________

Argyll & Bute Council
Comhairle Earra Ghàidheal agus Bhòid

Chief Executive / Àrd-oifigear
Sally Loudon

INTERNAL AUDIT SECTION

AUDIT AGREEMENT DOCUMENT

CUSTOMER DEPARTMENT:	**CUSTOMER SERVICES**
AUDIT DESCRIPTION:	**SYSTEM BASED AUDIT**
AUDIT TITLE:	**Council Tax**
AUDIT DATE:	**July 2013**

1 OBJECTIVES

As part of our 3 year audit plan, Customer Services – Council Tax is set to be covered in our 2013/2014 plan. The specific objectives of the audit will be to:

- Ensure that Liability, Billing, Collection, and Enforcement Regulations, are up-to-date and are being adhered to.
- To ensure systems and procedures in in place to deal with the recent legislative changes to the rules in respect of council tax and non-domestic rates charges for empty premises which came into effect on 1 April 2013

The focus of the audit will be to ensure that all calculations, decisions, actions, payments & refunds are valid, controlled and accurately recorded. Fifteen days have been allocated to this Audit.

2 AUDIT APPROACH

- We will hold discussions with the Revenues & Benefits Manager.

- We will refer to any appropriate legislation and confirm that staff involved in the council tax exemption and discount processes are aware of the conditions set out in the legislation.

- We will review applications for Council Tax exemption or discount and verify that there is sufficient audit evidence to support the application.

- We will review Comino and Northgate revenues and benefits system to ensure that applications for exemption or discount are controlled and accurately recorded.

- Any problem areas will be highlighted, and brought to the attention of the relevant Head of Service prior to the report stage.

3 SCOPE

The Service which will be involved in this audit and main contacts are:

- Revenues & Benefits Manger
- Revenues & Benefit Staff

Following completion of the audit a draft report will be issued facilitating a discussion between Internal Audit and Head of Service on the findings of the audit. Management will provide a response to the audit findings and a timescale for implementation. Thereafter the audit report will be issued as final.

A copy of the final report will go to the Executive Director with an executive summary and action plan to Audit Committee members. It is therefore requested that management in signing this Audit Agreement Document (AAD) accept this reporting requirement.

4 AGREEMENT

Head of Customer and Support Services ____________________________

Internal Audit ____

Dated ________________________

APPENDIX 3

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	Choose an item.
AUDIT DESCRIPTION	
AUDIT TITLE	
AUDIT DATE	

2013/2014

1. AUDIT SCOPE AND OBJECTIVES

Contextual information included to outline the purpose/objectives/function of the activity being audited.

Include some key background information around budget, cost levels, income, monetary values, transactions, staff numbers and performance.

This section will give an indication of the scope and scale of the activity being audited.

Section 2 below sets out the key risks related to this activity. The purpose of this audit was to provide assurance on the following aspects:

Set out in list format the matters that the Council will be able to have assurance on as a result of this audit. Relate this to the risks in section 2 and the controls below.

Set out a summary of the main controls that would be expected to be in place to mitigate against the risks in section 2 and to provide the assurance set out above.

Explain that these are the controls that have been reviewed and tested as part of the audit and determine the level of assurance and the extent to which there are effective systems and processes in place to mitigate against the risks set out in section 2.

2. RISK

This section will set out the risks related to the activity. These will fall into several categories:

Strategic risks - To what extent does the activity impact on the risk set out in the strategic risk register and single outcome agreement or corporate plan.

Operational risks - To what extent does the activity impact on the risk set out in operational risk registers and service and team plans/outcomes.

Specific activity risks - Set out any specific risks related to or inherent in the particular activity in question.

Historic risks – Set out issues arising from previous audit activity that suggest there are risk in relation to the activity being audited.

Finish with an overall summary of the key risks.

3. AUDIT OPINION

The level of assurance given for this report is (One of Below)

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture off little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

4. Main findings

The following main findings were generated by the audit:

(Bullet Point breakdown of Detail in Action Plan**.)**

4. Conclusion

This audit has provided a XXXXX level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There were X high and X medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are X low recommendations which are not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Heading of Finding		**High/ Medium or Low**		
Detailed Finding This will outline the area of activity examined and the controls that were being reviewed and tested. It will give an indication of the testing carried out covering what and how much – number of transactions reviewed, period covered, amount of money etc. and a comment on the incidence and impact of errors and failures.	Impact of Finding This will set out what the results of the detailed findings mean in terms of risk, control and assurance. It will cover areas of weakness in systems and processes or risks that are not effectively mitigated.	Rating	**Agreed Action as agreed with department**	**(Responsible Person completed by department)** **(Date of recommendation due completed by department)**

APPENDIX 2 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Heading of Finding		**High/ Medium or Low**		
Detailed Finding This will outline the area of activity examined and the controls that were being reviewed and tested. It will give an indication of the testing carried out covering what and how much – number of transactions reviewed, period covered, amount of money etc. and a comment on the incidence and impact of errors and failures.	Impact of Finding This will set out what the results of the detailed findings mean in terms of risk, control and assurance. It will cover areas of weakness in systems and processes or risks that are not effectively mitigated.	Rating LOW	**Agreed Action as agreed with department**	**(Responsible Person completed by department)** **(Date of recommendation due completed by department)**

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
13 DECEMBER 2013

UPDATED ANNUAL AUDIT PLAN 2013/14

1. SUMMARY

This report introduces the updated Annual Audit Plan for 2013/14.

2. RECOMMENDATIONS

2.1 The Audit Committee note the progress made to date in delivering the 2013/14 Annual Audit Plan.

2.2 The Audit Committee approve the proposed amendments to the Annual Audit Plan.

3. DETAILS

3.1 The audits set out in the audit plan have been prepared from an internal audit database that gathers data from both external and internal sources and analyses it under 4 main areas: financial materiality, risk, controls effectiveness and performance management.

3.2 In September 2013, our progress report to the Audit Committee outlined a delay in the completion of the audit plan as a result of the PSIAS self-assessment, vacancies and other factors which have reduced available audit resources.

3.3 This report sets out proposed amendments to the audit plan for the remainder of the 2013-14 year. The revised plan is based on the current plan as far as possible, amended to focus on the risks and objectives associated with each review. Our objective is to optimise the effectiveness of Internal Audit for remainder of 2013-14 and the assurance provided by the programme of work.

4. CONCLUSION

In preparing the audit plan, Internal Audit undertook an exercise to determine the audits that will enable Internal Audit to provide an assurance statement on the Council's overall internal control framework over the 2013-14 financial year. We have therefore made proposals to deliver the plan as closely as possible, but compressed to focus on risks as far as possible.

The annual audit plan will be progressed 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 Internal Audit on (01546 604759)

13 December 2013

INTERNAL AUDIT

UPDATED ANNUAL AUDIT PLAN

2013 - 2014

13 December 2013

Contents

1. BACKGROUND

In September 2013, our progress report to the Audit Committee outlined a delay in the completion of the audit plan as a result of the PSIAS self-assessment, vacancies and other factors which have reduced available audit resources.

This report therefore sets out proposed amendments to the audit plan for the remainder of the 2013-14 year. The revised plan is based on the current plan as far as possible, amended to focus on the risks and objectives associated with each review. Our objective is to optimise the effectiveness of Internal Audit for remainder of 2013-14 and the assurance provided by the programme of work.

2. DIRECT AUDIT DAYS 2013 - 2014

AUDIT PLAN ANALYSIS AND PROCESS

The current database used to develop the Annual Audit Plan identifies and ranks issues using 4 broad headings:

- Materiality – is an assessment of financial data;
- Risk – covers operational and strategic risk registers, the risk associated with a particular activity or reputational risk exposure;
- Control Effectiveness – is an assessment of External and Internal Audit report agreed recommendations, corporate governance and other external and internal inspection reports which reflect current control levels over inherent risk; and
- Performance Management – is an assessment of corporate and service plans plus improvement plans.

The output from the database was provided to Heads of Service for their review and discussion. The draft plan was then prepared and discussed with the Executive Director and Heads of Service at Departmental Management Team meetings. The Annual Plan was approved by the Audit Committee in February 2013 and included 38 audits, accounting for 695 direct audit days.

UPDATE AGAINST THE PLAN

Table 2.1 sets out the progress against the audit plan to date, together with the outcomes of completed audits. A total of 255 direct audit days relating to the 2013-14 audit plan have been delivered to 8 November 2013.

Table 2.2 outlines proposals to deliver the remainder of the 2013-14 audit plan.

Table 2.1: Progress against the 2013-14 Annual Audit Plan

	Recommendations			Estimated Audit Days 2013-14	Actual Audit Days 2013-14	Comments
	H	M	L			
FINANCIAL CONTROL AUDITS						
Stock and Work in Progress	-	-	3	15	12	Complete
Cash & Income Banking	1	1	-	20	18	Complete
Council Tax	1	-	2	15	15	Complete
Non Domestic Rates	-	-	-	15	9	Complete
Debtor Accounts	1	3	3	15	6	Complete
Government & European Grants	-	-	-	20	20	Complete
Car Allowances & Subsistence				15	13	In progress
BUSINESS SYSTEMS AUDITS						
IT Strategy				20	1	In progress
Data Protection				20	10	In progress
Fleet Management				15	4	**Table 2.2**
Pyramid performance management				20	2	In progress
Care First				20	1	In progress
Leisure Management System				20	2	In progress
CORPORATE & DEPARTMENT AUDITS						
School meals				10	23	Draft report
Corporate Governance Statement	-	-	-	15	9	Complete
Corporate - SPIs				20	22	Report issued
Print & Design				20	12	In progress
Corporate - PSIF				20	10	In progress
Health & Safety (Leisure)				15	1	In progress
Allocating ASN Assistants				10	10	In progress
Special investigations contingency				100	53	
Other Areas						
Inverclyde Charity & Trust Accounts	-	-	-	0	7	Complete
Follow-up External & Internal Audit Management Letter Points				80	30	In progress
NFI				40	18	In progress
TOTAL TO DATE	3	4	8	**460**	**255**	**205**

PLANS FOR THE REMAINDER OF 2013-14

Table 2.2 provides proposals to deliver the remainder of the 2013-14 annual audit plan. The original plan is attached at Appendix A, for comparison.

Table 2.2 – Proposals to deliver outstanding 2013-14 audits

	Original Estimated Audit Days	Revised Estimated Audit Days	Comments
FINANCIAL CONTROL AUDITS			
Procurement and Tendering Procedures	40	25	Refer to 3.1
Budgetary Preparation and Control	20	15	Refer to 3.2
Treasury Management	20	15	Refer to 3.3
Capital Contracts, Operating Leases and Capital Accounting	50	30	Refer to 3.4
Resource Link/Payroll	20	20	Refer to 3.5
Universal Credit	15	5	Refer to 3.6
Creditor Payments	15	15	Refer to 3.7
General ledger operations	15	0	Deferred to 2014 -15 (a)
Section Total	**195**	**125**	**-**
BUSINESS SYSTEMS AUDITS			
Fleet Management and Roads Costing	35	25	Refer to 3.8
Uniform System	20	15	Refer to 3.9
Customer Service Centre	15	15	Refer to 3.10
Section Total	**70**	**55**	**-**
CORPORATE & DEPARTMENT AUDITS			
Corporate: Best Value Follow Up	10	10	Refer to 3.11
Outwith Authority Placements	25	15	Refer to 3.12
Section 75 Planning Obligations	15	15	Refer to 3.13
Marine Services	15	10	Refer to 3.14
Parking	10	0	Deferred to 2014 -15
Business Continuity	15	15	Refer to 3.15
Community Engagement	10	10	Deferred to 2014 -15 (b)
Section Total	**100**	**75**	**-**
Risk Management	**0**	**10**	Refer to 3.16
Actual Direct Audit Time	**365**	**265**	**100**

Notes

(a) The Council's Strategic Finance service is currently updating the Oracle general ledger. We have therefore agreed that the audit will be carried out in 2014-15, once the upgrade and associated policies and procedures are in place.

(b) The Community Planning Partnership's Improvement Plan identifies community engagement as an area for development. The Partnership is developing its own plan to ensure that views are incorporated into the planning and delivery of services. We have therefore agreed to defer this review until 2014-15.

Section 3 outlines the background and risks associated with each review, to provide clarity on the audit focus for each engagement.

RESOURCE IMPLICATIONS

Staff in the Internal Audit team have continued to work on delivery of the audit plan at the same time as taking forward the improvement actions identified in our September 2013 progress report. The Head of Strategic Finance has therefore agreed to make additional funding available from elsewhere in his budget to secure additional resources to offset this reduction in audit resource.

We estimate that there are around 300 audit days available in the period to end March 2013. Our revised plan estimates that 335 days will be delivered during that period (incorporating 265 days within Table 2.2, and a further 70 days to complete engagements currently in progress). We therefore propose that additional resource is procured from Grant Thornton UK LLP to undertake the following engagements:

Engagement	**Estimated days**
Support for management of audit team	10
Resource Link/Payroll	20
Corporate: Best Value Follow Up	10
Risk Management	10
Total	**50**

CONTINGENCY DAYS IN 2013 - 2014

Audit days have been included within the annual audit plan for contingency, as set out in Table 2.1 above. There is therefore a risk that additional investigations may have a further impact on the plan. Any changes will be communicated to the Audit Committee.

We will, however, seek to ensure that the remainder of the plan is delivered based on risk priority.

3. BACKGROUND TO REVIEWS PROPOSED IN THE REMAINING 2013-14 ANNUAL INTERNAL AUDIT PLAN

Based on our review of the original annual audit plan, and our assessment of risk, we have proposed the following reviews for the remainder of 2013-14.

3.1 Procurement and Tendering Procedures

The Council's Corporate Procurement Procedures are reviewed annually by Scotland Excel as part of the Procurement Capability Assessment (PCA). In 2011-12, the Council achieved a score of 53%, against a national midpoint of 48% for the 30 Councils who agreed to publish their scores.

One area was highlighted as an area for improvement, relating to the key purchasing processes and systems.

The Council's Procurement Team recently delivered training for all finance staff on procurement procedures, which identified further areas for improvement. Our review will therefore focus on how corporate procurement and tendering procedures are implemented at service level.

It is proposed that this review will replace separate reviews on Procurement and Tendering Procedures within the original annual plan. The allocated days have therefore reduced from 40 days to 25 days.

3.2 Budget Preparation and Control

Internal audit reviewed the Council's Budget Preparation and Control in the audit year 2011-12. The objectives of the review were to assess whether budget holders have access to information required to monitor and control income and expenditure and whether risk based reporting requirements are relevant and meet the needs of services. The report was issued in March 2012 and identified three low risk recommendations.

Our review in 2013-14 will be a systems based audit on the Council's key accounting system and budgetary control arrangements to ensure that appropriate controls are in place and operating satisfactorily. Audit testing will review the following areas:

- Budget setting, to ensure that the budget covers all areas of income and expenditure;
- Budgets are based on realistic assumptions;
- Virements between budgets;

- Monitoring of income and expenditure at budget level; and

- Monitoring of overall income and expenditure position.

The audit is planned to require 15 days.

3.3 Treasury Management

In January 2013, the 2012-13 report on the Treasury Management Function was issued. We found that the Council complied with the CIPFA Code of Practice on Treasury Management, and that adequate internal controls are in place and operating effectively. Three medium rated recommendations were made relating to updating policies and procedures.

Our review in 2013-14 will therefore focus on the Council's key financial performance indicators, including compliance with the Prudential Code. We will compare the Council's performance to other local authorities across Scotland.

The audit is planned to require 15 days.

3.4 Capital contracts, operating leases and capital accounting

The Council is scheduled to spend £43 million on capital projects during 2013-14. Internal audit reviewed capital contracts as part of the 2012-13 annual plan. Our testing confirmed that a sample of contracts arising from 2012/13 capital projects had been correctly initiated, approved and accepted in accordance with the Council’s regulations and Procurement Manual. We made one medium rated recommendation that the published Scheme of Authorised Purchasers required to be updated.

The Internal Audit 2012-13 review of capital accounting was issued in February 2013. The report made three low rated recommendations relating to policies and procedures.

We will therefore ensure that these recommendations have been implemented to provide assurance that the Council's internal controls are effective. We will restrict the scope of our work to test a sample of contracts and leases to ensure that they were planned, authorised and accounted for correctly.

It is proposed that this review will replace separate reviews on Capital Contracts, Operating Leases and Capital Accounting. The allocated days have therefore reduced from 50 days to 30 days.

3.5 Resource Link/Payroll

The Council spends around £130 million on staff expenditure each year. The 2012-13 internal audit review of Resource Link/Payroll was limited in agreement with management following a severe weather event in the Kintyre Peninsula in March 2013 which resulted in server access issues. The review of key controls highlighted a concern regarding the timely recording of contractual and timecard information. This presents a risk that Real Time Information submitted to HMRC is inaccurate. At the time of the review, the hierarchy structures within the system were under review to ensure that they reflect the changes within the Council Management Structure.

Our review in 2013-14 will therefore ensure that recommendations raised in 2012-13 have been implemented in full. We will also complete testing to ensure that key controls are in place and operating effectively, including reconciliation to the main financial system.

This review is planned to require 20 days.

3.6 Universal Credits

We will conduct a high level overview of the Council's state of readiness for the Welfare Reform changes. The Council transferred housing stock to the Argyll Community Housing Association in 2006, and have not, therefore experienced the increase in rent arrears associated with under-occupancy charges. Our review will, however, consider the Council's preparations to mitigate future impacts such as the benefits cap, ending of direct payments for claimants and the assumption that benefits will be claimed by online.

This high level review is planned to require 5 days.

3.7 Creditor Payments

Creditors have historically been reviewed by internal audit on an annual basis. The most recent report was issued in February 2013. This report identified that:

- The authorised signatories database is out of date
- Approved authorisation limits had been exceeded on a number of occasions
- There was a significant backlog of invoices waiting to be scanned. This may have an impact on the Council achieving its payment terms policy.

The 2013-14 audit will therefore focus on ensuring that these risks have been addressed.

This follow up review is planned to require 15 days.

3.8 Fleet Management and Roads Costing

This review will consider the management and security of fuel for council plant, vehicles and machinery. We will also review costing data for fuel and roads to ensure costs are accurate and are applied correctly.

This review combines two audits (35 days) originally planned within the Development and Infrastructure Service, and we therefore hope to complete this review within 25 days.

3.9 Uniform System

During 2012-13, Internal Audit conducted a high level review of the Uniform System. As part of the review, internal control questionnaires were circulated to service management. In 2013-14, we will therefore review the responses to identify areas of risk and focus audit testing.

This review is scheduled to take 15 days.

3.10 Customer Service Centre

This audit will review the customer experience when calling the one-stop customer service centre. We will consider the performance of the centre, including the level of follow-up queries, resource scheduling and the percentage of abandoned calls.

This audit is scheduled to take 15 days.

3.11 Corporate: Best Value Follow Up

During 2012-13, the Chief Internal Auditor completed a Best Value self-assessment, using Audit Scotland templates. Areas for improvement were incorporated within the Council's Improvement Action Plan. We will therefore conduct a follow up review to ensure that actions are progressing as planned.

We anticipate that this review will take 10 days.

3.12 Outwith Authority Placements

The Council has arrangements to place look after and accommodated children, and individuals with learning disabilities in establishments outwith the area. This audit will consider the systems and processes in place for issuing contracts, including emergency contracts, to ensure that procedures are adhered to and that the Council achieves best value.

We expect that this review will take 15 days.

3.13 Section 75 Planning Obligations

Scope and objectives to be confirmed.

3.14 Marine Services

The Council administers a range of pier and harbour facilities. This audit will review the arrangements in place to bill users, and record income from the piers and harbours.

We anticipate that this review will take 10 days.

3.15 Business Continuity

In September 2013, the Audit Committee received a report from Customer Services about the progress in implementing revised Business Continuity arrangements. This review will review ownership arrangements and ensure that the programme has been implemented as planned, including annual review of each of the Critical Action Reporting Plans (CARPs).

This review is expected to take 15 days.

3.16 Risk Management

Following the audit committee away day, it was agreed that internal audit should conduct an annual review of risk management arrangements to provide objective assurance to the committee on the effectiveness of risk management arrangements across the Council.

We will use this review to assess the risk maturity of the Council, the adequacy of the mechanisms for identifying, analysing and mitigating key business risks arising from both external and internal sources, and the extent to which we can adopt the management risk assessment for internal audit planning purposes.

This review is scheduled to take 10 days.

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Agenda Item 15

ARGYLL & BUTE COUNCIL — **AUDIT COMMITTEE**
STRATEGIC FINANCE — **13 DECEMBER 2013**

INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2013 - 2014

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 November 2013, final reports for 4 audits undertaken in the financial year 2013/14 are presented to the Audit Committee for review.

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 Internal Audit 19 November 2013

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Internal Audit Reports
Audit Committee – December 2013

List of Internal Audit Reports for Audit Committee

Internal Audit Reports 2013 – 2014				
	REPORT TITLE	**DRAFT ISSUE DATE**	**FINAL MANAGEMENT RESPONSE**	**FINAL ISSUE DATE**
1.	LEADER Funding – Annual Certification	7 October 2013	11 November 2013	12 November 2013
2.	Council Tax – Second Homes and Unoccupied Homes	18 October 2013	11 November 2013	19 November 2013
3.	Non-Domestic Rates – Business Improvement District	9 October 2013	21 November 2013	21 November 2013
4.	Sundry Debtors	9 May 2013	21 November 2013	21 November 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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Argyll Bute COUNCIL

Internal Audit Report

Development and Infrastructure

LEADER Funding - Annual Certification

October 2013

1 INTRODUCTION

1.1 This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2013/14 Internal Audit Programme.

1.2 LEADER, (Liaisons Entre Actions de Development Economique Rurale) funding is part of the Scottish Rural Development Programme (SRDP) and is delivered by Local Action Groups (LAGs) approved by the Scottish Government.

1.3 The Council acts as Lead Partner to the Argyll and Islands LEADER Local Action Group (LAG), in accordance with a Service Level Agreement (SLA) with Scottish Government Rural Payments and Inspection Directorate (SGRPID).

1.4 LEADER Funding for 2007 – 2013 consists of an amount of £3.77m LEADER funds with additional Convergence funding of £5.12m.

1.5 LAG members have responsibility for delivering the Local Development Strategy and making on-going strategic decisions on the running of the LEADER programme within Argyll and the Islands. The LAG also has responsibility for awarding funding to successful applicants.

1.6 The Council, as Lead Partner is responsible for employing staff, providing secretariat support and managing budgets.

1.7 As Lead Partner the Council must ensure that an annual confirmation certificate covering the year 16 October 2012 to 15 October 2013 is provided.

1.8 Internal Audit is required to undertake a review and provide an annual report as part of the supporting evidence in preparation of this certificate. This work is intended to verify that procedures adopted by the Council are adequate to ensure compliance with the SLA and European Community regulations.

2 AUDIT SCOPE AND OBJECTIVES

2.1 The audit approach taken was to undertake sample testing in key activity areas where guidance is prescriptive:

- Project applications - to ensure completeness and compliance with guidance;
- Claim process - to ensure the claim process is robust and compliant with guidance; and
- Review the responsibilities of the LAG to ensure best practice is being observed.

2.2 The auditor reviewed projects funded by LEADER and visited two projects currently in progress in October 2013 to review compliance and observe the practices adopted for project delivery.

3 RISK ASSESSMENT

3.1 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, but have been addressed and managed by the Lead Partner through the Secretariat support as detailed in Section 5 of the report.

- SR13 Failure to comply with new legislation, regulations or statutory responsibilities;
- SR16 Failure to have a robust internal control process and system which could lead to substantial fines imposed by the European Union regarding errors in the claims process;
- SR24 Changes to Scottish Government (or European) Policy.

4 CORPORATE GOVERNANCE

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

5 MAIN FINDINGS

5.1 The Argyll and Islands LEADER LAG continues to deliver a structured approach for developing, appraising and approving applications for LEADER funding.

5.2 The auditor found that there are sound systems in place to ensure that as Lead Partner for the Argyll and Islands LEADER LAG, Argyll and Bute Council is adhering to the technical guidance and is compliant with the agreed Service Level Agreement.

5.3 The project applications and claims process was found to be robust as regard to completeness and compliance with guidance and also the LAG ensured that best practice is being observed.

5.4 The reconciliation between the Council's ledger and the claim for LAG administration costs has not been carried out due to a review of all files as instructed by the Scottish Government, the consequence of this is that no claims for reimbursement of Admin costs have been submitted since 1st October 2012.

5.5 There is a heavy reliance on paper files to record all evidence concerning projects. A document management system would be beneficial to improve overall effectiveness.

5.6 Correspondence between project officers and Applicant prior to application should be kept on file as evidence of negotiations between project applicants and project coordinators to ensure that projects submitted reflect best value.

6 RECOMMENDATIONS

Five recommendations were identified as a result of the audit. These were rated as 1 High, 1 medium and three 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 Economic Development Manager, Lead Partner representative on the Argyll and the Islands LEADER LAG.

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 has set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error; **Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced 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 we can conclude that the Argyll and Islands LEADER Local Action Group has a structured approach for developing, appraising and approving applications for LEADER funding.

As Lead Partner for the Argyll and the Islands LEADER Local Action Group, the Council has created and continues to develop sound processes and procedures which ensure that the LAG adheres to the technical guidance and comply with the new Service Level Agreement with the Scottish Government Rural Payments and Inspection Directorate (SGRPID).

The recommendations made in this report should help to strengthen the already sound processes and procedures in place.

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

- Economic Development Manager;
- European Support Officer;
- Grant Administration Assistants; and
- LEADER Project Co-ordinators.

Argyll and 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 and SGRPID 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 and SGRPID 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

APPENDIX 1

DETAILED FINDINGS

1 Guidelines and Processes

1.1 There are documented procedures in place for the development, appraisal and approval of applications and also for the processing of claims for LEADER.

1.2 Details of all approved projects are recorded on an established database. This database is used to record all activity in relation to the LEADER project including all claims for payment made. This is supported by individual project files.

1.3 Guidelines for approved and potential projects are available on the Argyll and Islands LEADER website. Details of all approved projects are available on the website along with the agreed minutes of the LAG meetings. In addition there is a secure area for LAG members and this is used to provide the members with all the relevant information in relation to applications for LEADER funding.

2 Document Management

2.1 The secretariat function delivered by the Lead Partner records in hardcopy all applications, claims and correspondence regarding each project. Each project involves a substantial amount of paper which can be onerous as regards control measures and as a result could lead to errors occurring. The consequence of errors being found in any claim irrespective of the financial amount can lead to substantial fines from the European Union.

Recommendation 1

The purchase of Document Management system software should be considered and discussed with the Scottish Government/Audit Scotland. This is an issue that should be raised with the Scottish Government as measures are being put in place to develop appropriate systems and software for the delivery of the LEADER programme, 2014-2020.

2.2 The Council employs two LEADER Project Co-ordinators each with their own separate case load. Prior to each project submitting an application the Project Co-ordinators advise and discuss with each applicant the scope of the project as well as giving advice on achieving best value for money. These activities are not documented in the files, but are never the less important evidence of the LAG pursuing best value for money.

Recommendation 2

All documentation and correspondence with the applicant prior to project acceptance should be kept on file as proof of the LAG achieving best value for money.

3 Procedures

3.1 At present any changes by the applicant to any of the budget headings within the original application must have a change request form completed and agreed prior to the claim being submitted. Numerous projects have a high volume of change requests of a low value and consequently results in time consuming admin duties for the LEADER Grant Administration Assistants.

Recommendation 3

Guidance should be sought from Audit Scotland/SGRPID as to introducing new guidelines as to when a 'Change Request Form' is required e.g. only when the change is over say 10% of the relevant budget heading.

3.2 As regards the procurement process greater clarity is required as to the responsibilities of the Lead Partner and the project applicant. For example Audit Scotland has recommended that all failed tenders should be kept on file by the Lead Partner but Internal Audit is of the opinion that these should be kept by the project applicant.

Recommendation 4

Further reinforcement of the procurement process as regards responsibilities of the applicant by the Lead Partner should be carried out.

4 Quarterly Return to Scottish Government

4.1 The quarterly return to the Scottish Government is prepared by the European Support Officer. This return includes the claim for reimbursement of defrayed expenditure.

4.2 No reconciliation as yet has been carried between the Council's Ledger and the claim for the LAG Administration costs.
This is due to the Lead Partner being instructed by the Scottish Government to review all files in the current financial period with regard to new EU guidelines. Consequently no claim for LAG Administration costs has been made.

Recommendation 5

The reconciliation between the Oracle ledger and the claim for the LAG administration costs should be completed as soon as possible.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The secretariat function delivered by the Lead Partner records in hardcopy all applications, claims and correspondence regarding each project. Each project involves a substantial amount of paper which can be onerous as regards control measures and as a result could lead to errors occurring. The consequence of errors being found in any claim irrespective of the financial amount can lead to substantial fines from the European Union	Medium	The purchase of Document Management system software should be considered and discussed with the Scottish Government/Audit Scotland. This is timely as measures are being put in place currently to develop appropriate systems and software for the delivery of the LEADER programme, 2014-2020.	Economic Development Manager	16 December 2013

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	The Council employs two LEADER Project Co-ordinators each with their own separate case load. Prior to submission of each project application, the Project Co-ordinators advise and discuss with each applicant the scope of the project as well as giving advice on achieving best value for money. These activities are not documented in the files but are never the less important evidence of the LAG pursuing best value for money.	Low	All documentation and correspondence with the applicant prior to project acceptance should be kept on file as proof of the LAG achieving best value for money.	Economic Development Manager	16 December 2013
3	At present any changes by the applicant to any of the budget headings within the original application must have a change request form completed and agreed prior to the claim being submitted. Numerous projects have a high volume of change requests of a low value and consequently results in time consuming admin duties for the LEADER Grant Administration Assistants.	Low	Guidance should be sought from Audit Scotland/ SGRPID as to introducing new guidelines for when a 'Change Request Form' is required e.g. only when the change is over say 10% of the relevant budget heading.	Economic Development Manager	16 December 2013

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	As regards the procurement process greater clarity is required as to the responsibilities of the Lead Partner and the project applicant. For example Audit Scotland has recommended that all failed tenders should be kept on file by the Lead Partner but Internal Audit is of the opinion that these should be kept by the project applicant.	Low	Greater clarity should be sought as to the responsibilities of the Lead Partner and the project applicant for input to the new LEADER programme procedures for 2014-2020.	Economic Development Manager	16 December 2013
5	No reconciliation as yet has been carried out between the Council's Ledger and the claim for the LAG Administration costs. This is due to the Lead Partner being instructed by the Scottish Government to review all files in the current financial period with regard to new EU guidelines. Consequently no claim for LAG Administration costs has been made.	High	The reconciliation between the Oracle ledger and the claim for the LAG administration costs should be completed as soon as possible.	Economic Development Manager	31 October 2013

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Internal Audit Report

Customer Services

Council Tax
Second Homes and Unoccupied Homes

November 2013

1 INTRODUCTION

As part of the 2012/2013 Audit Plan a comprehensive Report was completed in February 2013 covering Council Tax functions and activities. This report relates to the Internal Audit review of Council Tax (Second Homes and Unoccupied Homes) as part of the 2013/14 Internal Audit programme. There are currently 2,665 Second Home properties and 1,318 Un-occupied properties registered for Council Tax within Argyll & Bute Council.

There have been a number of recent legislative changes to the rules in respect of council tax and non-domestic rates charges for empty premises which came into effect on 1 April 2013.

The following proposal was accepted by Council on the 8th of August 2013:

- Council exercises its discretion under regulation 4 The Council Tax (Variation for Unoccupied Dwellings) (Scotland) Regulations 2013 to increase the council tax charge on unoccupied properties which are not being actively marketed for sale or for let under appropriate conditions and which have been unoccupied for over 12 months by 100% across the whole of the council area with effect from 1 April 2014.
- Council exercises its discretion under regulation 4 The Council Tax (Variation for Unoccupied Dwellings) (Scotland) Regulations 2013 to increase the council tax charge on unoccupied properties which are being actively marketed for sale or for let under appropriate conditions and which have been unoccupied for over 24 months by 100% across the whole of the council area with effect from 1 April 2014.

It is estimated that the potential increase in recurring Council Tax income may be between £0.7m and £1.55m. This increase will not be ring-fenced and will be available to the Council to spend as it sees fit.

2 AUDIT SCOPE

The focus of the audit was to ensure that all calculations, decisions, actions, payments & refunds are valid, controlled and accurately recorded.

The specific objectives of the audit were to:

- Ensure that Liability, Billing, Collection, and Enforcement Regulations, are up-to-date and are being adhered to;

- To ensure systems and procedures are in place to deal with the recent legislative changes to the rules in respect of council tax and non-domestic rates charges for empty premises which came into effect on 1 April 2013.

Computer Audit Software IDEA was used to select a 5% random sample of second homes and a 5% random sample of un-occupied properties were reviewed as part of the audit process.

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. 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

- Liability, Billing, Collection, and Enforcement Regulations, are up-to-date and are being adhered to;

- Systems and procedures are in in place to deal with the recent legislative changes to the rules in respect of council tax and non-domestic rates charges for empty premises which came into effect on 1 April 2013.

6 RECOMMENDATIONS

One recommendation was identified as a result of the audit, this is of low priority. The recommendation is shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Head of Customer and Support Services.

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

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The 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 systems and procedures in in place to deal with the recent legislative changes. 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 Revenue and Benefit 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.

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Internal Audit Report

Revenues Team

Internal Audit Review of Income: Non-Domestic Rates Business Improvement District

September 2013

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Income: Non-Domestic Rates as part of the 2013/14 Internal Audit programme.

A Business Improvement District (BID) is a not for profit Company dedicated to improving and making that district a better place in which to work and conduct business. It will benefit the trading environment within the boundary of a clearly defined commercial area, where businesses have voted to invest collectively in local improvements which will benefit the local economy. BIDs are developed, managed and paid for by the business sector through an agreed levy of up to 5% calculated on the non-domestic rates valuation. Businesses within the proposed BID area must vote in favour before the BID can be established. The levy payments should be used to lever in additional funding from the Scottish Government, European funding and other trust and grant funding bodies. The levy should also be used to develop revenue streams from the delivery of local services, asset management and other revenue generating opportunities.

Argyll and Bute Council provides services to support 2 BID companies within Argyll and Bute (BID 4 OBAN and PA23 BID (Dunoon)). Under the terms of an Operating Agreement between each BID company and the council, the services provided include collection of BID Levies due, administration of debt collection and holding/operating a separate BID Revenue Account.

2 AUDIT SCOPE AND OBJECTIVES

The scope of this review was to ensure that procedures in relation to the administration, collection and recovery of the BID Levy are being adhered to.

The objectives of the review were to ensure:

- That the BID Levy due from each BID Levy Payer is calculated in accordance with the BID Levy Rules;
- The BID Levy is paid into the BID Revenue Account in accordance with the Regulations.
- The BID Revenue Account is being administered in terms of the Operating Agreement between Argyll & Bute Council and the BID Companies.

3 RISK ASSESSMENT

BID pilot schemes were introduced in Scotland in 2007. Two BID companies have recently been set up within Argyll and Bute. As this is a new scheme to the Council, we reviewed the systems and processes in place to ensure that all risks were being minimised.

4 CORPORATE GOVERNANCE

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

5 MAIN FINDINGS

The review showed that the calculated BID Levy due from each payer is in accordance with the rules. A 10% random selection of BID levy accounts was selected for testing and all were found to be issued at the correct level.

We identified one issue during our testing. We noted that 2 accounts were issued to account holders who had provided updated information to the Council for Non Domestic Rates payments and this information had not been carried through to the BID process.

The administration of the BID Revenue Account is being carried out within the terms of the Operating Agreement between Argyll & Bute Council and the BID Companies.

6 RECOMMENDATIONS

No recommendations were identified as a result of the audit.

7 AUDIT OPINION

Based on the findings of the review we can conclude that the Revenues Team have sufficient levels of control and procedures in place for the administration of BID Company Agreements and collection of levies.

8 ACKNOWLEDGEMENTS

Thanks are due to the Revenues Team staff and Management for their co-operation and assistance during the Audit and the preparation of the report.

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.

Internal Audit Report

Revenues Team

Review of Income: Sundry Debt

September 2013

1 INTRODUCTION

As part of the annual audit plan for 2012/13 internal audit undertook a review of Sundry Debt 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 are based at Witchburn Road, Campbeltown.

With regards to Sundry Debt responsibilities, the Revenues Supervisor is supported by the NDR/Sundry Debt Administrators (2 FTE) and their direct reports, the NDR/Sundry Debt Agents (3 FTE).

Sundry debt functions and activities are mainly undertaken by a designated NDR/Sundry Debt Administrator and NDR/Sundry Debt Agent with cover provided by the other administrator and agents as and when required. This arrangement is reciprocated with the core sundry debt staff providing cover for the NDR staff.

Appendix 3 shows the position of staff with sundry debt responsibilities (highlighted in grey) within the Revenues Team structure.

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 sundry debt income owed to the Council on a timely basis.

Testing was undertaken to assess the effectiveness of the present operational controls.

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 main findings of the review related primarily to the Council's sundry debt billing & collection strategy and the economy & efficiency of current operations. We have raised concerns around the:

- high volume and value of 'Community Services' debts that have been allowed to accumulate without recovery action being pursued
- number of low value invoices that are being raised
- ratio of credit notes to invoices

The Council has two recovery routes for the pursuit of outstanding debt. The General Recovery Route ensures that overdue accounts are passed to the Legal department after 21 days, following reminder and final demand invoices.

An alternative approach is used within the Community Services Recovery Route to reflect the nature and recipients of services, Here, we found that overdue accounts are not always passed to Legal following the final demand, but with no clear rationale for writing off or pursuing the debt.

During testing we noted a high number of low value invoices being raised. Between 1 April 2012 and 14 January 2013, 1,425 invoices were raised for debts under £20. During the period of our review, the Council's Senior Management Team approved a new Sundry Debt Procedure manual which encourages payment in advance for amounts less than £20.

We analysed invoices in the 4 month period to end August 2013 to assess whether improvements have been made. We found that 217 invoices were raised for £20 or less during the period, but that 210 of these invoices relate to Social Work Area Teams for services such as Meals on Wheels. The service has recently introduced a direct debit scheme to improve the cost effectiveness and recoverability of debt. We will therefore continue to monitor improvements in this area.

Aside from the main points raised above we are satisfied that there are adequate controls and procedures in place to ensure that the Council identifies, bills, collects and accounts for sundry debt income on a timely basis.

6 RECOMMENDATIONS

Seven recommendations, one high, three medium and three 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 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 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 believe that the current system for sundry debt provides an adequate basis for internal control, but that there is scope for improvement. The Council needs to clarify and develop its sundry debt strategy and improve operational effectiveness in order to provide value for money in both the pursuit and recovery of sundry debt income owed to the Council.

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 Team staff for their co-operation and assistance at all stages of the audit.

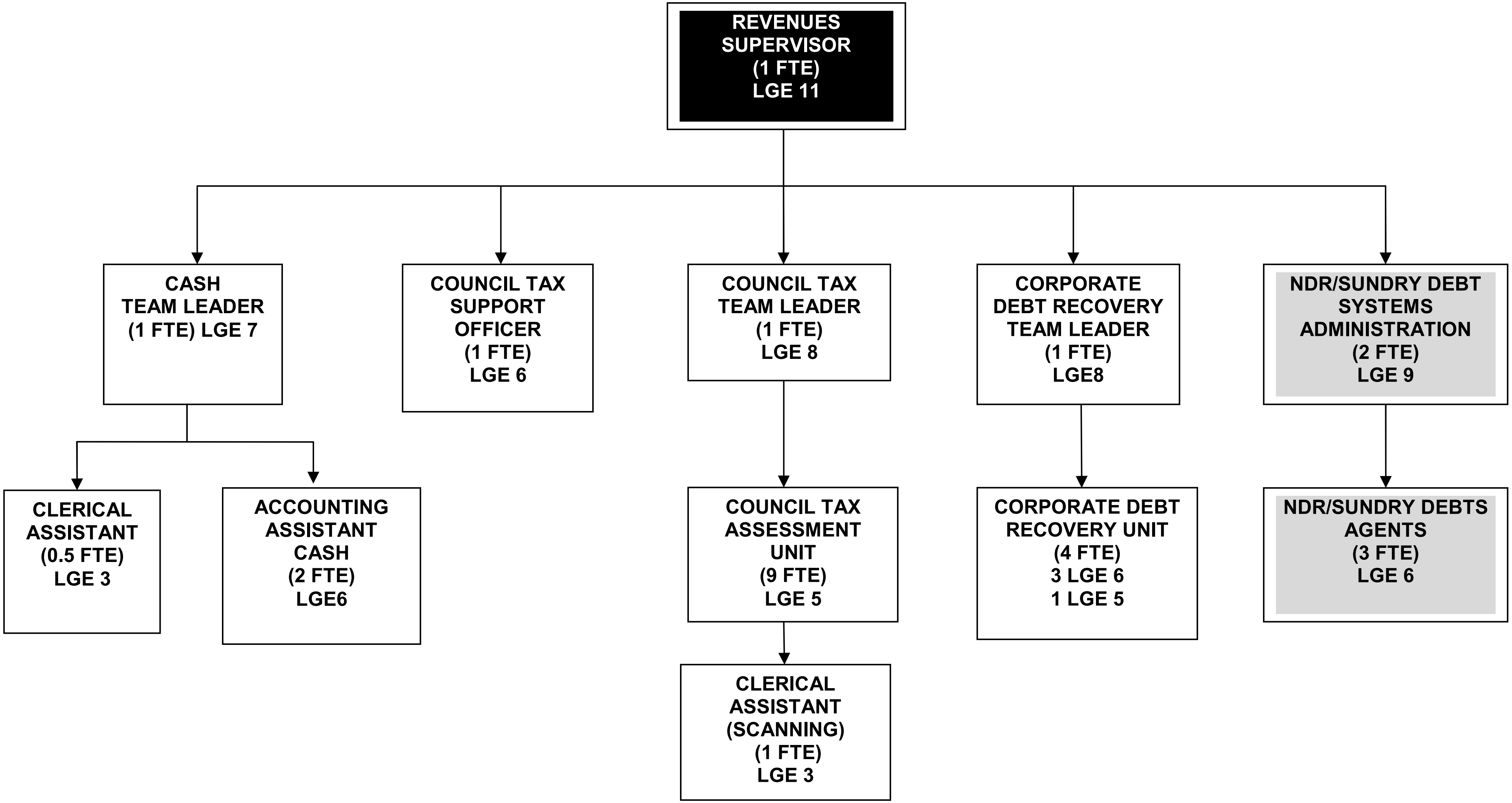
Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	The ratio of credit notes to invoices appears quite high at 0.24.	Medium	Council staff that raise or authorise invoices should be required to attend appropriate systems training in order to reduce the number of credit notes raised.	**Revenues Supervisor**	**31 DECEMBER 2013**
5	The Council does not pursue recovery of outstanding Community Services debts.	High	The Head of Service and Community Services Finance Team should ensure that clear criteria is in place for writing off or pursuing debt.	**Revenues and Benefits Manager**	**31 MARCH 2014**
6	There is limited management information available on the nature of outstanding Community Service debts.	Medium	The Community Services Finance Team should provide monthly reports to the Adult Care Management Team detailing the level of debt outstanding in their areas. The Finance Team should be		**31 MARCH 2014**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			provided with a regular update on those debts which should be progressed to legal action or alternatively written off.		
7	The monthly aged debt report provided by the NDR/Sundry Debt Administrator to the Revenues and Benefits Manager details the number and value of outstanding sundry debts per age banding, by new and old system and in total. We found that the report does not identify movement from the previous period or include any supporting narrative.	Medium	The monthly aged debt report should show the movement from the previous period and also include supporting narrative explaining the current position and providing reasons for any significant movement from the previous position.	**Sundry Debt Systems Administrator**	**31 DECEMBER 2013**

APPENDIX 3 SUNDRY DEBT TEAM (WITHIN REVENUES STRUCTURE)



APPENDIX 4 ANALYSIS OF SOCIAL SERVICE DEBT OVER 3 MONTHS OLD AS AT 4 JULY 2013

Status	Initial stage - invoice printed	Blanks	Final Reminder	Community Services Reminder	Community Services 2nd Reminder	Passed to Legal	Under £5 - Consider Write Off	TOTAL
Residential Care	8226.08		116347.51	3393.1	-3.5	1808.1	2.95	**£129,774.24**
Homecare	-3.01		10045.16				-7.3	**£10,034.85**
Telecare	58.5	-1.89	16436.3	705.36	-33.05	104	135.41	**£17,404.63**
External care and support services	1750.74		120448.55	4761.61	773.23	23913.98	8.15	**£151,656.26**
Meals on wheels etc.	-52.45		4882.52	7.36	19.65		97.95	**£4,955.03**
TOTAL	**£9,979.86**	**-£1.89**	**£268,160.04**	**£8,867.43**	**£756.33**	**£25,826.08**	**£237.16**	**£313,825.01**

ARGYLL & BUTE COUNCIL **AUDIT COMMITTEE**
STRATEGIC FINANCE **20 DECEMBER 2013**

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2013 – 2014

1. SUMMARY

1.1 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 31 October 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 audit 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 31 October 2013, the number implemented, the number of agreed future recommendations and their status, e.g. on course etc.

3.3 Appendix 2 provides a summary as at 31 October 2013, 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 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 31 October 2013 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 implementation dates reported to the Audit Committee, management comment and Pyramid status.

4. CONCLUSIONS

Good progress is being made on recommendations due after 31 October 2013. Although there are 8 recommendations delayed but rescheduled as at 31 October 2013, 19 have been completed and one superseded by new national partnership projects.

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 Internal Audit on (01546 604294)
18 November 2013

APPENDIX 1

SERVICE SUMMARIES

RECOMMENDATIONS DUE 01 AUGUST 2013 – 31 OCTOBER 2013

SERVICE	Complete	Delayed but rescheduled	Superseded	Total
CHILDREN & FAMILIES	1		1	2
CUSTOMER & SUPPORT SERVICES	4			4
ECONOMIC DEVELOPMENT	1			1
FACILITY SERVICES	1			1
IMPROVEMENT & HR	9	3		12
PLANNING & REGULATORY SERVICES	1	1		2
STRATEGIC FINANCE	2	4		6
TOTAL	**19**	**8**	**1**	**28**

RECOMMENDATIONS DUE AFTER 31 OCTOBER 2013

SERVICE	Complete	On Course	Total
CHILDREN & FAMILIES		3	3
CUSTOMER & SUPPORT SERVICES		5	5
ECONOMIC DEVELOPMENT		5	5
FACILITY SERVICES		5	5
IMPROVEMENT & HR		6	6
PLANNING & REGULATORY SERVICES	1	5	6
ROADS & AMENITY SERVICES		1	1
STRATEGIC FINANCE		10	10
TOTAL	**1**	**40**	**41**

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APPENDIX 2

Recommendations Overdue 31 October 2013

ACTION PLAN NO:	WEAKNESSES IDENTIFIED: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
DEPARTMENT	**CHIEF EXECUTIVE'S UNIT**				
SERVICE	**IMPROVEMENT & HR**				
REPORT NAME	**NATIONAL REPORT ON MANAGING PERFORMANCE: ARE YOU GETTING IT RIGHT?**				
11	An effective Council will work constructively with partners to manage performance and improvement. Scorecards developed for community plan themes and reviewed periodically. **MEDIUM**	Development of new community plan and outcome planning and governance review of community planning will clarify line of sight for partner contributions to community plan outcomes and set a clearer framework for reporting and taking action in relation to performance – A Planning and Performance Management Framework for community planning .	31 March 2013 31 July 2013 **31 May 2014**	This activity has been rescheduled to align with Scottish Government CPP Improvement Plan. PPMF for CPP will be developed by revised target date of May 2014.	**Delayed but rescheduled** Head of Improvement & HR
16	An effective Council will ensure that the principles of performance management apply equally to working with partners. Scorecards developed for community plan themes and reviewed periodically. **MEDIUM**	Development of new community plan and outcome planning and governance review of community planning will clarify line of sight for partner contributions to community plan outcomes and set a clearer framework for reporting and taking action in relation to performance – A Planning and Performance Management Framework for community planning .	31 March 2013 31 July 2013 **31 May 2014**	This activity has been rescheduled to align with Scottish Government CPP Improvement Plan. PPMF for CPP will be developed by revised target date of May 2014.	**Delayed but rescheduled** Head of Improvement & HR
REPORT NAME	**NATIONAL REPORT ON RESPONDING TO CHALLENGES AND CHANGE**				
2	Informing members Councillors should receive a report at least annually that details the number of early retirement decisions and the associated costs and savings. **MEDIUM**	A report will be submitted to the Council in August 2013 on the costs and savings associated with severance during 2012-13	31 August 2013 **31 December 2013**	Draft report re-submitted to Chief Executive's DMT on 9 October 2013 for further consideration	**Delayed but rescheduled** Head of Improvement and HR

ACTION PLAN NO:	WEAKNESSES IDENTIFIED: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:

SERVICE STRATEGIC FINANCE

REPORT NAME REVIEW OF FINANCE AND OPERATING LEASES

3	The cost or benefit of leasing capital assets is not currently reflected in the revenue budgets / accounts of individual Services. **MEDIUM**	The process of accounting / budgeting for lease payments should be reviewed.	30 September 2013 **30 November 2013**	This will be updated following a meeting with the leasing advisors.	**Delayed but rescheduled** Finance Manager, Corporate Support

REPORT NAME REVIEW OF GENERAL LEDGER

4	The duties and responsibilities of the General Ledger System Administrator are not clearly documented. **MEDIUM**	The role of GL System Administrator should be clarified and documented.	30 September 2013 **31 December 2013**	This will be carried out as part of the preparation of the move to the updated version of Oracle.	**Delayed but rescheduled** Finance Manager, Corporate Support

DEPARTMENT COMMUNITY SERVICES

SERVICE CHILDREN & FAMILIES

REPORT NAME NATIONAL REPORT ON REDUCING REOFFENDING IN SCOTLAND

ACTION PLAN NO:	WEAKNESSES IDENTIFIED: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
5	2.3 Are based on evidence of what works. **MEDIUM**	The Council has invested considerable effort in terms of improving practice over recent years , principally through commitment of staff to participation in national training programmes with regard to improved risk assessment tools and the implementation of Community Payback Orders. The Change fund bid noted above will focus on what is described in the Audit Scotland and Commission on Women Offenders reports as the promise offered by intensive mentoring and more generally the merits in the longer term of early and effective intervention.	31 March 2013	The PSP bid supported by the CJ partnership Councils and local third sector partners was not successful. The Council will benefit from the opportunity afforded by two national PSP projects: SACRO, will be available for women leaving prison and in the community and "at risk". The Wise Group will offer services to young men (under 25) subject to short prison sentences. A further PSP within HMP Low Moss for prisoners released into the community is provided by Turning Point Scotland. All 3 PSPs will be formally launched within the NSCJA at an event on 20/9/13.	**Superseded** Partnership Manager

DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES

SERVICE PLANNING & REGULATORY SERVICES

REPORT NAME NATIONAL REPORT ON PROTECTING CONSUMERS

15	Does the Council work with COSLA to review 'trusted trader' schemes and consider the need for a shared national approach or standards. **MEDIUM**	We are presently considering options for the provision of a trusted trader type scheme. However, I am not aware of any plans from COSLA to operate a national scheme of this type Actions identify options for trusted trader scheme in Argyll and Bute Council.	30 September 2013 **31 March 2014** .	We have examined the options for a scheme and are currently engaging with businesses to identify demand as the scheme will need to be self-financing and needs to be attractive to business. Have briefed Lead Councillor (P&RS) and intention to take to PPSL Committee in next few months for member consideration and decision.	**Delayed but rescheduled** Regulatory Services Manager

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APPENDIX 3

Recommendations Due After 31 October 2013

ACTION	WEAKNESSES IDENTIFIED:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID:
PLAN NO:	GRADE:	RESPONSIBLE			

DEPARTMENT

SERVICE

REPORT NAME

None Outstanding

There were no recommendations due after 31 October 2013 that were identified as delayed.

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Agenda Item 17

ARGYLL & BUTE COUNCIL | **AUDIT COMMITTEE**
STRATEGIC FINANCE | **13 DECEMBER 2013**

NATIONAL FRAUD INITIATIVE (NFI) – NATIONAL EXERCISE 2012/13

1. INTRODUCTION

Audit Scotland carries out data matching under 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 Accounts Commission's NFI team carries out the matching work on their behalf.

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 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 As at 29 January 2013 the Accounts Commission through Audit Scotland issued the Council with match referrals requiring testing. The data matches received were for:

- Housing Benefit Claimants;
- Payroll;
- Private Residential Care Homes;
- Blue Badge Parking Permits;
- Insurance Claimants; and
- Creditors.

The number of recommended matches for testing is listed on Table 1.

3.2 A Supplementary release of matches was issued in September 2013, all departments were requested to check the NFI site and report if any new matches were required by their department. No further matches were required for Payroll, Creditors, Residential Care Homes, Insurance or Council Tax. Two further matches were required for Housing Benefit and two for Blue Badges. See Table 1.

3.3 NFI referred matches for Creditors, Insurance claimants and Private Residential Care Homes has been reviewed and are now complete with no issues found.

3.4 Blue Badge match testing has now progressed with all 120 matches being reviewed, 66 were found to have errors which have now been rectified and all matches are now complete.

3.5 Housing Benefit match testing has now been completed, 149 matches have been completed and a further 27 require further investigation, there were 3 cases where Fraud had already been uncovered by the department with the total of these amounting to £24,316.20 these cases have been referred to the Procurator Fiscal.

3.6 Payroll referral match testing is progressing. 7 matches are complete and a further 474 require investigation, these are targeted to be completed during December.

4. CONCLUSION

4.1 The Council's success with the last NFI exercise was down to co-operation between services. The target dates set out in table 1 have been challenging for some departments and more time should be allocated by management to enable staff to complete the matching process within deadlines in the future. Set out in Tables 1 and 2 is a summary of progress to date and key dates for both the Accounts Commission and Audit Scotland. Table 3 shows a summary of the results of the exercise up to 2 December 2013.

APPENDIX 1

Table 1 – Responsible Officers for NFI Exercise 2013/14

Datasets	Total Matches	New Matches in Sept 13	NFI Key Filter Matches	Status of Sample Match Testing	Responsible Officer	Target dates for completion of Matches
Housing Benefit	1296	2	173	149 Complete, 27 under investigation	Counter Fraud Manager	All cases reviewed further investigation required.
Creditors	7024	0	253	50 Completed	Creditors Supervisor	Complete
Payroll	1940	0	481	Started – 7 complete, 4 under investigation	Payroll Supervisor	Dec/ 2013
Residential Care Homes	223	0	203	234 Completed	Finance Officer	Complete
Blue Badges	137	2	118	120 Completed	Customer Services Advisor/Registrar	Complete
Insurance	5	0	0	5 Completed	Insurance Assistant	Complete
Council Tax	0	0	0	N/A	Revenues Supervisor	N/A
Total	**10625**	**4**	**1228**			

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

Table 3 – Summary of results for NFI Exercise 2013/14 as at 2 December 2013

Datasets	Total Matches	New in Sept 13	NFI Key Filter Matches	Status of Sample Match Testing	Matches requiring further investigation	Errors corrected	Already Known to department as fraud or error	Completed – No issues	Responsible Officer
Housing Benefit	1296	2	173	149 Complete, 27 under investigation	27 13 - currently being dealt with by ABC Benefit Section 14 - Referred to Fraud for further investigation	4	65	80	Counter Fraud Manager
Creditors	7024	0	253 - Audit Scotland agreed the Creditors system permitted testing to be reduced to 50.	50 Completed	0	0	0	50	Creditors Supervisor
Payroll	1940	0	481	Started – 7 complete, 4 under investigation	0	0	0	7	Payroll Supervisor
Residential Care Homes	223	0	203	234 Completed	0	0	0	234	Finance Officer
Blue Badges	137	2	118	120 Completed	0	66	0	54	Customer Services Advisor/ Registrar
Insurance	5	0	0	5 Completed	0	0	0	5	Insurance Assistant
Totals	10625	4	1228		27	70	65	489	