

# Argyll and Bute Council

## Annual report on the 2012/13 audit



Prepared for Members of Argyll and Bute Council and the Controller of Audit  
October 2013

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

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# Key messages

## 2012/13 Key Facts

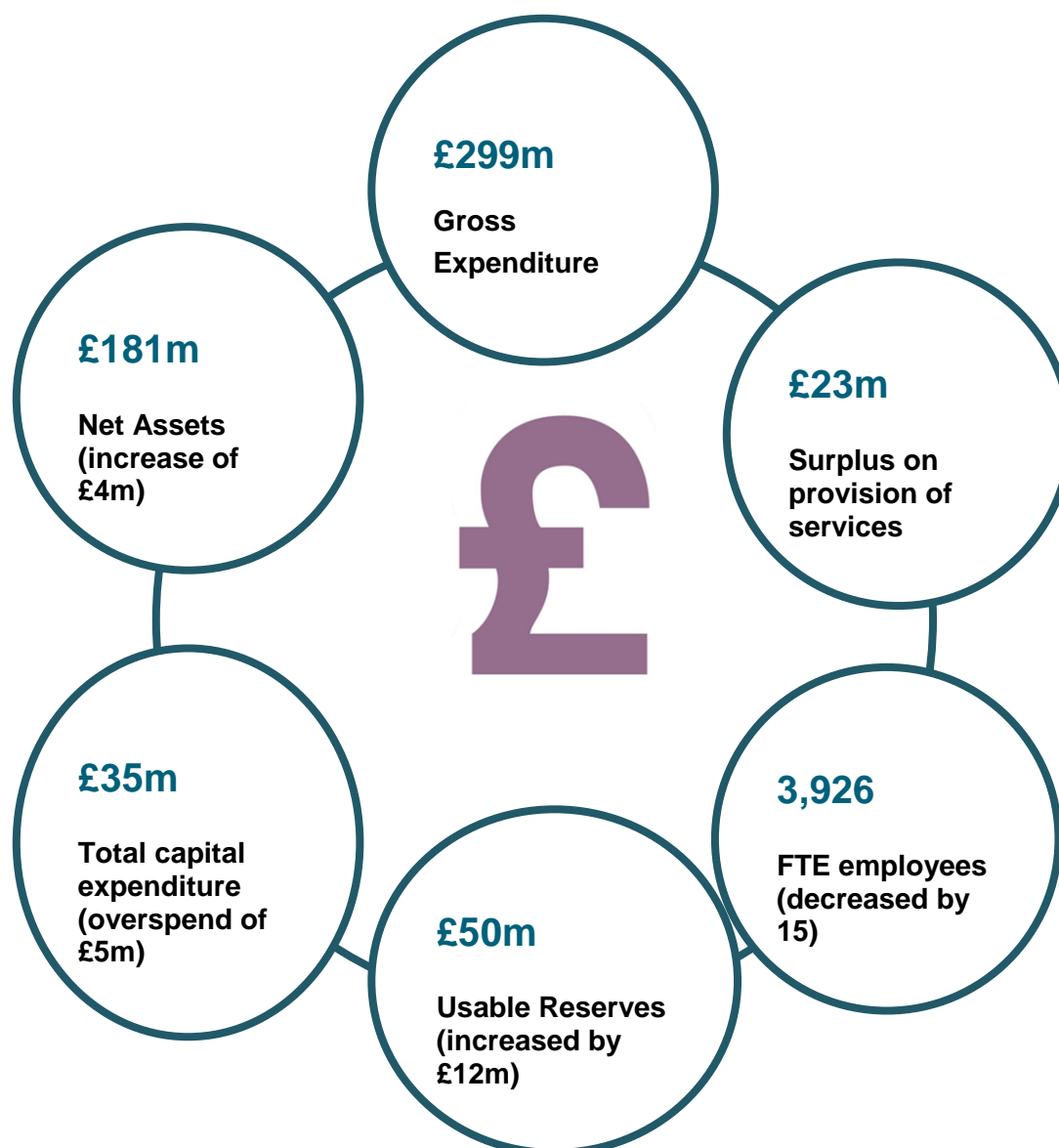
This report summarises the findings from our 2012/13 audit of Argyll and Bute Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, 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 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 led 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	2009/10	2010/11	2011/12	2012/23
	£ million	£ million	£ million	£ million	
Liability	32.517	107.969	26.227	79.092	99.864

Source: Argyll and Bute Council 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 of 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

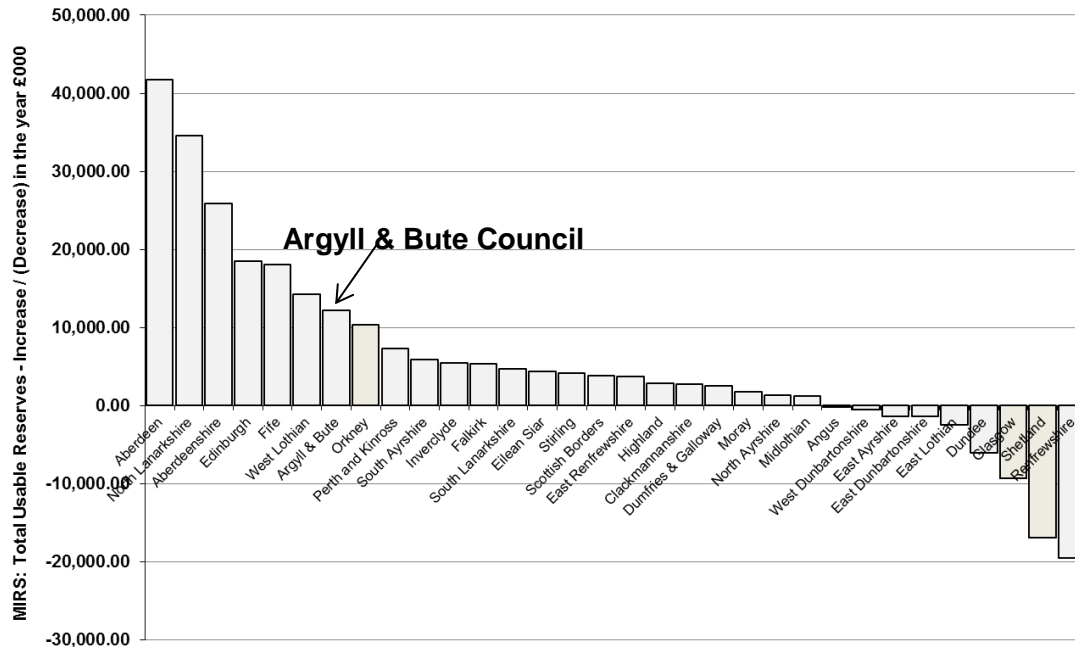
Description	31 March 2011	31 March 2012	31 March 2013
	£ million	£ million	£ million
General Fund	33.907	34.572	46.138
Capital Funds	2.972	3.092	3.316
Repairs & Renewal Funds	0.497	0.532	0.850
<b>Total Usable Reserves</b>	<b>37.376</b>	<b>38.196</b>	<b>50.304</b>

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.

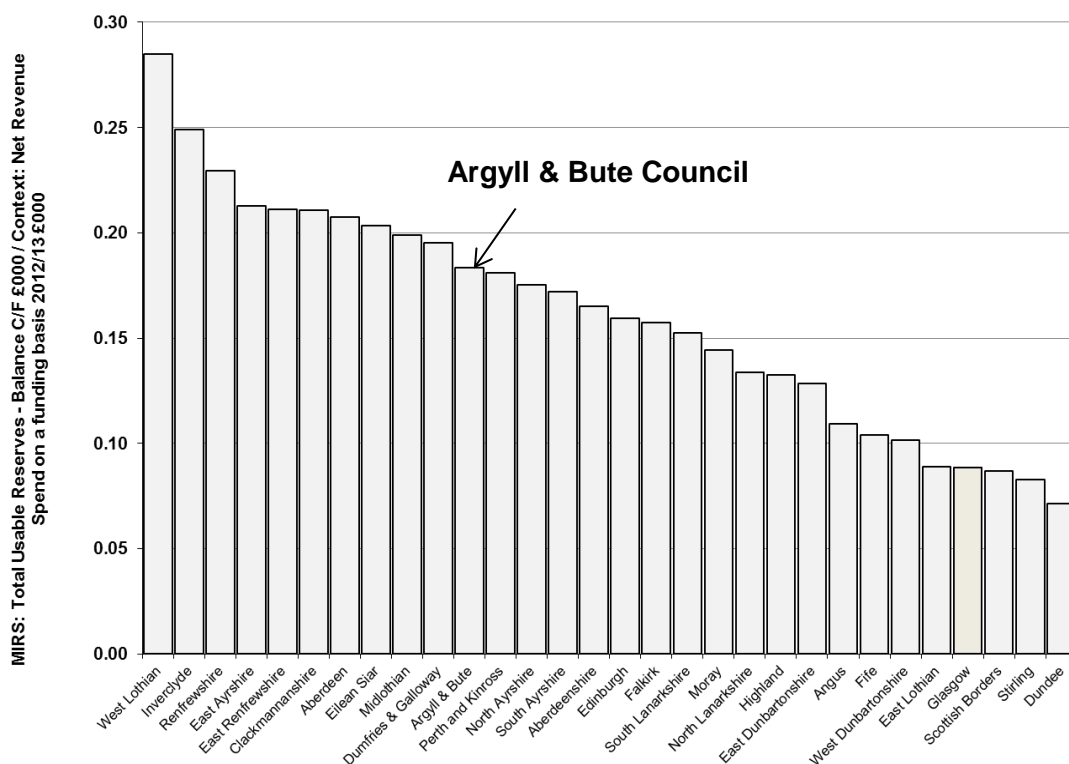
**Exhibit 4 : Total usable reserves including earmarked, uncommitted and capital funds**



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.



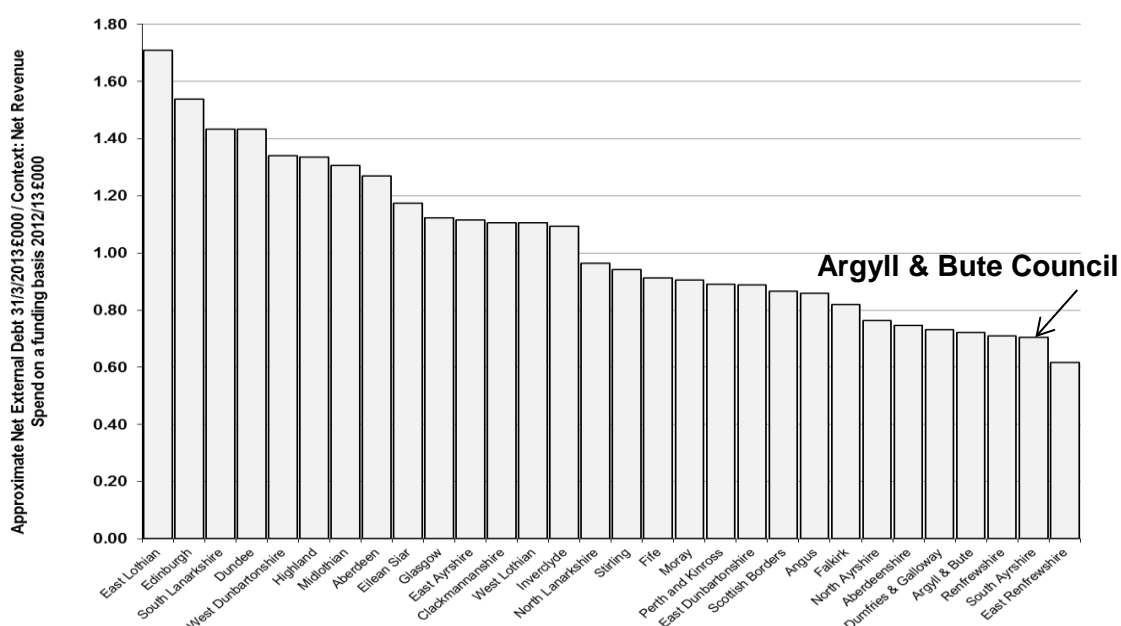
**Exhibit 6: Sources of capital expenditure funding 2011/12 - 2012/13**

	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**

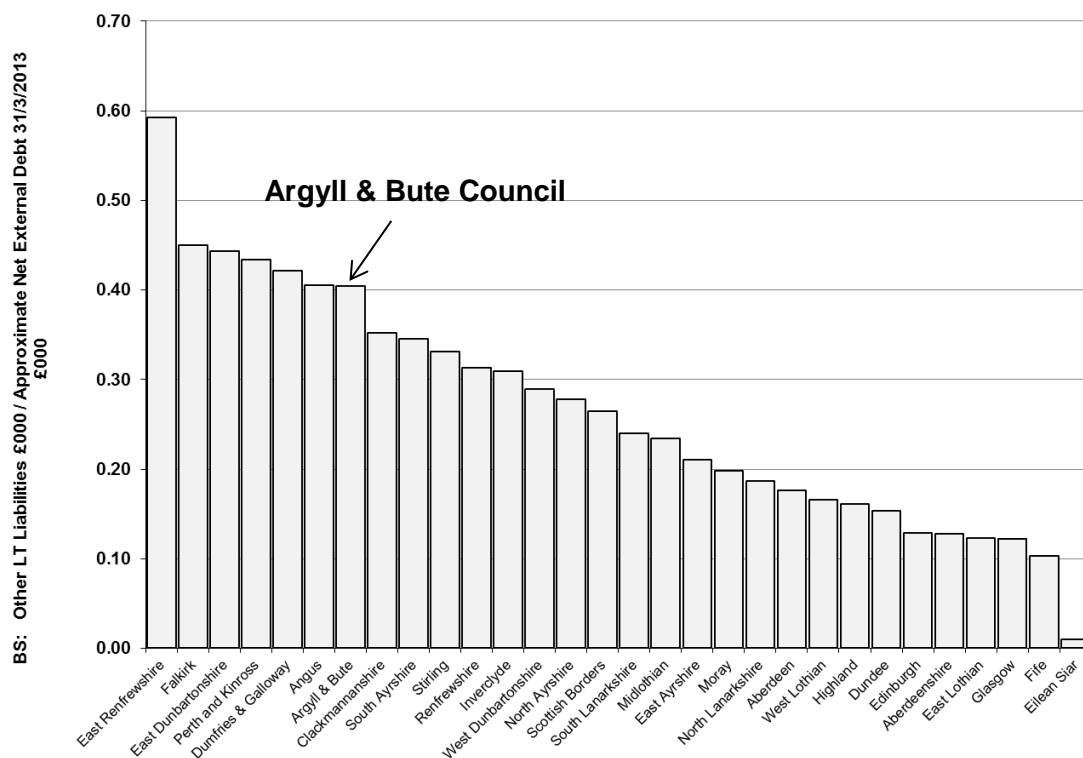
55. The council's level of borrowing in 2012/13 has increased marginally, however the council's net external debt as a proportion of net revenue spend continues to remain low relative to other Scottish councils (refer exhibit 7). At 31 March 2013 the council had total borrowings of £160.968 million (2011/12: £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.

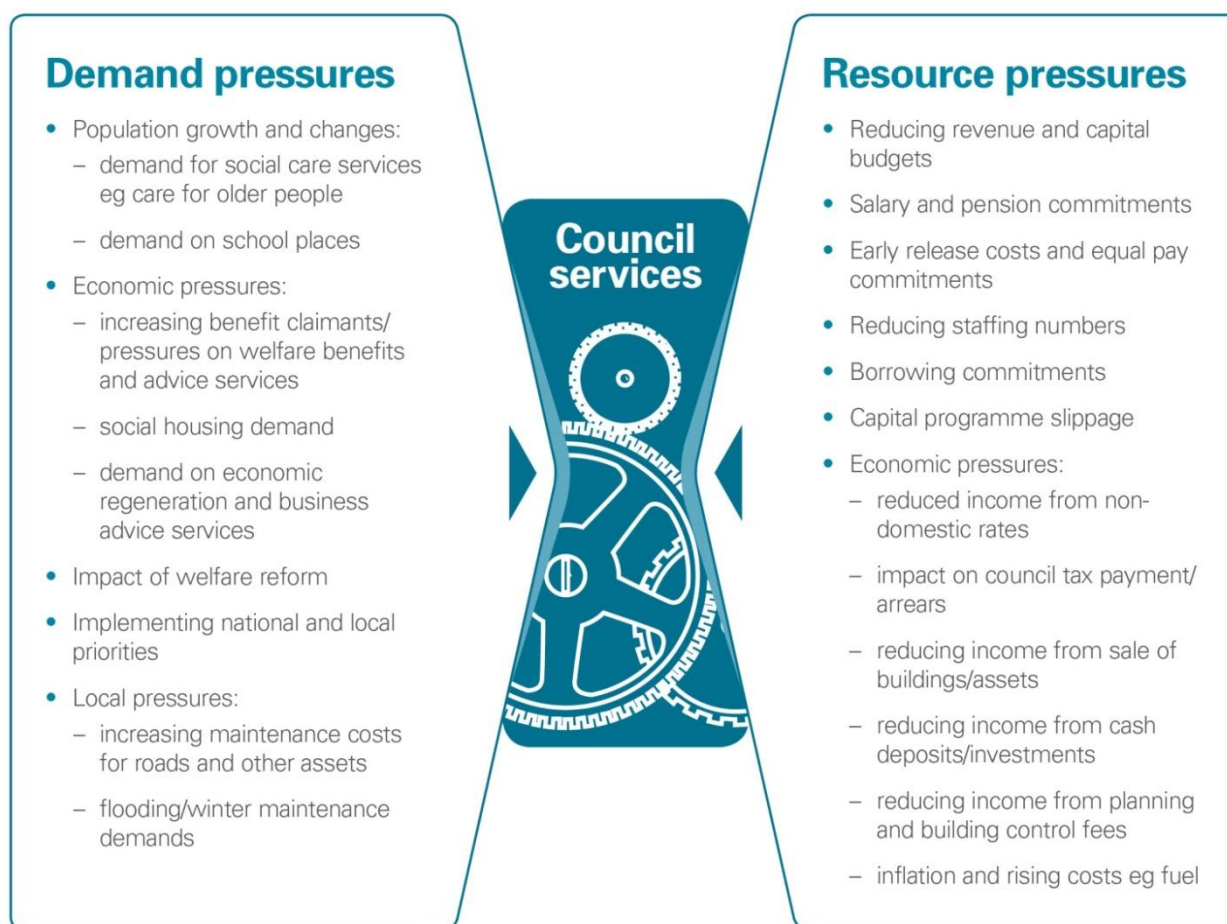
65. As a rural authority Argyll and Bute Council recognise that there are limited opportunities to develop and share services with neighbouring authorities. However, shared services and joint working continue to be considered with other councils and across community planning. Discussions are progressing 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 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 Ardentinnny 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

#### 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 Ardentenny 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 Ardentenny 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 rigorous 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 rigorously 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

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Responding to challenge and change - An overview of local government in Scotland 2013</li><li>• Improving community planning in Scotland</li><li>• Major capital investment in councils.</li></ul> | <ul style="list-style-type: none"><li>• Protecting consumers</li><li>• Using cost information to improve performance - are you getting it right?</li><li>• Health inequalities in Scotland</li><li>• Reducing reoffending in Scotland.</li></ul> |
|--|--|

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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- 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 September 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	<p><b>Equal pay</b></p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><b>Risk: There is a risk that the ultimate cost to the council is greater than anticipated.</b></p>	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	<p><b>Charity accounts</b></p> <p>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.</p> <p><b>Risk: charity accounts may not be audited in accordance with the timescales required by OSCR.</b></p>	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	<p><b>Funding gap</b></p> <p>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.</p> <p><b>Risk: the council may not be able to generate</b></p>	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
		<b><i>sufficient efficiencies and cost savings to bridge the funding gap.</i></b>	spending plans through the programme of service prioritisation reviews that will align resources with council priorities.		
4	93	<p><b>Public Services Network (PSN)</b></p> <p>A neighbouring authority has yet to have its application to connect to PSN approved.</p> <p><b><i>Risk: the council may not be able to access data on the systems hosted by a neighbouring authority that it relies on.</i></b></p>	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	<p><b><i>Lease Agreements</i></b></p> <p>The council should undertake a review to</p>	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
		<p>confirm that all properties leased to or occupied under license by outside parties are covered by valid legal agreements.</p> <p><b>Risk: disputes may arise over future maintenance and upkeep costs.</b></p>	<p>significant piece of work that will need to be spread over a number of months.</p>		