



cutting through complexity™

1

East Lothian Council

Report to those charged with governance

Audit: Year ended 31 March 2012

6 September 2012

**The contacts at KPMG
in connection with this
report are:**

Stephen Reid

Director, KPMG LLP
Tel: 0131 527 6795
Fax: 0131 527 6666
stephen.reid@kpmg.co.uk

Andy Shaw

Senior Manager, KPMG LLP
Tel: 0131 527 6673
Fax: 0131 527 6666
andrew.shaw@kpmg.co.uk

Sarah Burden

Assistant Manager, KPMG LLP
Tel: 0131 527 6611
Fax: 0131 527 6666
sarah.burden@kpmg.co.uk

	Page
Executive summary – headlines	2
Accounting	3
Financial statements	10
Appendix one: Audit differences	22
Appendix two: Management representation letter content	23
Appendix three: Action plan	24
Appendix four: Controls testing - reconciliations	31

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of East Lothian Council ("the Council") and is made available to Audit Scotland and Accounts Commission (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.



Executive summary

Headlines

Our audit work is undertaken in accordance with Audit Scotland's Code of Audit Practice ("the Code"). This specifies a number of objectives for our audit.

In accordance with ISA (UK and Ireland) 260: Communication with those charged with governance, this report summarises our work in relation to the financial statements.

We wish to record our appreciation of the co-operation and assistance extended to us by your staff during the course of our work.

Accounting	
Accounting policies are appropriate for the underlying operations, although we have suggested areas of enhancement based on our experience with other local government bodies and our interpretation of the Code.	Page 3
<p>Our audit approach reflected our assessment of financial statement level risks and included consideration of technical accounting matters. Our conclusion on the key risks are set out on pages three to nine, in respect of:</p> <ul style="list-style-type: none"> ■ valuation of property plant and equipment, including the required prior year adjustment; ■ componentisation and depreciation; and ■ group financial statements. <p>We also set out our consideration of other matters, which are important, albeit with a lower risk of material misstatement. These matters are financial instrument disclosures, long-term investments and other financial statement disclosures.</p>	Pages 3-9
Financial statements	
Draft financial statements were prepared by management prior to the 28 June 2012 deadline and it is anticipated that the final financial statements will be signed in line with the agreed timetable. Notwithstanding this, a significant delay was experienced during the audit process, arising from the late provision of information from management. The two main areas were in respect of completion of the year end bank reconciliation and in obtaining additional information from the Council's external valuers.	Pages 10-11
Audit conclusions	
We anticipate issuing an unqualified audit opinion.	-
Mandatory communications	
We have no significant matters to communicate in respect of: audit differences and management representation letter content.	Appendices 1 and 2
Action plan	
We have identified a number of control recommendations during the interim and final audits, primarily related to procurement, the lack of formality and regularity of control account reconciliations, lack of authorisation of reconciliations and journal review. The action plan includes eight recommendations in respect of grade one ("high") risk observations.	Appendix 3

There is one development in accounting policies, in respect of heritage assets, which has been appropriately adopted.

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 (“the Code”) included a number of amendments.

These have been correctly implemented in the financial statements.

Other accounting policies have been applied consistently.

<p>Accounting policies</p>	<p>The 2011-12 financial statements have been prepared in accordance with the <i>Code of practice on Local Authority Accounting in the United Kingdom 2011-12 (“the Code”)</i> which is based upon International Financial Reporting Standards (“IFRS”).</p> <p>The 2011-12 Code introduced the requirement for the Council to apply FRS 30 <i>Heritage Assets</i> for the first time. We discussed with management the requirements of FRS 30 during the interim audit and have considered the treatment within the draft financial statements.</p> <p>Management obtained a valuation of the Council’s oil painting collection during the year, to comply with the requirements of the standard. In respect of the Council’s civic regalia, coins and ceramics and flags / banners no valuations have been obtained; management intend for the valuations to be conducted during the next two financial years. Neither of these collections are deemed material, and therefore management’s approach is considered acceptable.</p> <p>Heritage assets are not a material balance as at 31 March 2012, at £0.5 million. The adoption of the accounting policy and the required disclosures have been appropriately applied in the financial statements.</p>
<p>Code of practice on Local Authority Accounting in the United Kingdom 2011-12 (“the Code”)</p>	<p>The 2011-12 Code has a number of amendments from the 2010-11 version and management considered the reporting requirements for the financial statements. The amendments included:</p> <ul style="list-style-type: none"> ■ applicability of FRS 30 <i>Heritage Assets</i> (as above); ■ additional guidance in respect of leases; ■ additional disclosure requirements in respect of exit packages; and ■ a requirement for a specific statement in the annual governance statement / statement on the system of internal financial control on whether financial management arrangements conform with the governance requirements of the statement on "the role of the chief financial officer in local government." <p>We discussed the changes to the Code with management and considered whether they were appropriately reflected in the financial statements. We requested amendments to the disclosure of exit packages and the inclusion of additional disclosure to the annual governance statement to reflect the role of the chief financial officer. These changes were reflected in subsequent versions of the financial statements.</p>

Management confirmed that there was a material error in the 2010-11 financial statements; a prior year adjustment has been processed in the 2011-12 financial statements to correct the error. This recognises a downward revaluation of *other land and buildings* as at 1 April 2011, not previously reflected in the financial statements as at 31 March 2011.

Valuation of property, plant and equipment

Prior year adjustment: valuation of other land and buildings

A valuation of *other land and buildings* was performed by an external valuer engaged by the Council, as at 1 April 2011. While the final valuation report was not available to the Council at the time of preparing the 2010-11 financial statements, it was received in August 2011, prior to the 2010-11 financial statements being finalised. The valuation report was not analysed until after the financial statements were signed and it showed a net valuation decrease to *other land and buildings* of around £100 million, after adjusting for the componentisation of secondary school assets.

In accordance with accounting standards, we highlighted to management that the valuation provided evidence of fair value at 31 March 2011. Therefore, in our view, this matter should have been treated as an adjusting 'post-balance sheet event' and reflected within the 2010-11 financial statements. Further to our discussions, management accept that there was a material error in the 2010-11 financial statements and a prior year adjustment has been processed in the 2011-12 financial statements to correct the error.

Following consideration by management, the Council's external valuers has confirmed that the decline in residential development land values occurred mid to late 2008, consequently the prior year adjustment has been applied to the earliest date possible within the financial statements; opening reserves as at 1 April 2009.

The Council's external valuers have also confirmed that there has been no material movement in operational property values over the period from 2009 to 2012 and the asset valuation change (£74 million gain within the net £100 million decrease) has been reflected in the opening reserves as at 1 April 2009. Management has not recognised a prior year adjustment for the consequent depreciation change for the operational property assets, on the grounds of materiality. Management has estimated that the depreciation for 2010 and 2011 would have been around £1.4 million in each year and consequently assets are overstated by around £2.8 million as at 31 March 2012. We concur that this is not a material value and an unadjusted audit difference is presented on page 20.

We have reviewed the prior year adjustment disclosures and are content that they are materially correct.

There are different valuation cycles across property, plant and equipment categories; management has made assumptions regarding the fair value of certain categories, most notably 'council dwellings' which have not been formally revalued since 1 April 2009.

Valuation of property, plant and equipment

Valuation: cycle and assumption as at 31 March 2012

The table below sets out the measurement basis for the categories of property, plant and equipment held by the Council and, where applicable, the valuation cycle applied.

Property, plant and equipment ; carrying value as at 1 April 2011: £785 million								
	Council dwellings	Other land and buildings			Vehicles, plant, furniture and equipment	Infrastructure assets	Community assets	Assets under construction
	£259 m	£397m	£16 m	£21m*	£9 m	£47 m	£18 m	£18 m
Measurement	Fair value	Fair value			Depreciated historic cost	Depreciated historic cost	Depreciated historic cost	Cost
Date of last valuation	1 April 2009	1 April 2011	1 April 2010	n/a*	n/a	n/a	n/a	n/a
Date of next valuation	1 April 2014	1 April 2016	1 April 2015	1 April 2015	n/a	n/a	n/a	n/a

The Code, in line with IAS 16 property, plant and equipment, requires that where property, plant and equipment are held at fair value, valuations shall be carried out at intervals of no more than five years. Valuations may be carried out on a rolling basis or once every five years.

There is a lack of clarity in respect of the Council's policy of valuations; the programme of valuations and the assessment of the appropriateness of carrying values at the balance sheet date is not clearly documented.

Management should review the valuation policy and procedures to ensure compliance with the Code and accounting standards, for example by addressing:

- the rolling basis of valuations of classes of assets;
- the date of valuation of assets, 31 March versus 1 April; and
- documentation of the assessment of the appropriateness of the carrying values of all assets at the balance sheet date.

Recommendation one

* Represents assets under construction and other additions not included in the 2011 valuation.

In respect of council dwellings, where improvements are made they are recognised as capital additions and held as a single asset within the Council's asset register, rather than being added to individual dwellings.

Due to the potential complications that may arise from revaluing council dwellings we recommend management review and take action on the current approach to the valuation of council dwellings.

Valuation of property, plant and equipment

Componentisation

The Code requires that each item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately. Componentisation of property, plant and equipment is applicable from the earliest date a revaluation is carried out after 1 April 2010.

The Council has a componentisation policy which states that all assets valued at £4 million or more will be componentised. As part of our audit we considered the componentisation of other land and buildings and are of the view that the requirement has been appropriately applied in this respect.

For council dwellings, beacon values are used to value the assets; all dwellings on one road are held as a single asset in the Council's asset register (Asset Manager), even if they are of different sizes. Where improvements are made they are recognised as capital additions and held as a single asset within the Council's asset register, rather than being added to individual dwellings.

Council dwellings were last revalued as at 1 April 2009; at our request management has obtained confirmation from the district valuer that the value of council dwellings reflected within the financial statements at 31 March 2012 remain appropriate. We have also sought, and obtained, management representations regarding the value of council dwellings.

Due to the potential complications that may arise from revaluing council dwellings (since they are held as one line item with enhancements also held as one line item) we recommend management review and take action on the current approach to the valuation of council dwellings, including consideration of:

- the date at which council dwellings will be valued;
- the appointment of appropriate valuers; and
- forward planning and early engagement with the appointed valuers on how the council dwellings will be split into their relevant components to reflect the requirements of the Code.

Recommendation two

Depreciation on additions to existing assets is calculated, in our view, by applying an unusual and, potentially, overly complex methodology.

Depreciation	<p>Additions: new assets</p> <p>Additions to property, plant and equipment are depreciated on a daily basis from 2 October in the year of acquisition. In accordance with the Code, management has the option to charge a full year of depreciation in the year of acquisition or to apply no depreciation .</p> <p>While we have not observed a similar policy at other organisations, it does not appear to be unreasonable in the context of the Code.</p>
Depreciation	<p>Additions: enhancements to existing assets</p> <p>Depreciation on additions to existing assets is calculated using the method set out below and illustrated in the diagram.</p> <ol style="list-style-type: none"> 1. Depreciation on the cost or valuation of an existing asset is applied, based on its useful economic life and calculated on a daily basis from 1 April to 1 October. 2. The net book value (“NBV”) of the existing asset is calculated as at 1 October, being the opening NBV less the depreciation calculated above. 3. The cost of any additions is added to this ‘enhanced’ carrying value, to provide a depreciable value of the asset. 4. The depreciable value of the asset is depreciated on a daily basis from 2 October to 31 March and added to the first six months of depreciation to give the depreciation charge for the year. <p>This is not a method of calculating depreciation on enhancements to existing assets we have observed before. As noted earlier, the majority of enhancements to council dwellings are accounted for as separate assets, and therefore this methodology does not impact these assets. However, management will require to consider the implications of their current policy once council dwellings are componentised.</p> <p>We have analysed the depreciation charge on those assets where capital expenditure has been incurred and accounted for as an enhancement to the existing asset. We consider that depreciation is understated by an insignificant amount. In the context of the financial statements taken as a whole, we have agreed with management’s assessment that there is not a material misstatement.</p> <p>We recommend management review the current depreciation policy, and consider revising the current methodology, taking into account implications for enhancement in council dwellings, given their potential value arising from the programme of modernisation.</p> <p style="text-align: right;">Recommendation three</p>

An impairment review has been performed and no material impairments have been identified. The process could be enhanced by ensuring 'nil responses' are received for completeness and the process is enhanced to include formal consideration of changes due to market value.

Following detailed discussions with us, the Council has consolidated the joint boards into the group financial statements having concluded that they have significant influence.

<p>Depreciation</p>	<p>Existing asset brought forward with cost/valuation and accumulated depreciation</p> <p>Carrying value (NBV) calculated on existing asset</p> <p>Cost of additions/ enhancements added to existing asset NBV to give depreciable amount</p> <p>Asset carried forward , carrying amount recognised on balance sheet as cost/valuation less total accumulated depreciation</p> <p>1 April 2011</p> <p>1 October 2011</p> <p>31 March 2012</p> <p>Depreciated calculated based on cost/valuation and useful economic life</p> <p>Depreciation calculated based on depreciable amount of asset and useful economic life</p>
<p>Valuation of property, plant and equipment</p>	<p>Impairment review</p> <p>Annually, management undertake an impairment review by requiring members of senior staff across the Council to consider if there are any known impairments and to provide supporting documentation to support their assessment. This is a requirement of the Code and, while an example of good practice, the current process could be improved.</p> <p>The impairment review should also include formal consideration of changes due to market value as an impairment indicator and not solely changes in condition. In addition, members of staff should be required to complete and submit a return, even where a 'nil return' is required.</p> <p style="text-align: right;">Recommendation four</p>
<p>Group accounts</p>	<p>During the planning and interim phase of the audit we discussed with management the group structure and, specifically, management's rationale for possible non-inclusion of the joint boards. Although the Council does not have more than 20% of the voting rights of each joint board, which would indicate the Council has significant influence, there are other indicators of significant influence, as outlined in IAS 28 <i>investments in associates</i>. As part of our analysis we concluded that the requirements of IAS 28 <i>investments in associates</i> were met and that the joint boards should be accounted for as associates.</p> <p>Before the financial statements were completed management concluded that it was appropriate to include the joint boards in the group accounts and account for them as associates. The disclosures relating to the group accounts have been updated to reflect the requirements of the Code.</p>

Disclosures of the fair value of financial instruments comply with the Code, but additional disclosures were required.

Long-term investments are held at the net asset value of the related company, which is appropriate on grounds of materiality.

Other presentational disclosure changes have been required as part of the audit process.

<p>Financial instruments</p>	<p>Borrowings held by the Council are accounted for as financial liabilities in accordance with the Code, and are held at amortised cost. There is also a requirement for disclosure of the fair value of the financial liabilities within a note to the financial statements. Sector, an independent treasury management consultant, prepared a fair value valuation report of the Council's Public Works Loan Board ("PWLB") loans, giving a fair value of £257 million. This value is different to the valuation obtained from the PWLB's own website (£291 million). Following discussions with management, we understand that this is due to a different discount rate being applied; the early repayment rate is used by PWLB and Sector apply the rate available for new borrowing.</p> <p>Audit Scotland's notes for guidance identify that there is a preference for the early repayment rate, although either method is acceptable, combined with disclosure in the financial statements of the methodology used and the reason. While the Council had applied the Sector approach consistent with the prior year, the financial statements required updating following the audit process, to disclose the interest rate used and why management deemed this to be appropriate.</p>
<p>Long-term investments</p>	<p>The Council holds a long-term investment in Lothian Buses plc, representing 200,000 ordinary shares (3.1%) of the share capital. The investment is held at fair value and management has assumed this to equal the Council's share of the net asset value of Lothian Buses plc (£2.2 million) as at 31 December 2011.</p> <p>While the fair value of an equity investment is unlikely to be equal to the net assets of the company, management consider their valuation assumption to be prudent and, since we consider the difference to actual fair value to be insignificant, no adjustment is presented on the schedule of unadjusted audit differences. Going forward, management should continue to keep this area under review.</p>
<p>Other disclosures</p>	<p>As a result of the audit process, a number of presentational changes were applied to the financial statements to ensure consistency with the Code. These included disclosure of the critical judgements in applying accounting policies; audit costs; property, plant and equipment; long-term investments; financial instruments; provisions; material items of income and expenditure; pension schemes, the cash flow statement; council tax account and non-domestic rates account.</p>

Draft financial statements were provided on 28 June 2012, in line with the agreed timetable.

There were some delays in the audit process, specifically arising from the late provision of the main bank reconciliation and other land and building valuations.

Recommendations are included in the action plan in appendix three.

Area	Comments
Overall process	<ul style="list-style-type: none"> ■ KPMG were appointed as auditor of the Council for the period 2011-12 to 2015-16, inclusive. Several introductory and planning meetings were held prior to the start of the interim audit fieldwork. To facilitate an efficient audit, a prepared by client (“PBC”) list was agreed with management in advance of the final audit visit and discussed with management, together with the timetable for delivery. ■ During the planning and interim field work a number of technical matters were identified and discussed with management, the key matters being the need for a prior year adjustment in respect of property, plant and equipment, the accounting for joint boards and the accounting for long-term investments. Also discussed at the interim stage of the audit was the lack of formality and timeliness in respect of control account reconciliations, where evidence of preparation and independent senior review was not available in respect of a number of significant financial ledger accounts. ■ Management provided the draft financial statements on 28 June 2012, in line with the agreed timetable, and a PBC audit file was made available at the start of the final audit fieldwork. However, a number of the audit focus areas were not resolved and available for audit at the start of the final audit fieldwork. The key areas included: <ul style="list-style-type: none"> ■ detailed information from the Council’s external valuer in respect of the valuation of <i>other land and buildings</i>, including the timing of fair value movements required to allow the prior year adjustment to be processed; ■ information from the Council’s external valuer for the <i>other land and buildings</i> valuation as at 31 March 2012; and ■ completion of the main financial year end bank account reconciliation as at 31 March 2012. ■ The late receipt of the information noted above caused delay in the audit process and in management being in a position to prepare the final version of the financial statements. The receipt of a satisfactory response from the Council’s external valuer was subject to delay and was not concluded until 30 August, with matters in respect of the reconciliation of the Council’s main bank account not completed by management until 29 August. The lack of availability of the main bank account reconciliation for the majority of the audit is unusual and gives rise to an increased risk of unidentified errors in other financial ledger accounts, requiring more detailed audit work to mitigate the associated risks. ■ Save for the matters noted above, the audit progressed without significant issue; one unadjusted audit difference were identified. However, a number of recommendations have been made to improve and enhance the Council’s control framework.

Area	Comments
Overall process	<ul style="list-style-type: none"> <li data-bbox="685 315 1866 368">■ A significant proportion of supporting analysis provided by management in response to audit queries were ledger prints or spreadsheets. Some difficulties were encountered where these did not agree to the draft financial statements. <li data-bbox="685 394 1984 446">■ In our view, there is opportunity for management to make the audit process more efficient through ensuring that supporting analysis is proactively reconciled to the draft financial statements before being provided for audit. <ul style="list-style-type: none"> <li data-bbox="1779 458 2005 476">Recommendation five <li data-bbox="685 505 1997 558">■ Management completed the required financial statement disclosure checklist; identifying a number of disclosures requiring amendment in the draft financial statements. However, it was completed after the draft financial statements had been submitted for audit. <li data-bbox="685 586 1997 639">■ From our review, we identified that a number of management responses to the disclosure checklist were incorrect; resulting in the draft financial statements requiring further amendment. <li data-bbox="685 668 1943 721">■ We recommend that in future the financial statement disclosure checklist should be completed in advance of approval of the draft financial statements and reviewed for accuracy, with errors being amended prior to submission for audit . <ul style="list-style-type: none"> <li data-bbox="1786 743 2005 762">Recommendation six

A number of further control observations have been identified in the key financial controls during our final audit work.

Recommendations are included in the action plan in appendix three.

Audit area	Key controls	Findings	Overall findings												
Procurement arrangements	<ul style="list-style-type: none"> procurement policies and processes are embedded throughout the Council appropriate procurement levels 	<ul style="list-style-type: none"> Internal audit completed a routine review of procurement in early 2011 and identified weaknesses within the Council's procurement processes. Following disclosure of the findings, management considered that a detailed review of two specific contracts was required and an investigation was performed, commencing in September 2011. The results of this investigation have yet to be reported to the audit and governance committee. As a result of the investigation findings, and having sight of the draft report, it was agreed with management that there was a need for further work to be undertaken in order to conclude on the wider implications of the procurement process weaknesses. A specialist KPMG team reviewed the investigation remit, the findings, considered other contracts on a sample basis and assessed the procurement function at the Council, with particular attention to the awarding of contracts. We consider that the internal audit investigation included the appropriate procedures for the remit and sufficient review was performed by internal audit in order to conclude on the key aspects of the contracts. We note that there is a minor conclusion outstanding in respect of work performed (and charged) on two properties which the Council does not own. Internal audit concluded that both contracts were awarded in a manner which bypassed the Council's procurement process. The annual value of procurement is around £140 million, with 80% 'on-contract' and 20% 'off-contract'. 'Off-contract' relates to procurement which is made without a contract in place or without use of the procurement team, i.e. without compliance with tendering requirements. For contract awards which adhere to the procurement policy, the limits are shown below: <table border="1" data-bbox="922 996 1881 1125"> <thead> <tr> <th>Procurement type</th> <th>3 quotes</th> <th>Tender (non-EU)</th> <th>Tender (EU)</th> </tr> </thead> <tbody> <tr> <td>Goods and services</td> <td>< £50k</td> <td>£50k - £140k</td> <td>> £140k</td> </tr> <tr> <td>Works</td> <td>< £1.2m</td> <td>£1.2m - £3.4m</td> <td>> £3.4m</td> </tr> </tbody> </table> We consider that the limits for works tender s is high at £1.2 million. We understand that the Council is considering lowering these limits in a new procurement manual which is in the process of being drafted. We recommend that the monetary value at which a tender is required for works is reduced. This recommendation was also made by internal audit as a result of their review. 	Procurement type	3 quotes	Tender (non-EU)	Tender (EU)	Goods and services	< £50k	£50k - £140k	> £140k	Works	< £1.2m	£1.2m - £3.4m	> £3.4m	●
Procurement type	3 quotes	Tender (non-EU)	Tender (EU)												
Goods and services	< £50k	£50k - £140k	> £140k												
Works	< £1.2m	£1.2m - £3.4m	> £3.4m												

Recommendation seven

Key:

- Significant weakness in key controls exists
- Weaknesses in the control process were identified
- No areas for improvement were identified

A number of further control observations have been identified in the key financial controls during our final audit work.

Recommendations are included in the action plan in appendix three.

Audit area	Key controls	Findings	Overall findings
Procurement arrangements	<ul style="list-style-type: none"> ■ use of purchase orders and a three way match process 	<ul style="list-style-type: none"> ■ The purchase order process at the Council falls in to one of four categories: <ul style="list-style-type: none"> ■ the purchase order is processed through the PECOS three-way match procurement system (approximately 30%); ■ the purchase order is raised via a small number of paper order-books; ■ the purchase order is raised via the property / transport department's own system; or ■ no purchase order is raised. ■ There is a risk that purchases are made without the appropriate level of approval and do not represent value for money. The PECOS system provides an efficient and robust control environment in respect of purchase orders, and management should extend the coverage to other relevant Council functions. <p style="text-align: right;">Recommendation eight</p>	

Key:

- Significant weakness in key controls exists
- Weaknesses in the control process were identified
- No areas for improvement were identified

A number of further control observations have been identified in the key financial controls during our final audit work.

Recommendations are included in the action plan in appendix three.

Audit area	Key controls	Findings	Overall findings
<p>Procurement arrangements</p>	<ul style="list-style-type: none"> ■ new supplier authorisation and amendment 	<ul style="list-style-type: none"> ■ We commented in our interim management report on the process in respect of new suppliers and have provided an update on these areas later in this report. Further testing has been completed by our specialist team in respect of the additions and amendments to the supplier database. ■ Testing of a sample of additions and amendments to the supplier database was performed. The testing identified that three of the nine new suppliers added to the system did not have supporting authorised new supplier request forms, however the payments made to the supplier were authorised. ■ There is a risk of ghost suppliers being added to the system by staff to which payments could be diverted. A number of changes are needed to the current processes and procedures to ensure that all new suppliers are added to the system only once an appropriately authorised new supplier request form has been received. Furthermore, the creditors team should call suppliers directly to check changes in bank details are a legitimate request. Further, management should adopt a formal regular review procedure of amendments to the supplier database to provide oversight of new suppliers and amendments. <p style="text-align: right;"><i>Recommendation nine</i></p>	

A number of further control observations have been identified in the key financial controls during our final audit work.

Recommendations are included in the action plan in appendix three.

Audit area	Key controls	Findings	Overall findings
<p>Procurement arrangements</p>	<ul style="list-style-type: none"> ■ approval of expenditure, appropriate quote/tender process, signed contracts 	<ul style="list-style-type: none"> ■ Testing of a sample of contracted supplier contracts was undertaken to ensure compliance with the Council's current procurement procedures, on a sample basis. The testing identified: <ul style="list-style-type: none"> ■ 19 out of 25 had limited involvement of the procurement team; ■ 7 out of 25 had no contract and are not on the contracts register; ■ 2 out of 25 were not subject to quote / tender processes, as required by the procurement manual; ■ 19 out of 25 do not have an approved project initiation document or procurement completion document; and ■ documentation is still outstanding in relation to 4 contracts and therefore we are unable to conclude on whether the tender procedures have been followed in relation to these contracts. ■ Procurement safeguards are being bypassed, giving rise to the risk that expenditure may not be appropriate and not meet value for money criteria. Furthermore, this practice may potentially have financial, reputational and legal implications. We recommend that management ensure all procurement expenditure follows the appropriate processes and the updated 2012 procurement policies are implemented on a timely basis. This may give rise to the need for additional training amongst department staff. Appropriate checks and controls should be put in place to ensure that the processes are being followed throughout the Council. <p style="text-align: right;"><i>Recommendation ten</i></p>	

A number of further control observations have been identified in the key financial controls during our final audit work.

Recommendations are included in the action plan in appendix three.

Audit area	Key controls	Findings	Overall findings
Procurement arrangements		<ul style="list-style-type: none"> ■ The procurement team maintains a listing of the top 20 'off-contract' spend by supplier and value , in order to investigate the reasons for such spend. The items on the report falls into four categories: <ul style="list-style-type: none"> ■ there is a contract in place, but this has not been reflected in the contract register; ■ there is no contract in place and one needs to be in place; ■ there was a contract in place but recently expired and action is required to migrate to a new contract / tender; or ■ there is a contract in place but this spend is 'off-contract'. ■ From our testing it was identified that there were frequently recurring names on the list, and we would therefore recommend that action is taken in relation to reduce the 'off-contract' expenditure. <p style="text-align: right;">Recommendation 11</p> ■ The Council has a £2 million spend via purchase cards, and a purchase card review was carried out in December 2011 which identified a number of control weaknesses. We understand that management has implemented a number of actions to address the matters raised in this review. 	●
Journals	<ul style="list-style-type: none"> ■ journal review and authorisation 	<ul style="list-style-type: none"> ■ The majority of members of the finance team are able to post journals to the financial ledger. While each journal is printed and signed by the member of staff preparing the journal, there is no independent senior review and authorisation of the journals prior to these being posted to the financial ledger. In addition, supporting documentation is inconsistently retained alongside journal forms. ■ The preparation and posting of journals to the financial ledger brings a fraud risk . Due to the current arrangements, including weaknesses in other key reconciliation processes, there is an increased risk of fraudulent or erroneous journals not being identified on a timely basis. ■ Management should review the process for the preparation, posting and independent senior review and authorisation of journals to ensure that these are robust and that appropriate supporting documentation is retained to support journal forms. Where a high quantum of routine journals are prepared a risk-based authorisation process may be appropriate. <p style="text-align: right;">Recommendation 12</p> 	●

A number of further control observations have been identified in the key financial controls during our final audit work.

Recommendations are included in the action plan in appendix three.


Audit area	Key controls	Findings	Overall findings
Cash and cash equivalents	<ul style="list-style-type: none"> reconciliation of bank balance to general ledger balance 	<ul style="list-style-type: none"> Internal audit completed a review of this process, with their report presented to the audit and governance committee on 13 March 2012. Internal audit identified a number of serious weaknesses in the bank reconciliation process, including that the bank reconciliations did not compare the balance between the bank statement and the general ledger at the same date. This matter has contributed to a significant delay by management in preparing the year end bank reconciliation. There is a significant fraud risk associated with the current bank reconciliation processes. During the year end bank reconciliation process, a number of cash posting errors were noted by management and were removed from the cashbook by posting to a holding account. The balance of this account is £280,000 (credit) and this will be cleared to £nil in 2012-13 by posting to income and expenditure on a line by line basis. £280,000 is below the threshold of reporting audit differences, although represents a misstatement in income and expenditure. Management needs to take immediate action to establish appropriate processes and procedures in respect of key reconciliations, including appropriate independent, timely review by senior staff. <p style="text-align: right;">Recommendation 13</p>	●
Property, plant and equipment	<ul style="list-style-type: none"> reconciliation of the general ledger to Asset Manager 	<ul style="list-style-type: none"> The Council's fixed asset register is updated by the finance manager on an annual basis in order to generate the annual depreciation charge and other calculations and disclosures in respect of the annual financial statements. However, there is currently no independent review by a more senior member of staff of this work, compromising the segregation of duties over the processes, procedures and controls. Management should review the current practices to ensure appropriate independent senior review procedures are established. <p style="text-align: right;">Recommendation 14</p>	●

Our interim management report identified a number of weaknesses in key financial controls.


We have provided an update on these key financial controls at the Council.

Audit area	Key controls	Interim audit findings	Final audit update	Overall findings
Reconciliations	<ul style="list-style-type: none"> Reconciliation controls should exist in the majority of financial systems and should be performed periodically, from daily to annually. Reconciliations include a combination of internal financial and non-financial systems and external data, such as bank statements. 	<ul style="list-style-type: none"> There is a lack of evidence of control account journals being performed and subsequently reviewed for a large number of the control accounts. In some instances, two reports are filed together (on paper or electronically) although there is no evidence of the reconciliation performed, or action taken to identify and resolve reconciling items. The lack of audit trail means that management cannot determine the nature of action taken in respect of reconciling items, or gain assurance that underlying financial records are free from fraud and error. Where there is evidence of reconciliations being performed, there is inconsistent documentation of who prepared the reconciliation and evidence of independent review. Evidence of preparation and review is required to demonstrate segregation of duties. For example, if a reconciliation of two systems is performed by a member of staff with access to both systems, there is a risk of manipulation of the underlying data. Reconciliations are the primary control to detect fraud or error; incorrectly performed or reconciliations not subject to review can be used to hide fraud in underlying systems. Some reconciliations are performed on an annual basis and there is a risk that errors are not detected and resolved on a timely basis during the financial year. As a result: <ul style="list-style-type: none"> fraud or error could continue undetected for a period of up to 12 months; and the time required to reconcile 12 months of data creates inefficiencies and delays in the close-down and financial statement preparation process. 	<ul style="list-style-type: none"> While some progress has been made by management, further improvements are required. Appendix four reflects updated details of the identified weaknesses and associated risks. 	

Update on key financial controls (continued)

Audit area	Key controls	Interim audit findings	Final audit update	Overall findings
<p>Expenditure</p>	<ul style="list-style-type: none"> ■ new supplier authorisation and amendments ■ purchase order, goods received and invoice authorisation ■ payment run processing and authorisation ■ purchase cards 	<ul style="list-style-type: none"> ■ No findings to report in respect of purchase orders, goods received, invoice authorisation and purchase cards. ■ Management's recent actions to control new suppliers focussed on ensuring approval at the purchase stage; management reports that 75% of expenditure is now incurred on contracted services through approved suppliers. As management continues to make progress in increasing this percentage, new supplier forms are used to authorise new suppliers identified when the invoice is received. It is important that the combination of preventive and detective controls works effectively. New suppliers can, and are being, added without the new supplier form and, therefore, the due diligence checks performed when contracts are approved or forms completed. In these cases, staff used an authorised purchase invoice as evidence to support the validity of the new supplier. There is a risk that inappropriate new suppliers are set up and inappropriate expenditure is incurred. ■ An email is sent from the payroll team (who are responsible for initiating BACS payments to suppliers) to the purchases team to confirm the total value of BACS payments and the total number of invoices paid. This email is not retained as evidence and there is no evidence that the purchases team reconcile these amounts to payments requested. 	<ul style="list-style-type: none"> ■ Final audit findings are consistent with those identified as part of our interim audit. 	

Update on key financial controls (continued)

Audit area	Key controls	Interim audit findings	Final audit update	Overall findings
<p>Income</p>	<ul style="list-style-type: none"> ■ sales invoice requests ■ cash receipting ■ debtors reports ■ bad debt provisions and write-offs 	<ul style="list-style-type: none"> ■ No other findings to report in respect of sales invoice requests, cash receipting or debtors reports. ■ Decisions on providing for bad debts and debt write-offs are currently based on informal or out of date guidance. Provisions are based on finance managers' judgment and no authorisation is necessary to record these provisions in the financial ledger. ■ There is a risk that provisions are inaccurate or do not reflect accurately the recoverability of debtors. ■ There is also a risk over the consistency of application and that time delays result in additional write-offs. 	<ul style="list-style-type: none"> ■ Final audit findings are consistent with those identified as part of our interim audit. 	

Appendices

A £100.4 million prior year adjustment in respect of valuation of *other land and buildings* is recognised in the financial statements.

A number of presentational adjustments were identified during the audit process.

A £2.8 million audit difference for 2010 and 2011, in respect of depreciation on revalued assets, is presented.

Adjusted caption	Nature of difference	£'000 (cr)/dr
Property, plant and equipment	Prior year adjustment in respect of <i>other land and buildings</i> . Valuation as at 1 April 2011 not reflected in prior year financial statements. The adjustment is made to opening reserves as at 1 April 2010, since the valuation decrease is considered to relate to prior to 2010.	(100,400)
Unusable reserves		100,400

Total -

Amendments were requested to the explanatory foreword to enhance readability, to support compliance with best practice and to align the disclosures to the forthcoming requirements of the International Public Sector Accounting Standards Board ED 47 *financial statement discussion and analysis*.

A number of adjustments were required to the annual governance statement to ensure compliance with the requirements of the Code, including in respect of the position of the section 95 officer and to reflect the action plans developed in response to a number of identified weaknesses in the control environment.

The disclosures in the remuneration report were amended to comply with the requirements of the Code, including ensuring disclosures were prepared on an accruals basis.

A number of changes were made to disclosures and terminology throughout the draft financial statements, including in respect of critical judgements in applying accounting policies; trading operations; audit costs; amounts reported for resource allocation decisions; property, plant and equipment; long-term investments; financial instruments; provisions; material items of income and expenditure; pension schemes; the cash flow statement; council tax account; non-domestic rates account and group financial statements.

Unadjusted caption	Nature of difference	£'000 (cr)/dr
Property, plant and equipment	Depreciation in the years to 31 March 2010 and 31 March 2011 – impact of prior year adjustment in respect of <i>other land and buildings</i> upwards building revaluations	2,800
Unusable reserves		(2,800)
Total		-

You are required to provide us with representations on specific matters such as your financial standing, application of accounting policies, and whether the transactions within the financial statements are legal and unaffected by fraud.

In the management representation letter, we are requesting specific confirmation that:

- except as disclosed in the financial statements or notes to the financial statements, there are no exit packages that have not been properly recorded in the accounting records underlying the financial statements;
- all non-current fixed assets are appropriately classified and valued in accordance with IAS 16 Property, Plant and Equipment. In particular
 - other land and buildings are held at fair value as at 31 March 2010, 31 March 2011 and 31 March 2012, appropriately reflecting the 1 April 2011 valuations; and
 - council dwellings are held at fair value as at 31 March 2010, 31 March 2011 and 31 March 2012.

The action plan summarises specific recommendations, together with related risks and management’s responses.

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>1 Valuation procedures</p> <p>There is a lack of clarity in respect of the Council’s policy of valuations; the programme of valuations and the assessment of the appropriateness of carrying values at the balance sheet date is not clearly documented.</p>	<p>Management should review the valuation policy and procedures to ensure compliance with the Code and accounting standards, for example by addressing:</p> <ul style="list-style-type: none"> ■ the rolling basis of valuations of classes of assets; ■ the date of valuation of assets, 31 March versus 1 April; and ■ documentation of the assessment of the appropriateness of the carrying values of all assets at the balance sheet date. 	<p style="text-align: center;">Grade two</p> <p>We agree to conduct a review.</p> <p>Responsible officer: Business Finance Manager</p> <p>Implementation date: 31 January 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>2 Componentisation</p> <p>Council dwellings were last revalued as at 1 April 2009; at our request management has obtained confirmation from the district valuer that the value of council dwellings reflected within the financial statements at 31 March 2012 remain appropriate. We have also sought, and obtained, management representations regarding the value of council dwellings.</p>	<p>Due to the potential complications that may arise from revaluing council dwellings (since they are held as one line item, with enhancements also held as a one line item) we recommend management review and take action on the current approach to the valuation of council dwellings, including consideration of:</p> <ul style="list-style-type: none"> ■ the date at which council dwellings will be valued; ■ the appointment of appropriate valuers; and ■ forward planning and early engagement with the appointed valuers on how the council dwellings will be split into their relevant components to reflect the requirements of the Code. 	<p style="text-align: center;">Grade one</p> <p>The date for revaluation of council dwellings will likely fall within 2013-2014. It is agreed that forward planning as outlined will be helpful.</p> <p>Responsible officer: Business Finance Manager</p> <p>Implementation date: 31 March 2013</p>
<p>3 Depreciation</p> <p>We consider that management has an unusual method of calculating depreciation on enhancements to existing assets, which gave rise to an immaterial depreciation error in the year. Management should consider the implications of their current policy once council dwellings are componentised.</p>	<p>We recommend management review the current depreciation policy, and consider revising the current methodology, taking into account implications for enhancement in council dwellings, given their potential value arising from the programme of modernisation.</p>	<p style="text-align: center;">Grade two</p> <p>We note that the approach complies with the code but will give consideration to possible alternatives that can be proven to be more effective.</p> <p>Responsible officer: Business Finance Manager</p> <p>Implementation date: 31 March 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>4 Impairment review</p> <p>Annually, management undertake an impairment review by requiring members of senior staff across the Council to consider if there are any known impairments and to provide supporting documentation to support their assessment. This is a requirement of the Code and, while an example of good practice, the current process could be improved.</p>	<p>The impairment review should also include formal consideration of changes due to market value as an impairment indicator and not solely changes in condition.</p> <p>In addition, members of staff should be required to complete and submit a return, even where a 'nil return' is required.</p>	<p style="text-align: center;">Grade three</p> <p>Agreed.</p> <p>Responsible officer: Business Finance Manager</p> <p>Implementation date: 31 March 2013</p>
<p>5 Reconciliation of working papers</p> <p>A significant proportion of supporting analysis provided by management in response to audit queries were ledger prints or spreadsheets. Some difficulties were encountered where these did not agree to the draft financial statements.</p>	<p>In our view, there is opportunity for management to make the audit process more efficient through ensuring that supporting analysis is proactively reconciled to the draft financial statements before being provided for audit.</p>	<p style="text-align: center;">Grade two</p> <p>We will review relevant examples and the suggested improvement actions.</p> <p>Responsible officer: Business Finance Manager</p> <p>Implementation date: 30 June 2013</p>
<p>6 Disclosure checklist</p> <p>From our review, we identified that a number of management responses to the disclosure checklist were incorrect; resulting in the draft financial statements requiring further amendment.</p>	<p>We recommend that in future the financial statement disclosure checklist should be completed in advance of approval of the draft financial statements and reviewed for accuracy, with errors being amended prior to submission for audit .</p>	<p style="text-align: center;">Grade two</p> <p>Agreed.</p> <p>Responsible officer: Business Finance Manager</p> <p>Implementation date: 30 June 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>7 Procurement limits</p>		<p>Grade one</p>
<p>The Council has set procurement limits. These procurement limits appear high in the context of the Council's annual procurement expenditure.</p>	<p>We recommend that the monetary amount at which a tender is required for works is reduced to ensure appropriate value for money is obtained and there is increased transparency in significant expenditure.</p>	<p>We agree to consider within the review of procurement procedures.</p> <p>Responsible officer: Corporate Finance Manager</p> <p>Implementation date: 31 December 2012</p>
<p>8 Purchase orders</p>		<p>Grade one</p>
<p>The purchase order process at the Council falls in to one of four categories:</p> <ul style="list-style-type: none"> ■ purchase order processed through PECOS three way match procurement system (approximately 30%); ■ purchase order raise via a small number of paper order books still in use; ■ purchase order via property / transport department's own system; and ■ no purchase order raised. <p>There is currently a risk that purchases are being made without the appropriate level of approval and a risk of not achieving value for money.</p>	<p>The PECOS system provides an efficient and robust control environment in respect of purchase orders, and management should extend the coverage to other Council functions.</p>	<p>Almost 45% of purchase orders are managed through service feeder systems, however efforts will be made to extend the use of PECOS in place of paper order books where possible.</p> <p>Responsible officer: Corporate Finance Manager</p> <p>Implementation date: 31 March 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>9 Procurement procedures</p>		
<p>Sample testing of new suppliers identified a number of instances where suppliers had been added without an a new supplier request form.</p> <p>There is a risk of ghost suppliers being added to the system by staff to which payments could be diverted.</p>	<p>We recommend that all new suppliers are added to the system only once an appropriately authorised new supplier request form has been received.</p> <p>Furthermore, the creditors team should call suppliers directly to check changes in bank details are a legitimate request.</p> <p>Management should adopt a formal regular review procedure of amendments to the supplier database to provide oversight of new suppliers and amendments.</p>	<p style="text-align: center;">Grade one</p> <p>We agree that the suggested improvements will be considered for adoption within the review of procurement procedures.</p> <p>Responsible officer: Corporate Procurement Manager</p> <p>Implementation date: 31 December 2012</p>
<p>10 Procurement procedures</p>		
<p>Sample testing of procurement contracts identified a number of instances where the procurement policies were not followed.</p> <p>Procurement safeguards are being bypassed, giving rise to the risk that expenditure may not be appropriate and not meet value for money criteria. Furthermore, this practice may potentially have financial, reputational and legal implications.</p>	<p>We recommend that management ensure all procurement expenditure follows the appropriate processes and the updated 2012 procurement policies are implemented on a timely basis. This may give rise to the need for additional training amongst department staff.</p> <p>Appropriate checks and controls should be put in place to ensure that the processes are being followed throughout the Council.</p>	<p style="text-align: center;">Grade one</p> <p>Agreed.</p> <p>Responsible officer: Corporate Procurement Manager</p> <p>Implementation date: 31 March 2013</p>
<p>11 'Off contract' procurement</p>		
<p>In respect of 'off contract' procurement there were frequently recurring names on the list, and we would therefore recommend that more action is taken in relation to these matters in an attempt to reduce the 'off-contract' expenditure.</p>	<p>We recommend that all 'off contract expenditure is reviewed on a regular basis and action taken to significant reduce or eliminate such expenditure.</p>	<p style="text-align: center;">Grade one</p> <p>Agreed.</p> <p>Responsible officer: Corporate Procurement Manager</p> <p>Implementation date: 31 December 2012</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>12 Journals</p> <p>The majority of members of the finance team are able to post journals to the financial ledger. While each journal is printed and signed by the member of staff preparing the journal, there is no independent senior review and authorisation of the journals prior to these being posted to the financial ledger. In addition, supporting documentation is inconsistently retained alongside journal forms.</p> <p>The preparation and posting of journals to the financial ledger brings a fraud risk. Due to the current arrangements, including weaknesses in other key reconciliation processes, there is an increased risk of fraudulent or erroneous journals not being identified on a timely basis.</p>	<p>Management should review the process for the preparation, posting and independent senior review and authorisation of journals to ensure that these are robust and that appropriate supporting documentation is retained to support journal forms. Where a high quantum of routine journals are prepared a risk-based authorisation process may be appropriate.</p>	<p style="text-align: center;">Grade one</p> <p>A review will be undertaken and proposals developed on a risk-based approach.</p> <p>Responsible officer: Business Finance Manager</p> <p>Implementation date: 31 October 2012</p>
<p>13 Bank reconciliation</p> <p>Internal audit completed a review of the bank reconciliation process, with their report presented to the audit and governance committee on 13 March 2012.</p> <p>Internal audit identified a number of serious weaknesses in the bank reconciliation process; including that the bank reconciliations did not compare the balance between the bank statement and the general ledger at the same date. This matter has contributed to a significant delay by management in preparing the year end bank reconciliation, which was not available until the last few days of the audit. There is a fraud risk associated with the current bank reconciliation processes.</p>	<p>Management needs to take immediate action to establish appropriate processes and procedures in respect of key reconciliations, including appropriate independent, timely review by senior staff.</p> <p>Transactions within holding accounts should be corrected at each month-end, and the closing balance be £nil, to ensure individual ledger accounts are correctly stated.</p>	<p style="text-align: center;">Grade one</p> <p>Agreed.</p> <p>Responsible officer: Corporate Finance Manager</p> <p>Implementation date: 31 October 2012.</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
14 Property, plant and equipment		
<p>The Council's fixed asset register is updated by the finance manager on an annual basis in order to generate the annual depreciation charge and other calculations and disclosures in respect of the annual financial statements.</p> <p>However, there is currently no independent review by a more senior member of staff of this work, compromising the segregation of duties over the processes, procedures and controls.</p>	<p>Management should review the current practices to ensure appropriate independent senior review procedures are established.</p>	<p style="text-align: center;">Grade two</p> <p>Agreed.</p> <p>Responsible officer: Business Finance Manager</p> <p>Implementation date: 31 March 2013</p>

The table below summarises reconciliation controls that should operate within key financial and non-financial systems, along with identified weaknesses in the design and operation of these controls. This table is not exhaustive and lists only those controls selected for testing during our interim audit.

Financial system	Reconciliation	Underlying risk	Frequency	Control documented	Control independently reviewed
Income/ debtors	Cash received reconciliation	Theft or error may not be identified and resolved in a timely manner	Twice daily	✓	✗
	Debtors reconciliation	Under or over statement of sales or unidentified income is unmatched	Annually	✓	✓
Expenditure/ creditors	Creditors reconciliation	Under or over statement of expenditure or unidentified expenditure is unmatched	Annually	✓	✗
Council tax	Property valuation reconciliation	Incorrect bills raised against properties	Weekly	✗	✗
	Council tax income reconciliation	Income over or under stated	Daily	✗	✗
	Total properties to total billings reconciliation	Total bills raised under or over stated	Annually	✗	✗
	Council tax account debtors reconciliation	Inappropriate recognition of council tax transactions	Annually	✓	✓
Non- domestic rates	Rateable properties reconciliation	Incorrect bills raised against properties	Weekly	✗	✗
	Rate income reconciliation	Income over or under stated	Daily	✗	✗
	Non-domestic rate account debtors reconciliation	Inappropriate recognition of non-domestic rates transactions	Annually	✓	✓
Housing revenue account	Rent income reconciliation	Income over or under stated	Daily	✗	✗
	Housing revenue account debtors reconciliation	Inappropriate recognition of housing revenue account transactions	Annually	✓	✓
Property, plant and equipment	Asset Manager total NBV to general ledger NBV reconciliation	Incorrect assets uploaded	Annually	✓	✗



cutting through complexity™

© 2012 KPMG LLP, a UK Limited Liability Partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.
All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

REPORT TO: Audit and Governance Committee
MEETING DATE: 18 September 2012
BY: Chief Executive
SUBJECT: Assurance and Improvement Plan Update 2012-2015

3

1 PURPOSE

- 1.1 To inform Audit and Governance Committee of the Assurance and Improvement Plan Update 2012-2015 provided by Audit Scotland.

2 RECOMMENDATIONS

- 2.1 Committee is asked to welcome the Assurance and Improvement Plan Update 2012-15 and to note that the Chief Executive will keep the Council updated on any on-going monitoring of Areas of Uncertainty (see para 3.12) by the Auditor and Local Area Network.

3 BACKGROUND

- 3.1 Audit Scotland works closely with other local government inspectorates in a Local Area Network (LAN) of local audit and inspection representatives. The LANs undertake a shared risk assessment process for all 32 local authorities, to identify targeted, risk-based scrutiny. This process results in each council receiving an Assurance and Improvement Plan each year which sets out the scrutiny activity that the council can expect to take place over a rolling three-year period. The first Assurance and Improvement Plan, which were published in July 2010, covered the period from April 2010 to March 2013; the second Assurance and Improvement Plans for the period April 2011 – March 2012 were published in May 2011. The next and current Assurance and Improvement Plan, covering April 2012 to March 2015, was published in May 2012.
- 3.2 The update process which began in November 2011 drew on evidence from various sources, including:

- The annual report to the Controller of Audit and elected members for 2010/11 from the council's appointed external auditors.
 - The council's own performance data, discussion with senior council officers and the council's self-evaluation evidence.
 - Evidence gathered from Education Scotland, the Care Inspectorate and the Scottish Housing Regulator (including published inspection reports and other supporting evidence).
- 3.3 Based on this review, the LAN has produced the Assurance and Improvement Plan Update 2012-15 which it considers reflects an appropriate level of scrutiny based on the risks identified.
- 3.4 The narrative to the plan includes a summary of any areas where risk assessments have changed since the last Assurance and Improvement Plan together with the impact on the scrutiny plan. It also includes an assessment of areas of on-going risks and uncertainties as against national risk priorities identified by the Scottish Government. Lastly, it includes a review of planned audit and inspection activity 2012-2015.
- 3.5 The key conclusion of the Assurance and Improvement Plan is that *"there are no significant concerns about East Lothian Council's overall performance. The LAN recognises the council's ongoing commitment to continuous improvement and self-evaluation. There is a clear vision and direction for the work of the council and a number of improvement activities are already underway and progressing well."*
- 3.6 The possibility of a full Best Value Audit was identified in the first Assurance and Improvement Plan of 2010. This was to focus on scrutiny risk areas, particularly in Corporate Services. However, the Annual Audit over the last two years has identified that the council has made effective progress on many areas within Corporate Services. This meant that the Best Value Audit was not held in 2011 and the scrutiny plan presented in the Assurance and Improvement Plan Update 2012-2015 does not include any plans to carry out a Best Value Audit.
- 3.7 The Assurance and Improvement Plan recognises the work that has been done to embed self-evaluation across the Council through the use of the *How Good is our Council?* framework and that the Council continues to build management expertise and capacity through its 'Challenge for Change' programme. The Assurance and Improvement Plan concludes that there continues to be very strong commitment from officers and members to improving the work of the council although there remains the need to develop a common approach to challenge and improvement.
- 3.8 Significantly the LAN found *No Significant Risks* related to the three national risk priorities that have been applied to all 32 councils.
- *The protection and welfare of vulnerable people (children and adults) including access to opportunities: The council is strongly committed to the protection and welfare of vulnerable people.*

- *Assuring public money is being used properly: The council is making good progress and continues to ensure that improving use of resources is at the core of their work.*
 - *How councils are responding to the challenging financial environment: East Lothian Council will face significant financial challenges over the next three years. The council recognises the challenging financial environment it is facing. It has responded positively by setting a three year budget that it believes is sustainable and also by continuing to increase its financial reserves over the last three years.*
- 3.9 The Assurance and Improvement Plan considers 38 areas of scrutiny risk assessment specific to East Lothian Council. Each area is given one of three risk assessments, in descending order of risk: Operational Scrutiny Risk; Area of Uncertainty; No Significant Risk.
- 3.10 The 2011 Assurance and Improvement plan assessed 5 of these areas as being areas with Operational Scrutiny Risk; 3 were assessed as Areas of Uncertainty; and, 30 were given a No Significant Risk status.
- 3.11 The 2012-2015 Update has assessed 0 areas as being areas of Operational Scrutiny Risk; 3 areas as Areas of Uncertainty; and the remaining 35 areas were given a No Significant Risk status.
- 3.12 The three Areas of Uncertainty identified in the Update are:
- Corporate Services
 - Challenge and improvement
 - Use of resources – asset management.
- 3.13 These three areas will be the focus of ongoing monitoring by the Auditor and the LAN.

4 POLICY IMPLICATIONS

- 4.1 The Assurance and Improvement Plan Update 2012-15 provides the Council with the LAN's assessment of areas of risk that will be subject to specific scrutiny activity. It recognises the Council's on-going commitment to continuous improvement and developing self-evaluation. The Assurance and Improvement Plan Update provides the Council with an indication of areas where the Local Area Network expects improvement work to be targeted in order to meet the identified risks. It will assist in service planning and in supporting the development and implementation of the Council's Improvement Framework.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none
6.2 Personnel – none
6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 East Lothian Council, Assurance and improvement Plan Update 2012-15
7.2 Assurance and Improvement Plan Update 2012-2015; Report to Council, 28th August 2012

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Corporate Policy Manager
CONTACT INFO	pvestri@eastlothian.gov.uk Tel: 01620 827320
DATE	5 th September 2012

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 September 2012

BY: Chief Executive

SUBJECT: An Overview of Local Government in Scotland 2012

4

1 PURPOSE

- 1.1 To review East Lothian Council's position in relation to the findings of the Audit Commission report, 'An Overview of Local Government in Scotland 2012'

2 RECOMMENDATIONS

- 2.1 It is recommended that the Committee note that the improvement points detailed in para 4.2 have been included in the Council Improvement Plan 2012/13 which was presented to the 26th June 2012 Council meeting.
- 2.2 Further, the Committee should review the contents of this report and identify areas for further scrutiny at future meetings of the Audit and Governance Committee

3 BACKGROUND

- 3.1 Each year the Accounts Commission produces an overview of issues that have arisen from their local authority audits. The overview assists councils in identifying and planning for pressures that they may face in the coming year.
- 3.2 The overview report outlines the main challenges faced by Scottish Local Government and suggests that the over-arching priorities for local authorities in 2012 to respond to the challenges should be:
 - *Maintaining a focus on best value, governance and equality to improve services and outcomes for people and communities.*
 - *Identifying priorities taking account of existing commitments, the shift in focus to preventative spending and organisational capacity.*

- *Monitoring the 2012/13 budget and setting budgets for 2013/14 which achieve a balance between short-term aspirations and long-term sustainability.*
 - *Ensuring workforce reductions do not erode capacity, getting asset management right and securing further progress on procurement.*
- 3.3 These priorities are reflected in the draft Council Plan, the Improvement Framework: Improvement to Excellence, the financial strategy and the People Strategy which attempt to provide a clear focus and set of priorities for the Council in the context of the external and internal challenges. The Council's Corporate Risk Register and Service Risk Registers are based on risk assessments that take account of external and internal challenges which contribute to the setting of the Council Plan and Service Plans.
- 3.4 The overview report highlights key findings that are common to Local Authorities in regard to, for example, finance, workforce planning and asset management. The key findings in each area have been outlined below along with a brief description of the position at East Lothian Council. This draws on various sources including the findings from the 2012 How Good is Our Council (HGIOC) self-evaluation. The scoring and ranking figures provide an indication of areas of relative strength and potential weakness that might need to be considered further.

Resources & Demand Pressures / Finances

Accounts Commission findings for Local Authorities

- 3.5 Local government funding will fall by three per cent between 2011/12 and 2012/13 and, cumulatively, by 6.3 per cent by 2014/15. Capital funding is due to fall in the period up to 2013/14; although it will increase in 2014/15. Reduced revenue and capital funding, along with commitments resulting from past financing decisions under PPP / PFI, are likely to lead to councils borrowing more money to finance capital expenditure. Lower proceeds from the sale of assets are likely to compound the problem.
- 3.6 Slippage in capital programmes is a recurring issue, with one-half of councils reporting some slippage in 2011. Many councils are holding greater levels of reserves than the level required by their policies. This is regarded as prudent, although it should be kept under review in light of reducing budgets and competing pressures on resources.
- 3.7 The risk of non-compliance with financial regulations is increasing as councils reduce the number of staff in finance departments. It is important that staff have a good knowledge and understanding of financial systems and regulations and a good working knowledge of financial controls.
- 3.8 Significant Trading Organisations (STOs) have to break even. During 2010/11, there were 73 STOs in Scotland with 60 (82 per cent) meeting the requirement to break even. The main reasons for failure to achieve

targets included the cost of settling equal pay claims, voluntary severance agreements and service restructuring.

- 3.9 Welfare reform and the current economic conditions risk increasing the pressures on demand led services, for example housing and social services. Demographic trends also suggest that Adult social care services are likely to face increasing demand for older people's services. Addressing demand by moving towards increased spending on prevention brings its own problems in attempting to balance long and short term priorities.
- 3.10 Equality is particularly important in times of financial constraint. It should not be seen as a barrier to taking difficult decisions but instead as a basis for open and transparent decisions based on an understanding of the impact of decisions on groups of people in communities.

East Lothian Council position

- 3.11 The Council has increased its level of borrowing, especially to fund the development of new Council houses. The Accounts Commission note in the Report on the 2010/11 Audit that 'General Services' capital expenditure of £41.4m in 2011/12 is financed by only £10.3m of income, of which £1.4m comes from capital receipts. Repayments can only be sustainable if the Council does not rely on temporary sources of funding, such as the reserves.
- 3.12 This is likely to continue for the next three years and over this period both the General Services and Housing Revenue accounts will see an increasing proportion of their income be used to fund debt repayments. However, in the case of the General Services account, it is likely that this increase in debt will need to come to an end in the periods after 2014/15.
- 3.13 East Lothian Council earmarked £6.91m of its reserves to balance the budget in 2012/13 and 2013/14 as part of its Financial Strategy. The budget is due to be balanced by 2014/15. The Council maintains a reserve of £2m to cover civil emergencies and a cost reduction fund reserve (£5m) to fund 'spend to save' initiatives such as staff reviews and service re-design that are projected to achieve long term savings following initial investment or creased costs.
- 3.14 Reports have been provided regarding the impact of Welfare Reform to Cabinet on the 8th November 2010 and to Council on the 22nd February 2011. The reports identified that welfare reform is likely to have an impact upon services including adult social care services, housing and homelessness services, free school meals and others. However, the specific consequences are difficult to quantify. The Council has continued funding for its Welfare Rights Service and the Haddington and Musselburgh CABx in order to ensure that vulnerable people have access to welfare and money advice.
- 3.15 Adult Social Care, via the Change Fund, are attempting to rebalance care provision towards anticipatory preventative care. The priorities of

the Change Fund include the development of Intermediate Care services, developing the range of housing options available for older people and the development of an integrated approach to supporting people with dementia to enable them to live in their own homes for longer.

3.16 Services found, as part of their How Good is Our Council (HGIOC) self-evaluation, that financial management was relatively sound. Procedures for reporting and managing the financial performance received relatively high scores. However, the extent to which financial planning demonstrates Best Value (e.g. options appraisal, assessment of efficiency and effectiveness) received a lower score. It should be noted that the 2011 Corporate Improvement Plan included an action related to developing a standard approach to options appraisal.

Question	How rigorous are the management procedures to identify and deal with budgetary variances?	How well does the Service monitor, review and report upon financial performance?	To what extent does financial planning demonstrate Best Value?
Score 1-6	4.6	4.53	3.85
Rank 1-102	15	23	83

Service redesign and structural changes

Accounts Commission findings for Local Authorities

3.17 Councils face challenges in regard to the changes in the introduction of a national Fire and Rescue Service and national Police force. The Accounts Commission note that the restructuring might create the following problems:

- conflicts might arise between local and national priorities
- it is unclear how the scrutiny function currently vested in councils will work
- it is unclear how local commanders will maintain operational independence
- governance arrangements in the transition period are unclear.

3.18 The integration of health and social care will also provide a challenge for councils. Under the proposed reforms, NHS boards and councils will be required to produce integrated budgets for older people's services. However, planning for these changes is at an early stage.

3.19 Welfare changes (particularly the introduction of Universal Credit) will have significant implications. Councils face reduced funding as the

housing benefit caseload moves from council administration to Universal Credit and the likelihood of staff reductions. Around 60% of the rental income for council properties is paid directly from housing benefits. However, Universal Credit will be paid directly to claimants and it will be the claimant's responsibility to pay rent to the council.

East Lothian Council position

- 3.20 Council approved a draft response to the Scottish Government's proposed Police and Fire and Rescue reforms at its meeting on the 25th October 2011. Council subsequently agreed to submit an expression of interest to take part in a planned Local Scrutiny and Engagement Pathfinder at its meeting of the 24th January 2012. Council received an update on the proposals at its meeting on the 27th March 2012. A further report, which will address the issues raised in 3.17 above which is due to be considered by the 26th June 2012 Council meeting.
- 3.21 The Audit and Governance Committee received a report regarding the 'Review of Community Health Partnerships' at its meeting on the 27th September 2011. The Committee recommended that Adult Social Care should use the self-assessment checklist for NHS Boards, councils and other partners to improve joint working between health and social care. The establishment of a joint Community Health and Care Partnership is discussed in paragraph 3.37 below.
- 3.22 The potential effects of changes to the welfare system are recognised by the Council (see paragraph 3.14). The effect of the introduction of Universal Credit was also discussed at the Policy and Performance Review Committee on the 20th March 2012 in regard to an item on rent arrears. The Committee heard from the Revenues Manager that the introduction of Universal Credit might make rent more difficult to collect.

Leadership & Governance

Accounts Commission findings for Local Authorities

- 3.23 The overview report highlights leadership and governance as being a key issue and suggests that the following should be among the top priorities for Councils in 2012:
- *Providing strong leadership and challenge in a period of increasing resource and demand pressures and substantial service and structural change*
 - *Ensuring appropriate access and influence for the statutory officer for finance and effective financial controls.*
- 3.24 The report refers to the importance of the six principles of good governance as set out in the SOLACE/ CIPFA Delivering Good Governance in Local Government Framework (2007).
- 3.25 There is also reference to the importance of good working relationships and clear roles and responsibilities between elected members and senior

officers. The report makes the point that newly elected members will require training to be provided promptly following the May 2012 elections.

- 3.26 The report highlights that local authorities have a leadership role on equalities but that effectiveness in this respect is weakened by a lack of reliable equality data. Better use of existing data sources and more sophisticated data collection techniques should be used.
- 3.27 The Accounts Commission note that many councils have made significant changes at senior officer level leading to concerns that the role of statutory officer for finance is not properly understood. Where the statutory officer for finance is not a full member of the senior management team or equivalent, elected members are asked to satisfy themselves that the officer has appropriate access and influence at the most senior level in the council.

East Lothian Council position

- 3.28 The Council adopted the SOLACE/ CIPFA good governance framework based on the six principles in 2010 and has just concluded the third self-evaluation exercise based on the framework. The improvement points identified by the self-evaluation are recorded in the Annual Governance Statement that is included in the Council’s Annual Accounts and are reflected in the Council’s Corporate Improvement Plan.
- 3.29 The Council put in place an extensive and comprehensive induction programme for new members supported by a large Induction pack of useful background information and the Improvement Service’s Notebooks. A programme of skills and issue based training and briefings to be held over the summer and autumn will be devised following consultation with all elected members.
- 3.30 Since the Council senior officer restructuring (effective from 1st April 2012) the role of the statutory officer for finance (Section 95 Officer) has passed to the newly formed position of Head of Council Resources, who is a member of the Council Management Team.
- 3.31 Self-evaluation using HGIOC identified that the lack of equality data is a weakness that hinders services being able to demonstrate improved outcomes for diverse communities.

Question	Are adequate monitoring systems in place to ensure that vulnerable people are not being excluded?	How effectively can the Service demonstrate improved outcomes for diverse communities?
Score 1-6	4.08	3.14
Rank 1-102	65	101

- 3.32 The Council is developing a Single Equality Scheme 2012 to 2015. The Scheme will include a number of performance indicators that will help to

address weaknesses in the availability of data relating to equalities. Indicators developed as part of the Scheme will be arranged in accordance with the outcomes of the Council Plan / SOA and will be reported via the Council's performance reporting website.

Working in Partnership

Accounts Commission findings for Local Authorities

- 3.33 Differences in governance and accountability between individual partners are still considered by CPPs to be a barrier to effective partnership working. The overview report emphasises the need for councils to make working with partners more effective through rationalising partnership structures.
- 3.34 The Accounts Commission report into Community Health Partnerships concluded that a more systematic, joined-up approach to planning and resourcing is needed to ensure that health and social care resources are used efficiently and that this should be underpinned by a good understanding of the shared resources available.
- 3.35 Appendix 4 of the report highlights a series of good governance principles for partnership working. The top priorities for Council's to improve partnership working are identified in the report as:
- *Getting the best from partnership working by delivering more integrated services, better value for money and improved outcomes*
 - *Ensuring partnership performance information systems are sound and that accountabilities are clear.*

East Lothian Council position

- 3.36 East Lothian Community Planning Partnership reviewed its structure in 2009. Seven Theme Groups and three Local Area Forums (covering covering the Musselburgh area, Dunbar and East Linton and North Berwick Coastal wards) report progress towards the outcomes of the SOA to the Community Planning Board. Subsequent reviews of partnership working have been undertaken by the Improvement Service and SOLACE and a How Good is Our Partnership self-evaluation exercise in 2011 and resulting improvement points and actions have been included in the Community Planning Partnership Improvement Plan. A major review of the CPP's governance and structure is to be carried out in autumn 2012.
- 3.37 The Adult Social Care Change fund identifies one of its priorities as being 'A focus on better integration between health and social care in the assessment and delivery of care through joint service redesigns'. East Lothian has been one of the pilot areas for the Integrated Resource Framework which is meant to provide the basis for clearer decisions about resource allocation between social and health care funds. Also the Council has begun discussions with Midlothian Council on the possibility

of developing a shared Adult and Community Care service with the establishment of a joint Community Health and Care Partnership as a key part of the long term vision.

- 3.38 HGIOC self-evaluation results suggest that partnership working is regarded as being effective in helping to deliver outcomes, although it has not led to the identification of efficiency savings in the majority of cases.

Question	How effective is interagency planning in delivering outcomes?	To what extent have partnerships identified joint efficiency savings?
Score 1-6	4.58	2.73
Rank 1-102	21	102

Options for Service Delivery

Accounts Commission findings for Local Authorities

- 3.39 The overview report highlights that most councils are considering alternative, more efficient, means for delivering services. Councils need to ensure that any decisions to employ alternative means of service delivery are made on the basis of good quality information.
- 3.40 In relation to options for service delivery the Accounts Commission suggest that councils' top priorities for 2012 should be:
- *Engaging with communities to understand service users' and communities' needs*
 - *Investigating new ways of delivering service, including opportunities for simplifying and standardising common processes.*
- 3.41 The report suggests that the employment of shared service models has been slow, although it notes that East Lothian and Midlothian Councils have made progress in relation to developing shared services around education.
- 3.42 New Arms Length External Organisations (ALEOs) may be set up to reduce costs or improve services. However, councils are expected to review existing ALEOs and structures to ensure they remain the best option, recognising that ALEOs themselves face a challenging financial and operating environment. Where ALEOs do proceed it is important that councils are able to 'follow the public pound' across organisational boundaries.

East Lothian Council position

- 3.43 The Council Management Team has recently approved a Council Consultation and Engagement Strategy that establishes a framework for all consultation and engagement activity to help ensure that it is well planned and coordinated and carried out in a meaningful and effective manner, following good practice and benefitting all those involved. The Strategy and current good practice such as the 2011 Residents' Survey and the East Lothian Tenants and Residents Panel ensure that the Council uses community consultation and engagement to better understand service users' and communities' needs.
- 3.44 The Audit and Governance Committee (27th September 2011) considered the Audit Scotland report on ALEOs and:
- noted the guidance or recommendations made in the report;
 - agreed that the governance and operational issues identified in the report would be considered as part of any options appraisal in preparation of any detailed business case involving the possible use of ALEOs;
 - agreed to use the questions in the 'checking progress' tool when reviewing arrangements for delivering services through ALEOs.
- 3.45 As pointed out above (para 3.16) it should be noted that the 2011 Corporate Improvement Plan included an action related to developing a standard approach to options appraisal. Work is ongoing in developing a standard common process for options appraisal.

Performance Information

Accounts Commission findings for Local Authorities

- 3.46 The Accounts Commission reports that it has found that councils are weaker in reporting performance information relating to service costs and progress towards long-term outcomes. Councils need to develop 'contributory outcome indicators' to help measure progress towards long-term outcomes. The Accounts Commission encourages councils to use the UK audit agencies' indicators to help measure the quality and cost of back office functions.
- 3.47 Councils were found to be committed to self-evaluation, although there were inconsistencies in coverage and in the quality of information across services, outcome areas and corporate systems. The use of benchmarking data in self-evaluation to assess costs, quality and performance remains underdeveloped and there is limited consideration of service users' views and customer satisfaction information.
- 3.48 The overview report concludes that the top priorities for improving performance information should be:

- *Ensuring good-quality performance information is available to support improvement and inform decision-making*
- *Increasing the focus on costs and on measures which monitor partnership outcomes and performance.*

East Lothian Council position

3.49 The Accounts Commission highlight five ‘areas for improvement’; the position of the Council in regard to these areas is outlined below:

Areas for improvement	East Lothian position
Some councils continue to rely too heavily on SPIs	The SPIs are integrated into the Council’s Key Performance Indicators (KPIs). The KPIs are reported in relation to their contribution to the Council’s outcomes. 99 KPIs are reported, 25 of which are also SPIs. See www.eastlothian.gov.uk/performance
Only a small number of councils compare their performance with others	Comparisons are reported for the SPIs. However, few other KPIs are benchmarked. Some services take part in benchmarking ‘clubs’ such as APSE or the Scottish housing Best Value network. The potential for expanding the use of benchmarking and collating comparisons with other councils is being investigated.
Around half of councils do not assess performance against targets	Almost all of the indicators reported via the Council’s performance website have a target. However, further works needs to be done to ensure that these are SMART targets.
Around half of councils do not provide information to show how stakeholders are listened to and responded to	Some relevant indicators, especially those drawn from the Resident’s Survey, are included among the KPIs. However, conducting the Resident’s Survey once every two years may not be sustainable and other ways to integrate stakeholder views into performance reporting need to be considered. Quarterly reports are provided to the PPRC regarding complaints and feedback.
Reporting on cost information is underdeveloped	SOLACE are developing a set of indicators that will improve performance reporting regarding service costs. The indicators are due to be published later in the year. The Council reports several indicators that relate to cost as KPIs, including indicators developed by the UK audit agencies measuring the cost of HR.

- 3.50 The most recent HGIOC self-evaluation suggests that services consider more work needs to be done regarding the relevance of the performance data that they collect.

Question	Does the Service collect and use appropriate performance data?	How well does the Service measure its contribution to outcomes?
Score 1-6	4.07	4
Rank 1-102	66	72

Workforce

Accounts Commission findings for Local Authorities

- 3.51 The overview report highlights that reducing staff numbers can pose risks which need to be managed properly. The loss of experience and skills, for example, may present a risk to effective service delivery and there may be a wider impact on the local economy. Large reductions in senior managers may affect 'corporate capacity' and there is a risk that officers will not have sufficient time to manage the range of initiatives that their council wishes to pursue.

East Lothian Council position

- 3.52 The Policy & Performance Review Committee received a report on the 31st January investigating the impact of workforce changes upon performance. The report concluded that although there had been slight reductions in staff numbers, this had not impacted upon performance.
- 3.53 The 2012 Employee Engagement Survey results compare well with the results from the previous year. Overall 73.3% of responses to the questions were positive (i.e. agreed with the statements). However, a lower proportion of employees (58.5%) agreed with the statement 'I have a manageable workload'. The HGIOC self-evaluation showed a mixed response to questions relating to the workforce. The extent to which services have sufficient staff to deliver its activities received a relatively low score. It should be noted that this issue is considered in workforce planning and service reviews.

Question	How good is staff retention?	How motivated and satisfied are employees?	Does the Service have a sufficient number of employees to deliver its activities?
Score 1-6	4.87	4.13	3.8
Rank 1-102	4	54	85

Assets

Accounts Commission findings for Local Authorities

3.54 The condition of council assets remains a concern. The cost of addressing the maintenance backlog in council-owned property assets is estimated at around £1.4bn, with £376m of this described as urgently required. Greater collaboration between public bodies may lead to improvements; this is especially true in regard to IT.

East Lothian Council position

3.55 The Accounts Commission highlight five opportunities for improvement; the position of the Council in regard to these areas is highlighted below:

Opportunities for improvement	East Lothian position
Joint planning and shared accommodation	Significant progress being made with shared services accommodation across and within East Lothian Council. We are engaging with the NHS on a number of projects to assist with accommodation for joint working. We are also part of the Hub SE Territory Asset Management Group which is mapping opportunities for joint working across authority and sector boundaries.
Sharing people, management and contracts by pooling expertise, sharing contract management, joint procurement etc.	Council restructure is delivering benefits in joint working across the Council. We are working with ScotExcel to put Consultants' frameworks in place.
Sharing data, to allow each organisations assets to be viewed and benchmarked by others	We are part of the Scottish Asset Management Benchmarking group and share data for benchmarking purposes. We have provided asset data to Hub SE Territory Asset Management Group for mapping .
Surplus property co-ordination to help manage the release of surplus property to the market	The Asset Management Group review surplus properties and options for their future use or disposal on a regular basis.
Pooling assets	We have prepared a number of options for collaborative working with the Fire and Rescue Service and the Police but to date no assets have been pooled.

3.56 The Council's 2011 Draft Corporate Asset Management Plan is being updated to reflect the challenges and opportunities presented by the new Council Plan and to recognise the reform agenda as advanced by the Christie Commission. In particular, the new Plan will recognise the essential role which Options Appraisal plays in decision making and commit to assessments of costs and benefits to target investment where it will make the biggest contribution towards addressing challenges set out in the Council Plan.

Procurement

Accounts Commission findings for Local Authorities

3.57 The overview report outlines the importance of taking a strategic approach to procurement. It highlights that some councils do not routinely report the results of the Procurement Capability Assessment (PCA) and improvement plans to full council or appropriate committee, particularly audit or scrutiny committees. It stresses that this is essential in managing procurement performance.

East Lothian Council position

3.58 The most recent PCA for East Lothian took place in 2010. The Council scored 26%, which means the Council is regarded as being 'conformant'. The Accounts Commission note in their Report on the 2010/11 Audit that 'the council is now conformant in four out of the eight areas, with the greatest improvement being shown in the People area covering procurement staffing, skill mix, development and management. The main area of non-conformance, with minimal improvement since last year, is performance measurement where it is not evident that a sound approach to assessing and demonstrating the Council's procurement performance is in place.' A procurement Improvement Plan is in place and actions to improve the Council's PCA are being carried out.

3.59 Two questions were added to HGIOC in 2012 that relate to procurement and the commissioning of services. Services judged that they performed well in linking commissioning decisions with strategic planning, and processes for purchasing, monitoring and reviewing services were deemed to be average.

Question	To what extent are there clear links between strategic and financial planning and commissioning decisions?	To what extent do we have sound and compliant business processes for purchasing, monitoring, and reviewing services?
Score 1-6	4.8	4.18
Rank 1-102	6	52

4 POLICY IMPLICATIONS

- 4.1 Councils are required under the Local Government in Scotland Act 2003 to achieve Best Value in regard to economy, efficiency, effectiveness, equal opportunities and sustainable development. The 'Overview of Local Government in Scotland: Challenges and change in 2012' will assist the Council in recognising the challenges that it faces in achieving Best Value in the future.
- 4.2 The analysis of the results from the HGIOC self-evaluation and comparison with the key issues highlighted in the 'Overview of Local Government in Scotland' report has identified several improvement points which have been included in the Council Improvement Plan 2012/13, specifically:
- Further develop the Council's approach to Options Appraisal to ensure Best Value and the highest standards of financial planning (para 3.16 and 3.45)
 - Improve monitoring of equalities measures and indicators (para 3.31)
 - Identify opportunities for getting best value from partnerships and making efficiency savings through partnership working (para 3.38)
 - Expand and make more effective use of performance information including the use of benchmarking (para 3.50).

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel - none.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 'An Overview of Local Government in Scotland: Challenges and change in 2012', Accounts Commission

AUTHOR'S NAME	Andrew Strickland Paolo Vestri
DESIGNATION	Policy Officer (Performance) Corporate Policy Manager
CONTACT INFO	astrickland@eastlothian.gov.uk (01620 827884) pvestri@eastlothian.gov.uk (01629 827320)
DATE	19 th June 2012

An overview of local government in Scotland

Challenges and change in 2012



 ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2012

The Accounts Commission

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

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

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

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

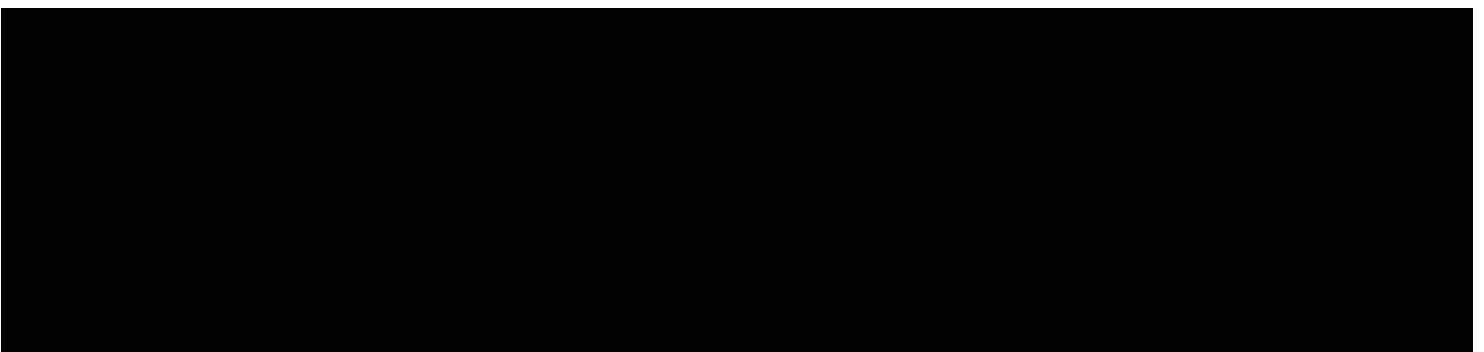
Contents

Summary Page 2	Part 2. Review of resource use in 2011 Page 21
Introduction	Finances Page 22
Context	Workforce Page 26
Priorities Page 3	Assets Page 28
Next steps Page 4	Procurement Page 29
Part 1. Challenges in 2012 Page 6	Summary and conclusion Page 30
Resource and demand pressures Page 7	Appendix 1. Checklist for new and returning elected members Page 31
Responding to the challenges (1) – Leadership and governance Page 10	Appendix 2. Summary financial information Page 32
Responding to the challenges (2) – Working in partnership Page 12	Appendix 3. Resources and links Page 33
Responding to the challenges (3) – Options for service delivery Page 13	Appendix 4. Partnership assessment framework Page 35
Responding to the challenges (4) – Performance information Page 16	Appendix 5. Glossary of terms Page 37
Summary and conclusion Page 20	

Summary



Local authorities that place best value at the centre of all they do are well placed to deal with the challenges in 2012 and beyond.



Introduction

1. This report provides the Accounts Commission's perspective on local government in Scotland based on our recent audit work. We focus on the challenges, risks and opportunities in 2012 and provide a short summary of resource management in 2011.

2. Challenge and change is not new for local government, but the current pressures on finances from reducing budgets and growing demands for services are substantial. The council elections in May 2012 add a further dimension this year, with heightened political activity.

3. Those elected in May will need to get up to speed quickly and build on the progress which local government in Scotland has achieved in recent years. Immediate tasks will be to establish effective working relationships within councils and with local partners and to provide strong leadership and direction which will drive improvements in services, resulting in better outcomes for people and communities.

4. The Commission recognises the scale of the task and hopes that councillors find this report and the attached checklist helpful in identifying priorities and preparing for the future.

Context

5. Scotland's 32 councils have a pivotal role in communities and provide vital public services including education, social work and housing as well as regulatory services such as planning, environmental health and licensing. In addition, 45 related organisations provide a range of important public services, including police services, fire and rescue services and transport.

6. Delivered directly or in partnership with others, these public services involve substantial resources. In 2011, councils spent around £21 billion, employed about 240,000 full-time equivalent staff and used buildings and other assets with a value of about £35 billion.

7. As with other public bodies, local authorities are facing substantial reductions in budgets. To date they have secured savings mainly through pay restraint and by reducing staff numbers. Pressures on budgets will continue from, for example, demand-led social work and housing services.

8. In the last year there has been a major change in the political context. The Scottish Parliamentary elections in May 2011 resulted in an SNP administration, the first time since the Parliament was established in 1999 that one party has a majority at Holyrood. In responding to the Christie Commission report,¹ the Scottish Government set out its commitment to public service reform based on what it describes as the four pillars of: prevention, partnership working, workforce development, and performance management.

9. At a local level, the 2007 local government elections resulted in political coalitions or minority administrations in most councils and these have generally worked well. The council elections in May 2012 will bring further changes, possibly in political control and certainly, in some degree, in council membership. The councillor role, which at its heart involves representing constituents, providing leadership and scrutinising performance, is complex, and new and returning councillors will need good support and advice from the outset.

10. Overall, the financial context and the elections present challenges and change but they also provide

opportunities for fresh thinking on service design and delivery which more closely aligns with people's needs and demonstrates improved value for money and outcomes. There are also opportunities to check that committee and management structures are up to date, fit for purpose and provide a firm foundation for best value.

Priorities

11. So far, councils have coped well with the financial pressures. Most operated within budget in financial year 2010/11 and accounts show a relatively stable financial position with the overall level of reserves higher than the previous year. Auditors provided unqualified opinions on all accounts except those of Shetland Islands Council where the auditors concluded that the group accounts were materially misstated.²

12. Looking ahead, local authorities will have to deal with further budget reductions while at the same time meeting their statutory duty to secure best value,³ which requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. More work is also needed to address the substantial backlog in maintaining buildings and roads and to secure further improvements to procurement practices.

13. We have previously emphasised the importance of sound governance and accountability and robust performance information. These are recurring features in our audits and we firmly believe that they are essential in fulfilling the best value duty. Certainly, local authorities which place best value at the centre of all they do are well placed to deal with the challenges and change they face in 2012 and beyond.

¹ *Report on the future delivery of public services*, Commission on the Future Delivery of Public Services, June 2011.

² The auditors qualified their audit opinion because the council had not included the results of the Shetland Charitable Trust in its 2010/11 group financial statements.

³ As defined in section 1 of the Local Government in Scotland Act 2003.

14. It is now very clear that part of the solution is to achieve better value for money and improved outcomes from existing partnerships. There are significant, long-standing and complex health, social care and equality-related matters in Scotland which cannot be tackled by one partner acting alone. We are working closely with our scrutiny partners to develop approaches which will help support the delivery of better outcomes through Community Planning Partnerships.

15. Drawing on our analysis of performance and assessment of the challenges councils face, we have identified what we consider are the top priorities for local authorities in 2012 (Exhibit 1).

Next steps

16. We acknowledge in the current financial and political context it is unlikely that local authorities will be able to improve performance in all outcome and service areas and across all aspects of corporate activity. We also recognise that councillors face difficult choices in prioritising the level and quality of services to provide and allocating resources accordingly. However, we expect to see evidence of effective governance and service delivery which, in partnership with others, provide best value for local communities.

17. Our report draws on the audit work in 2011 including the annual audits, Best Value audit work and national performance audits. It highlights areas of strength and areas for improvement. Councillors and officers should read this report and identify how their council is dealing with points we highlight. In addition:

- Appendix 1 sets out key questions for councillors.
- Appendix 2 provides supplementary financial information.

Exhibit 1

Summary of top priorities for local authorities in 2012

Over-arching priorities

- Maintaining a focus on **best value, governance and equality** to improve services and outcomes for people and communities.
- Identifying **priorities** taking account of **existing commitments**, the shift in focus to **preventative spending** and **organisational capacity**.
- Monitoring the 2012/13 **budget** and **setting budgets** for 2013/14 which achieve a balance between short-term aspirations and long-term **sustainability**.
- Ensuring **workforce reductions** do not erode capacity, getting **asset management** right and securing further progress on **procurement**.

Leadership and governance

- Providing **strong leadership** and challenge in a period of increasing resource and demand pressures and substantial service and structural change.
- Ensuring appropriate access and influence for the **statutory officer for finance and effective financial controls**.

Working in partnership

- Getting the best from partnership working by delivering more **integrated services**, better **value for money** and **improved outcomes**.
- Ensuring partnership **performance information systems** are sound and that **accountabilities** are clear.

Options for service delivery

- **Engaging with communities** to understand service users' and communities' needs.
- Investigating **new ways of delivering service**, including opportunities for simplifying and standardising common processes.

Performance information

- Ensuring good-quality **performance information** is available to support improvement and inform decision-making.
- Increasing the focus on **costs** and on measures which monitor **partnership outcomes** and performance.

Source: Audit Scotland

- Appendix 3 lists key reports and resources to support councils.
- Appendix 4 sets out a framework to assess partnerships.
- Appendix 5 provides a glossary of terms used in this report.

18. Annual audit reports prepared by the auditors we appoint to carry out the external audits are already available for each council and local authority body in Scotland on the Audit Scotland website. These reports contain details on how matters set out in this overview report apply locally and where more action is required.

The reports are the key outputs from local audits and it is essential that councils and other local authorities provide a copy to all their members and consider the reports in public.

19. In addition, to assist councils to assess their financial position relative to others, Audit Scotland will publish underlying financial data used in compiling this report on its website.

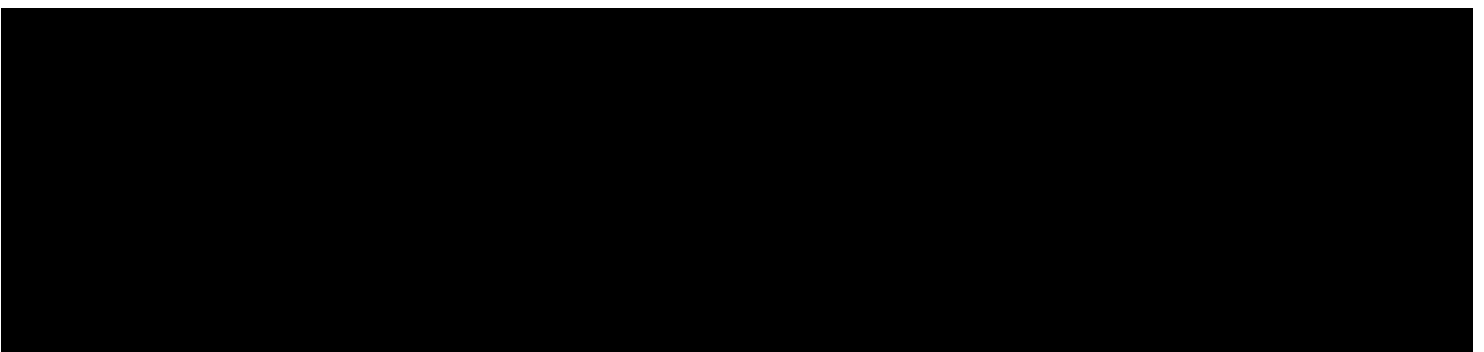
20. The Accounts Commission welcomes the progress which local authorities have achieved. We look forward to continuing to work with the local government community to support and accelerate improvement.

21. We are keen to hear from you and would welcome your comments on this report and suggestions on how we might improve it in future. We know that elected members are provided with a great deal of material to support them in their role and we would particularly welcome views on how we can best convey the main messages from our audit work.

Part 1. Challenges in 2012



The challenges in 2012 will require strong leadership and effective working relationships within councils and with local partners.



22. In this part of the report, we consider the resource and demand pressures facing local government in 2012 and beyond. Together they represent a substantial challenge to services and outcomes.

23. We highlight four responses which will help counter these pressures and ensure that local authorities, working in partnership with others, provide best value (Exhibit 2). The exhibit also shows how the priorities in Exhibit 1 align.

Resource and demand pressures

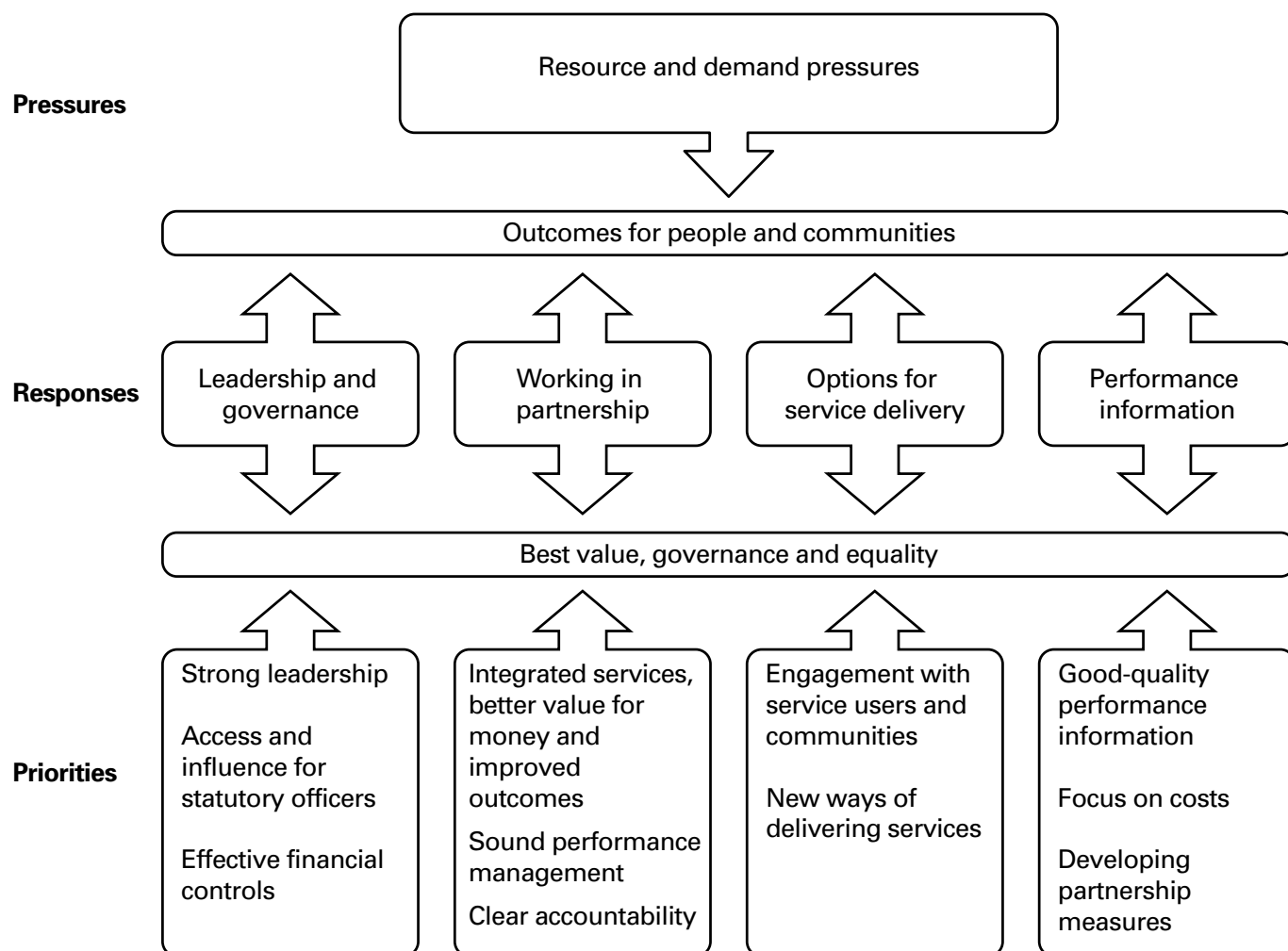
24. The Scottish Government’s spending plans for the next four years⁴ show a cumulative, real-term reduction in the Scottish budget of 12.3 per cent by 2014/15. Local government funding overall reduces by three per cent between 2011/12 and 2012/13 and, cumulatively, by 6.3 per cent by 2014/15. Capital funding falls significantly in the period to 2013/14 but increases in 2014/15.

25. Local government reported further efficiency savings in 2010/11.⁵ It is likely that it will become increasingly difficult to identify and realise efficiencies but there are opportunities to secure savings from improved energy efficiency through procurement and in planning and designing major capital projects.

26. Councils also face less flexibility in budgets. Past financial decisions including commitments under PPP/PFI need to be met and financing

Exhibit 2

Responding to the challenges in 2012



Source: Audit Scotland

4 Scottish Spending Review 2011 and the Draft Budget 2012/13, Scottish Government, September 2011.
 5 Efficiency outturn report 2010-11, Scottish Government, September 2011.

costs are set to increase as councils borrow more money to make essential improvements in roads and buildings. In the current economic environment, the proceeds from the sale of land and buildings are likely to be lower and this will add further pressures to capital budgets.

27. The reduction in financial support, the need for further efficiencies and less flexibility in budgets come at a time of increasing pressures on demand-led services such as social services and housing, due in part to the current general economic conditions. There is a risk that ongoing reforms of the welfare system may result in further pressures in these service areas.

28. The changing profile of Scotland's population will also affect services. Most significantly, the number of people of pensionable age is projected to rise from 1.04 million to 1.32 million (26 per cent increase) by 2035. In the same period, the number of people aged 75 and over is projected to rise from 0.41 million to 0.74 million (82 per cent increase).⁶ This is likely to lead to further, significant demands for services such as home care.

29. The Christie Commission⁷ stated that the greatest challenge facing public services is to combat the negative outcomes for individuals and communities arising from inequalities. The report went on to say that addressing inequality is central to achieving desired outcomes. Equality is particularly important in times of financial constraint. It should not be seen as a barrier to taking difficult decisions but instead as a basis for open and transparent decisions based on an understanding of the impact of decisions on groups of people in communities.

30. The Scottish Government has signalled a move towards more preventative spending, which involves shifting public spending away from dealing with the 'symptoms' to tackling the 'root cause' of inequality and disadvantage. This will take time and by its nature presents challenges, requiring public bodies to direct resources to preventative spending designed to improve longer-term outcomes while at the same time dealing with current and short-term demands for services.

31. Exhibit 3 summarises the demand and cost pressures facing councils.

Service redesign and structural changes

32. Councils are looking carefully at budgets to identify further savings and are also pressing ahead with corporate improvement programmes and business redesign projects to deliver savings and efficiencies over the longer term. They are also exploring more radical options, including asset-based approaches which involve creating community capacity and encouraging communities to take responsibility and control of assets such as buildings.

33. The external environment is changing too. The Scottish Government has brought forward legislation to create a single Scottish Police Service and a single Scottish Fire and Rescue Service. It sees this as an opportunity to modernise and simplify governance and delivery structures which will help to improve services for citizens and communities.

34. Our response to the consultation⁸ identified issues to be resolved, including:

- how any potential conflict between national policing priorities and local choices might be resolved in relation to the content of local policing plans

- how the policing oversight and scrutiny function currently vested in councils should be reflected in the new national policing model

- how clarity about the operational independence of the chief constable and local commanders will be maintained under the new arrangements

- how governance arrangements are to be introduced to oversee the transition arrangements to a single service.

35. Decisions on new structures and arrangements will have significant consequences for the delivery of these crucial public services. In the short term, authorities will need to plan for a smooth transition while maintaining service quality and improvements. It will be important that good practice is carried over into the new national services and that practical matters, such as the transfer of ownership of buildings, are addressed.

36. Appointments to police and fire and rescue boards and committees will be made soon after the elections. While reorganisation is imminent, boards and committees need to provide strong political governance in the transition to the new arrangements. They still have an important role in guiding and overseeing services and the substantial resources involved.

37. In December 2011, the Scottish Government set out plans to integrate adult health and social care which aim to improve the quality and consistency of care for older people. This will lead to major change with Community Health Partnerships (CHPs) replaced by Health and Social Care Partnerships. These partnerships will be the joint responsibility of the NHS and councils. Under the proposed reforms, NHS boards and councils will be required to produce

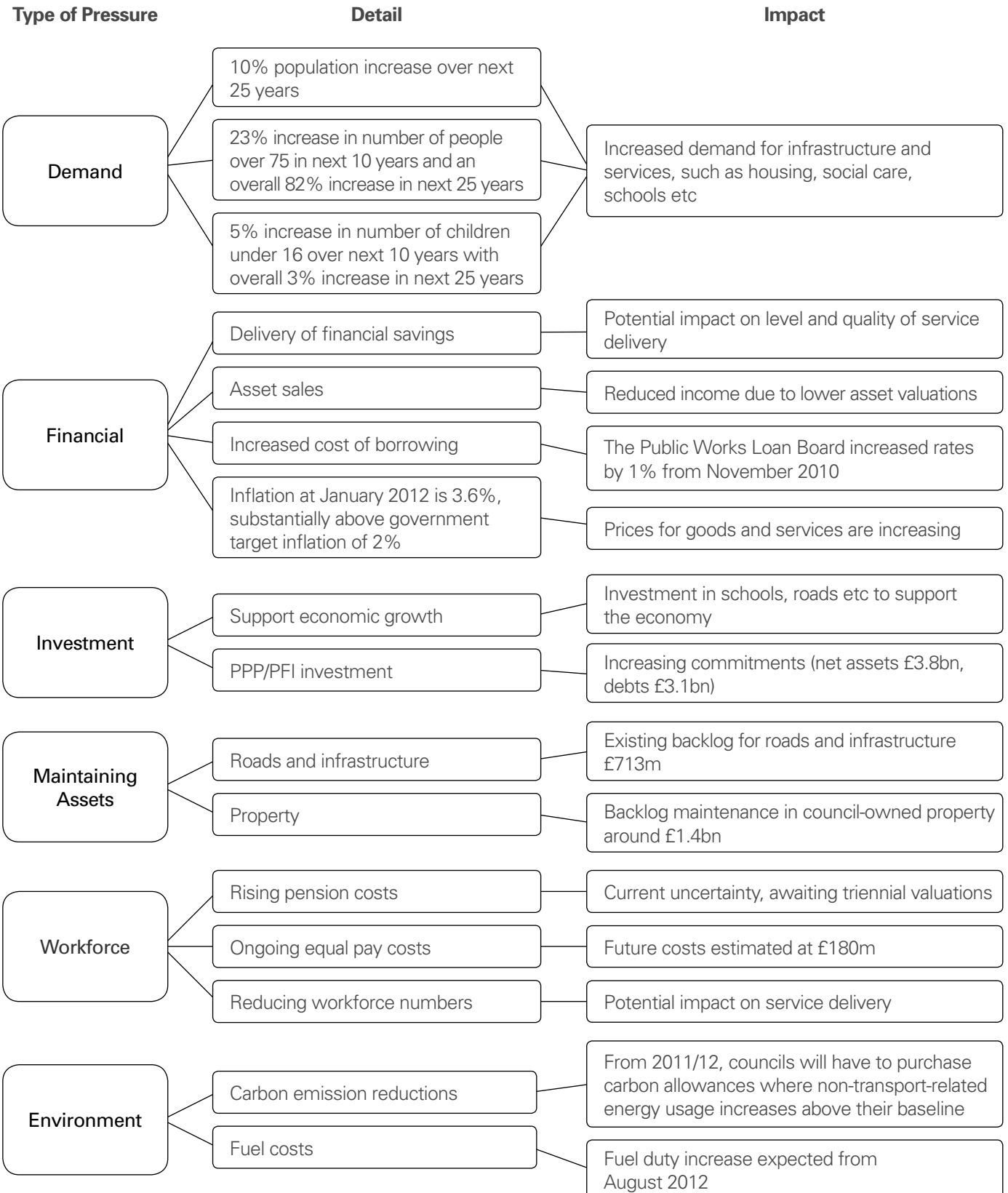
⁶ *Projected Population of Scotland (2010-based)*, National Records of Scotland, October 2011.

⁷ *Report on the future delivery of public services*, Commission on the Future Delivery of Public Services, June 2011.

⁸ *Response to consultation on reforming police and fire and rescue services in Scotland*, Accounts Commission, November 2011.

Exhibit 3

Summary of demand and cost pressures



Source: Audit Scotland

integrated budgets for older people's services. Planning for these changes is at an early stage.

38. The UK government is bringing forward legislation to reform the welfare system. This will start to come into effect from April 2013 and by 2017 all benefits, such as job seekers' allowance, child benefit and housing benefits, will form part of the new 'Universal Credit' (UC). Scottish councils currently administer housing and council tax benefits but because housing benefits will be part of UC, this responsibility will end after 2017. Currently, there is uncertainty as to the arrangements for replacing council tax benefit.

39. These changes have significant implications for councils. They face challenges in communicating the position to claimants and in maintaining services and performance in a period of change. In addition, councils face reduced funding as the housing benefit caseload moves from council administration to UC and the likelihood of staff reductions.

40. There are also implications and risks for councils as landlords. The majority of Scottish councils (26 of the 32 councils) manage their own council housing stock. For Scotland around 60 per cent (£615 million in 2009/10) of the rental income for these properties comes directly from housing benefits. Currently, where councils operate both housing rent and housing benefits, the systems are linked and benefits are automatically applied against rents due. However, under UC, claimants receive benefits directly and it will be the claimant's responsibility to pay rent to the council. Social and private landlords will be similarly affected.

41. Overall, substantial changes are ongoing and planned which will have a significant impact on structures and services. These need to be managed

alongside existing resource and demand pressures while managing service performance and improvement.

Responding to the challenges (1) – Leadership and governance

42. Local authorities make decisions which affect the social and cultural wellbeing of citizens and communities and involve the allocation of substantial public resources. Good governance is about clear direction and sound control and is crucial to ensure authorities allocate resources wisely and fairly, in the public interest and in an open and transparent manner (Exhibit 4). It is also essential in building and maintaining citizens' confidence in local government.

43. Governance arrangements are important and provide an essential framework for day-to-day business and provide points of reference when new situations or problems arise. It is important that these are up to date and fit for purpose in the current context. Reviewing and updating governance arrangements

in itself helps to build knowledge and understanding and helps reinforce their importance.

44. However, structures and processes are only part of the story; working together, elected members and officers lead and manage local authorities. Their approach, attitude and the culture they promote all have a strong bearing on governance and, ultimately, the success and reputation of their local authority.

45. Councillors have a complex and demanding role which involves representing constituents, providing leadership and direction in allocating resources, and scrutinising and challenging service performance. They work in a political environment, which is an important and integral part of local government. In addition to their role as an elected member of the council, they are often members of other related local authorities or organisations, such as police boards, community partnerships and arm's-length external organisations (ALEOs).

Exhibit 4

The six principles of good governance

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

Source: *Delivering good governance in local government framework*, SOLACE/CIPFA, 2007

46. Local government changed substantially for many councils following the elections in 2007, with most run by political coalitions and with new multi-member wards. This brought new dimensions to roles, responsibilities and working relationships. The continuing drive for public sector reform with greater focus on partnership working and alternative models of service delivery means that the elected member role is likely to continue to be complex.

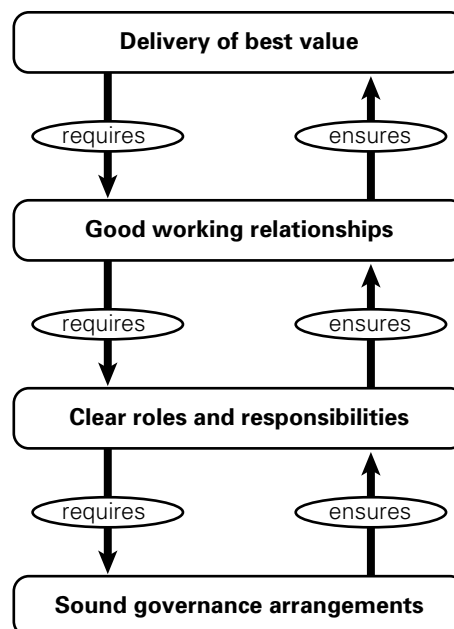
47. In our report on roles and working relationships⁹ we underlined the importance of clear roles and responsibilities and good working relationships in delivering best value (Exhibit 5).

48. Working arrangements are also complex in other areas of local government. In police authorities, working arrangements involve the chief constable, the police authority and Scottish ministers. We found cases in our best value work in police where there was a lack of a consistent and shared understanding across board members about their roles and responsibilities. This affected, for example, elected members' contributions to the development of policing priorities and scrutiny of police force performance. In other cases, involving ALEOs, we found instances where a lack of clarity about roles and responsibilities undermined governance with serious consequences for services and public finances.

49. Elected member training and development will be required to support members in a quickly changing environment. Those new to local government after the May 2012 elections will need to get up to speed quickly and understand what being an elected member involves, including where they are asked to serve on audit and scrutiny committees and take on roles in external organisations.

Exhibit 5

The connections between governance, working relationships and best value



Source: Audit Scotland

50. There have also been significant changes at senior officer level in councils. Between March 2008 and December 2011, two-thirds of councils appointed a new chief executive. While chief executives are accountable to the council as a whole, effective leadership relies on the political leader and the chief executive working well together. Changes in leadership, through electoral or other political change or the appointment of a new chief executive, bring new working relationships for councillors and officers throughout the council and need to be managed well.

51. The chief executive has overall responsibility for the management of the council and is one of the statutory officers who have important, independent roles in promoting and enforcing good governance. Elected member awareness and

understanding of the statutory officer roles is important and, following references in our report on roles and working relationships, we worked with the Improvement Service to produce its briefing note on this topic.¹⁰

52. In the current economic climate we are particularly concerned that the role of the statutory officer for finance is fully recognised and understood. This individual, usually the director of finance or equivalent, is the lead officer for finance. The role is often referred to as the section 95 officer, a reference to the legal basis for the post,¹¹ and is fundamental to strong financial management and control.

53. The statutory officer for finance monitors and reports budget performance but the role is much wider and includes a higher-level,

⁹ *Roles and working relationships: are you getting it right?*, Accounts Commission, August 2010.

¹⁰ *Elected Member Briefing Note No.12: The Roles of Statutory Officers*, Improvement Service, November 2011.

¹¹ The Proper Officer for finance, as required by section 95 of the Local Government (Scotland) Act 1973.

strategic dimension which is critical to overall leadership and long-term financial sustainability. More specifically, the statutory officer for finance will be called upon to provide expert advice on complex financial matters, for example in relation to the financial standing of potential service providers.

54. Management restructuring has generally led to smaller senior management teams and, consequently, the statutory officer for finance is often no longer a member of the senior management team and may not report directly to the chief executive (Exhibit 6). There has also been a large turnover in staff holding the role; in more than half of all councils the current statutory officer for finance did not hold that post four years ago. Across the 32 councils, the statutory officer for finance is a member of the senior management team in 21 cases and is at head of service level, or lower, in 12 cases.

55. It is for councils to determine management structures that best meet their needs. Where the statutory officer for finance is not a full member of the senior management team or equivalent, elected members must satisfy themselves that the officer has appropriate access and influence at the most senior level in the council.

56. We would be concerned about the possibility of any diminution of the statutory officer for finance role and the related risk to effective financial management and governance. This will be a focus of audit interest in local audits and auditors will report any concerns which arise.

Leadership on equalities

57. Elected members have a key role in leading on equalities. This goes beyond noting equality impact assessments (EIAs) and requires effective scrutiny of assessments

Exhibit 6

Management restructuring: the impact on the statutory officer for finance

A council decided to reduce the number of heads of service from 11 to eight. As a result, the role of statutory officer for finance transferred from a head of service to the chief accountant. Referring to the Accounts Commission's 'How councils work' series report on roles and responsibilities, the auditors highlighted the vital role that statutory officers have in supporting good governance and decision-making. They concluded that the council must ensure that the new arrangements did not compromise the effectiveness of these important statutory roles.

Source: Audit Scotland

and using EIAs to inform decision-making. The availability of good data is essential to assess the impact of decisions on particular groups.

58. A recent EHRC report¹² highlighted the lack or unreliability of data in assessing equality. It said that better use of existing data sources, and more sophisticated data-collection techniques, would allow a better understanding of the needs and aspirations of different people. This is consistent with the Christie Commission report which noted that public bodies have insufficient data to meet their equalities duties.

59. Work involving the Improvement Service, EHRC, the Scottish Government and councils is continuing to help councils develop and use an evidence base, through their CPPs, to measure and evaluate progress towards improved equality outcomes.

Responding to the challenges (2) – Working in partnership

60. Partnership working involves councils joining forces with other parts of the public sector and with the voluntary and private sectors to improve services that better meet the needs of people and communities. Over the past decade there has been more focus on partnership working

and, at a time of reducing budgets, it is now very clear that partnerships are expected to deliver more integrated services, better value for money and improved outcomes.

Community planning

61. Community planning involves councils and other public sector bodies working with local communities, the business and voluntary sectors and the public to deliver better services. Councils have a statutory duty¹³ to initiate, maintain and facilitate community planning and to report on progress in improving services and outcomes for local people. All councils have established a Community Planning Partnership (CPP) to lead and manage this process in their local areas.

62. CPPs are now central in developing and agreeing Single Outcome Agreements (SOAs) with central government and are one of the main vehicles for delivering improvements for communities and contributing to national outcomes. CPPs are not public bodies in their own right but their significance has increased as SOAs have developed.

63. The initial Accounts Commission/Auditor General review of community planning in 2006¹⁴ found evidence of some progress but the report also

¹² *How fair is Britain? Equality, Human Rights and Good Relations in 2010*, Equality and Human Rights Commission, 2011.

¹³ Section 13 of The Local Government in Scotland Act 2003.

¹⁴ *Community planning: an initial review*, Accounts Commission and Auditor General for Scotland, June 2006.

highlighted that the complexity of community planning structures and different accountabilities could be a barrier to effective working. The more recent joint Commission/Auditor General report on the role of CPPs in economic development¹⁵ focused on a specific policy area but identified wider issues.

64. That report found that while CPPs have an important role in planning and coordinating improvements to local economies, some other aspects of economic development, eg transport and infrastructure, are better planned at a national and regional level. The report also highlighted that the differences in accountability mean there are limits in the extent to which CPPs can hold partners to account for their contribution to agreed outcomes or be held to account themselves for the delivery of the SOA. Differences in governance and accountability in individual partners are still considered by CPPs to be a barrier to effective partnership working.

65. The Scottish Government's response¹⁶ to the Christie Commission anticipates better use of resources through effective place-based partnerships and integrated service provision. It has asked the Accounts Commission to bring forward detailed proposals on how best external scrutiny can support the delivery of better outcomes at the level of CPPs, through assessing performance and promoting effective practice. We are taking this forward in consultation with our scrutiny partners and will report in summer 2012.

66. The Scottish Government and the Convention of Scottish Local Authorities (COSLA) are undertaking a review of community planning with the aim of enabling councils to agree priorities for public services in their area immediately following the elections which deliver more

effective and better outcomes for people and communities.

Partnership working with the health sector and others

67. Around the same time as community planning was introduced, major changes took place in the NHS, including the introduction of CHPs, to bridge the gap between primary and secondary healthcare and also between health and social care.

68. A joint Accounts Commission/Auditor General report on CHPs¹⁷ noted that, since devolution, there has been increased focus on partnership working between health and social care and across the public sector as a whole. The report acknowledged that partnership working is challenging and requires strong, shared leadership by NHS boards and councils. It concluded that approaches to partnership working have been incremental, leading to cluttered partnership arrangements. The report also concluded that a more systematic, joined-up approach to planning and resourcing is needed to ensure that health and social care resources are used efficiently and that this should be underpinned by a good understanding of the shared resources available.

69. A report on transport for health and social care¹⁸ produced jointly by the Accounts Commission and the Auditor General considered partnership working in a particular service and the implications for a specific group of service users. It found that transport services for health and social care are fragmented with a lack of leadership, ownership and monitoring of services and that the partners, ie Scottish Government, Regional Transport Partnerships, councils, NHS boards and the ambulance service, were not working together effectively to deliver transport for health and social

care or making best use of available resources. The report concluded that joint working across the public sector and with the voluntary and private sector providers is crucial for the successful and sustainable development of transport for health and social care.

Good governance principles for partnership working

70. We acknowledge developments in partnership working, but emphasise the need for councils to make working with partners more effective through rationalising partnership structures. Good partnership working depends on effective and inclusive leadership, a shared vision, collective agreement on objectives and outcomes, and strong and effective governance and accountability.

71. Drawing on published material and audit work in this area we have identified the principles of good governance for partnership working relating to: behaviours, processes, performance measurement and management, and use of resources. Appendix 4 sets out each of these principles and indicators of when things are going well, and when they are not.

Responding to the challenges (3) – Options for service delivery

72. Councils decide the best way to deliver services that meet the needs of the communities they serve and demonstrate best value. Decisions should be well informed and transparent and flow from a robust assessment of available options. Good councils ask themselves questions such as: 'Is there a need for this service?'; 'If so, how should it be delivered and by whom?'; 'Have we explored all the realistic options?'; 'Do we have sufficient evidence to make an informed decision?'

15 *The role of community planning partnerships in economic development*, Accounts Commission and Auditor General for Scotland, November 2011.

16 *Scottish Government's response to the Commission on the Future Delivery of Public Services*, Scottish Government, March 2011.

17 *Review of Community health partnerships*, Accounts Commission and Auditor General for Scotland, June 2011.

18 *Transport for health and social care*, Accounts Commission and Auditor General for Scotland, August 2011.

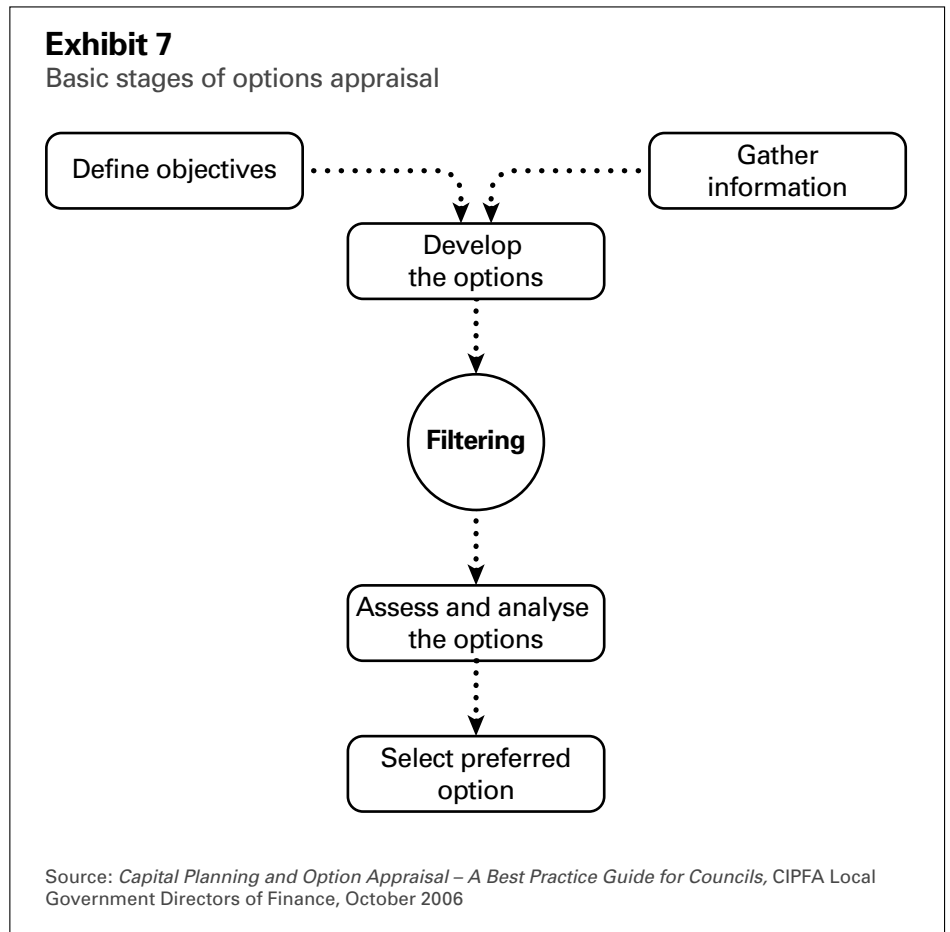
73. There can be many options for service delivery. These can include in-house managed services, public sector shared services, service provision through arm's-length external organisations (ALEOs) and voluntary or private sector provision. Exhibit 7 sets out the basic stages of options appraisal, which will also include consideration of the risks, the financial implications and governance.

74. A decision to pursue an alternative method of service delivery can change long-standing arrangements and can have far-reaching consequences for service users, services, systems and staff. These are difficult decisions and elected members need to balance short-term political objectives, longer-term sustainability of services and finances and the impact on people.

75. This is particularly so when the ability to balance the budget relies on the savings generated from an alternative service delivery option. The choice of service delivery should be made on the basis of good-quality information and councils must be in a position to explain and, where necessary, justify actions. This includes where elected members decide to reject the recommended course of action. Success depends on strong political leadership and good business management, recognising that, ultimately, the decisions will be made by elected members. Where decisions are deferred or proposals are rejected without adequate explanation and communication, the council's services, finances and reputation can be damaged or put at risk.

The shared services option

76. Sharing services is not new and may offer the potential for savings and efficiencies. As with other service options, councils need to be clear about the objective of sharing services and the implications for service users, the council's workforce and accountability.



The costs of shifting to new ways of delivering services can be high. Also, councils should not underestimate the amount of time and costs involved in developing and progressing shared service proposals. For example, where proposals involve regulatory services,¹⁹ there can be complex and time-consuming legal issues have emerged.

77. Any assessment of the potential for shared services must consider what might be achieved from simplifying, standardising and streamlining existing processes. Comparative information on costs and performance is essential to make informed decisions. Where there is a clear business case for shared services, delivery requires strong political and officer leadership to realise the benefits as quickly as possible.

78. During 2011, Clackmannanshire and Stirling councils continued to work on an agreement for education and social care which aims to integrate these services, share good practice and realise efficiencies. Governance arrangements involving senior elected members from across the political parties have been established and joint reports are made separately to the appropriate committee in each council.

79. East Lothian and Midlothian councils have been exploring options for strategic management and operational support in education and children's services, and have appointed an acting director of education and children's services on a shared basis for the period 1 March 2012 to 31 December 2013. This and other initiatives for shared services are overseen by joint groups

19 Regulatory services are services to ensure public, consumer and environmental protection. They include planning, trading standards and environmental services.

involving elected members and senior managers from each council, and are supported by a jointly funded shared services officer.

80. The Clyde Valley Community Planning Partnership involving councils in the Clyde Valley area continues to plan shared services in waste management, transport, health and social care and support services. Progress varies across the four workstreams. Further data is being collected to inform opportunities for shared services in social transport and work is continuing to develop business plans for integrated health and social care and for waste management.

81. A detailed business case was developed for shared support services but the estimated savings of up to £38 million were dependent on the participation of all eight councils. Since summer 2011, four councils (East Dunbartonshire, West Dunbartonshire, Glasgow City and South Lanarkshire) decided not to proceed, citing concerns about best value or uncertainty about the proposed structures and governance. The other four councils (East Renfrewshire, Inverclyde, North Lanarkshire and Renfrewshire) are continuing to pursue the shared services options but recognise that the detailed business case is no longer valid. A revised business case is expected in the spring of 2012; the key issues are likely to be the revised costs/savings analysis and political priorities after the May 2012 elections.

82. Overall, progress in the delivery of shared services has been slow and, in our view, significant savings in the short term remain unlikely. However, the pressure on finances provides a strong incentive to move more quickly to reject or accept options for shared services. The Scottish Government has issued revised guidance²⁰ on shared services which provides information, guidance and case study examples.

The arm's-length external organisation (ALEO) option

83. ALEOs can offer an alternative to other forms of partnerships and service delivery options. They are 'arm's-length' because the council retains a degree of control or influence and 'external' because they have a separate identity to the council.

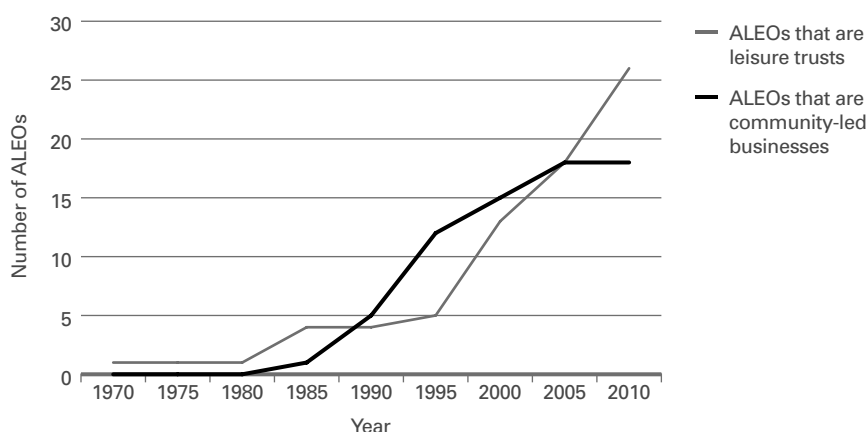
84. ALEOs are now an established part of the local government landscape and are used increasingly by councils as an alternative way of delivering council-related activities. The number of ALEOs set up to provide leisure services has almost doubled in recent years (Exhibit 8) and more councils are considering this option. ALEOs offer the potential for reduced costs and greater flexibility, but there are potential disadvantages and risks. If they proceed, it is important for councils to be able to 'follow the public pound' across organisational boundaries to the point where it is spent.

85. Our 'How councils work' series report on ALEOs²¹ set out good practice in the way they are set up and operated. It neither promotes nor discourages their use and focuses on the principles of good governance and accountability for finances and service performance which need to be established and maintained when services are delivered through an ALEO.

86. Strong governance requires clear roles and responsibilities, and we underline the importance of getting this right from the start. Asking individuals to take on a role with an ALEO as well as their day-to-day responsibilities as a councillor, for example, adds another dimension to the elected member role which is already complex in its own right.

87. Our findings on The Highland Council's role in the Caithness Heat and Power project²² highlighted the problems which can emerge if councils do not have effective

Exhibit 8
Growth in the use of leisure ALEOs



Note: Community-led businesses – these mostly run a single facility (for example, a swimming pool), and are typically set up by local volunteers in response to a community need. For example, some community-led businesses have taken over management of existing facilities from the council, and others have built their own to meet a gap in provision.

Source: Audit Scotland

²⁰ *Shared Services Guidance Framework*, Scottish Government, July 2011.

²¹ *Arm's-length external organisations (ALEOs): are you getting it right?*, Accounts Commission, June 2011.

²² Accounts Commission's findings on a report by the Controller of Audit, *The Highland Council: Caithness Heat and Power – Follow-up report*, March 2011.

arrangements for their involvement in ALEOs. We concluded that the council had failed to establish effective governance and clear lines of responsibility. We also found that the council did not monitor progress effectively and failed to ensure that effective controls were in place to manage risks.

88. New ALEOs may be set up to reduce costs or improve services but we also expect councils to review existing ALEOs and structures to ensure they remain the best option, recognising that ALEOs themselves face a challenging financial and operating environment. The six principles in the Following the Public Pound Code²³ are as relevant today as when the Code was first published in 1996 (Exhibit 9).

Responding to the challenges (4) – Performance information

89. It is crucial for councils to have information about performance which helps elected members identify priorities, supports effective decision-making and enables them to report to citizens and communities. This goes beyond management processes. Where an effective performance management culture exists:

- the use of performance information is one of the main drivers for improvement
- members and officers talk openly about performance
- performance improvement is seen as a routine part of the job.

90. We have for some time underlined the importance of effective performance management. Councillors and senior managers must have good-quality, timely and balanced information on how services are performing across all areas of activity. Working well, these systems

Exhibit 9

'Following the public pound' principles

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

- 1 Have a clear **purpose** in funding an ALEO
- 2 Set out a suitable **financial regime**
- 3 **Monitor** the ALEO's financial and service performance
- 4 Carefully consider **representation** on the ALEO board
- 5 Establish **limits** to involvement in the ALEO
- 6 Maintain audit access to support **accountability**.

Source: Audit Scotland

provide vital information which highlights emerging problems, where improvement is needed and whether value for money is being achieved. Performance information can also highlight good practice and inform decisions about resource allocation (Exhibit 10).

91. Some councils still have a way to go to embed effective performance management and to instil a culture where there is strong ownership of performance among elected members, management and staff more generally. In other cases, where performance management is better established, recurring matters include:

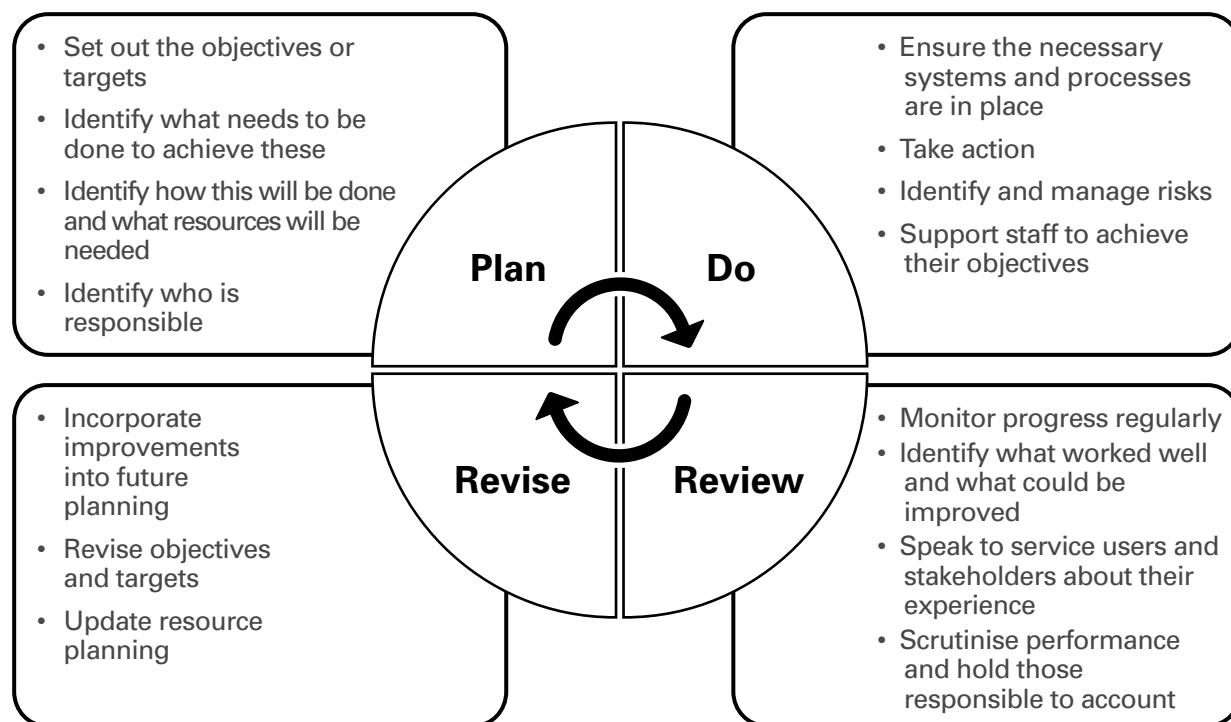
- the need for further consideration of the range and quality of information which is collated and provided to elected members to support service scrutiny
- the need to develop arrangements to demonstrate progress against wider, longer-term outcomes, and value for money.

92. Undertaking robust and reliable self-evaluation of corporate processes, service performance and impact is central to continuous improvement. Councils need to 'know themselves' and the limits on their capacity, corporately and individually (at political and officer level). Where there is evidence that self-evaluation is working well it enables us and our scrutiny partners to reduce the amount of audit and scrutiny activity we undertake.

93. In 2011, we looked at the level and range of self-evaluation activity in councils. This showed commitment to self-evaluation but it also showed inconsistencies in coverage and in the quality of information across services, outcome areas and corporate systems. It will be some time before all councils have fully effective self-evaluation arrangements in place. The use of benchmarking data to assess costs, quality and performance remains underdeveloped and there is limited consideration of service users' views and customer satisfaction information.

Exhibit 10

Performance management based on the plan, do, review, revise cycle



Source: Audit Scotland

94. A key component of performance management is effective risk management which includes identifying risks to service delivery and taking action to address matters most likely to affect priority outcomes. Effective risk management is also essential to monitor the delivery of savings and the impact of savings on service delivery. The central issue is about being risk aware, not risk averse.

95. Managing performance in a partnership context, where improvements require input by several different organisations, adds another dimension to performance management and is generally more complex.

96. The joint Accounts Commission/ Auditor General report on the role of CPPs in economic development²⁴ found different approaches to performance management. Some CPPs acknowledge that outcomes are not being achieved as effectively as planned and take little further action, sometimes because they consider the reasons for lack of progress are outwith the CPP's control. In others, the CPP board or groups of board members work together to try and understand why outcomes are not being achieved and identify what further support partners can provide to address the problem.

97. Overall, the report found that a culture of mutual respect and trust enables partners on CPP boards to challenge each other on progress towards agreed outcomes and increases collective responsibility for SOAs.

98. The joint Accounts Commission/ Auditor General report on CHPs²⁵ found that CHPs have different performance reporting arrangements, and the content and frequency of performance reports to CHP committees, NHS boards and councils varies.

²⁴ *The role of community planning partnerships in economic development*, Accounts Commission and Auditor General for Scotland, November 2011.
²⁵ *Review of Community Health Partnerships*, Accounts Commission and Auditor General for Scotland, June 2011.

99. Another common theme across audit work is the lack of information on service costs. The joint Accounts Commission/Auditor General report on the planning system,²⁶ for example, noted that councils have little or no information about the cost of processing planning applications.

100. We are very concerned that performance-related cost information continues to be underdeveloped. Having accurate, consistent and comparable cost information is vital to understand services and performance fully and to ensure effective management of services. As a starting point, we would encourage local authorities to follow the UK audit agencies' indicators for back-office functions.²⁷

101. We are drawing on our audit work in recent years and will be publishing a report in our 'How councils work' series, which will help support knowledge and understanding of the use of costs in performance management in local government. It will identify good practice and key guidance and will be essential reading for councillors and officers.

102. More work is also required to develop measures which show progress against longer-term objectives. Many health and community safety objectives, for example, are by their nature long term and councils and their partners need evidence to support scrutiny and demonstrate progress. In December 2011, the Scottish Government announced that it would work with delivery organisations on the development of 'contributory outcomes' on which progress can be measured in the short to medium term.

103. Measures of this type will become increasingly important in monitoring the impact of preventative spending, ie shifting resources away from dealing with the 'symptoms' to tackling the 'root causes' of inequality and disadvantage.

Maintaining performance in the current environment

104. While councils are making some progress in developing performance information, measurement and reporting, there remains a lack of consistent and robust information at a national level from which to draw conclusions about performance across services.

105. Our Statutory Performance Indicators (SPIs) do, however, provide some information across a range of services. The SPIs for 2011 show improved service performance across most service areas but indicated deteriorating performance in waste management and roads (Exhibit 11).

106. Full details of performance information reported by councils against our SPIs are available on our website. Police performance is reported nationally by Her Majesty's Inspectorate of Constabulary for Scotland (HMICS) through the Scottish Policing Performance Framework (SPPF).²⁸

107. We are committed to reviewing the SPI framework and in doing so will take account of the changing context in which local authorities are operating and the progress they are making in developing performance improvement arrangements and public performance reporting.

108. CPPs agree their strategic priorities for their local areas in SOAs. The Scottish Government reported²⁹ signs of progress in the local outcomes-based approach, including partners working together to improve economic and social conditions. It stated, however, that changes in outcomes take time to become evident and that it is not yet possible to demonstrate substantial shifts in long-term indicators and to quantify the impact of the approach.

109. The report noted that other countries which have adopted the outcomes-based approach have faced substantial challenges in implementing underpinning strategies, working cultures and business systems. Among its conclusions, the Scottish Government stated that more work is required to overcome cultural and technical barriers within public services in order to maximise the benefits and to offset the difficult financial environment.

110. We accept that it will take time before progress can be robustly measured against each of the 16 national outcomes. Future SOA reports should increasingly allow the Scottish Government to measure progress on CPPs' contributions to the national outcomes. However, the joint Accounts Commission/Auditor General report on CPPs in economic development found that the variation of economic outcomes and indicators used in SOAs suggest measuring progress will continue to be challenging.

Public performance reporting

111. Effective public performance reporting is an essential element of performance management and is integral to an outcomes-based approach. It is also a key element of accountability to local people and communities.

112. In 2008, we made a significant change to the performance information which local authorities must publish. This offered flexibility for councils to develop a broad set of comprehensive information for local communities, through authorities' own public performance reports, alongside a shorter list of specific comparable indicators. This change created a clear linkage between the SPIs and the effective performance management and reporting required under best value.

²⁶ *Modernising the planning system*, Accounts Commission and Auditor General for Scotland, September 2011.

²⁷ *Value for money in public sector corporate services*, A joint report by the UK public sector audit agencies, November 2008

²⁸ *Scottish Policing Performance Framework Annual Report 2010/11*, HMICS, October 2011.

²⁹ *Local matters: Delivering the local outcomes approach*, Scottish Government, March 2011.

Exhibit 11

Statutory Performance Indicators: change between 2008/09 and 2010/11 by service area

Service area	Number of measures	Better by (%)				Worse by (%)			
		0-4	5-9	10-14	>15	0-4	5-9	10-14	>15
Corporate management	10	5	2	2	-	1	-	-	-
Adult social services	4	-	2	-	1	1	-	-	-
Cultural & community services	5	-	1	1	-	1	2	-	-
Development services	2	-	1	1	-	-	-	-	-
Housing	8	1	3	2	1	1	-	-	-
Protective services	4	3	-	-	1	-	-	-	-
Roads	1	-	-	-	-	-	-	1	-
Waste management	4	1	-	1	-	1	-	1	-
Total	38	10	9	7	3	5	2	2	0

Source: Audit Scotland

113. Analysis of the data since then shows that, while councils are making progress in providing comprehensive public reporting, the approach and coverage continues to be highly variable across councils (Exhibit 12).

114. CPPs produce annual reports showing performance against specific outcomes in SOAs, together with other information such as evidence of effective engagement with citizens and how partnership working at the local level is becoming more effective. The Scottish Government plans to prepare an overview report drawing on CPPs' 2010/11 annual reports which describes the progress made by CPPs in implementing the local outcomes approach.

Exhibit 12**Public performance reporting – areas for improvement**

Comparison with previous years shows a wider range of performance information and a variety of ways in which information is published, but more action is required, particularly in the following areas:

- Some councils continue to rely heavily on the SPIs as the main source of reporting performance information to the public.
- Benchmarking is underdeveloped and only a small number of councils compare their performance with other councils.
- Around half of councils do not assess performance against targets.
- Around half of councils do not provide information which shows the council listens and responds to its stakeholders.
- Reporting cost information continues to be underdeveloped.

Source: Audit Scotland

Summary and conclusion

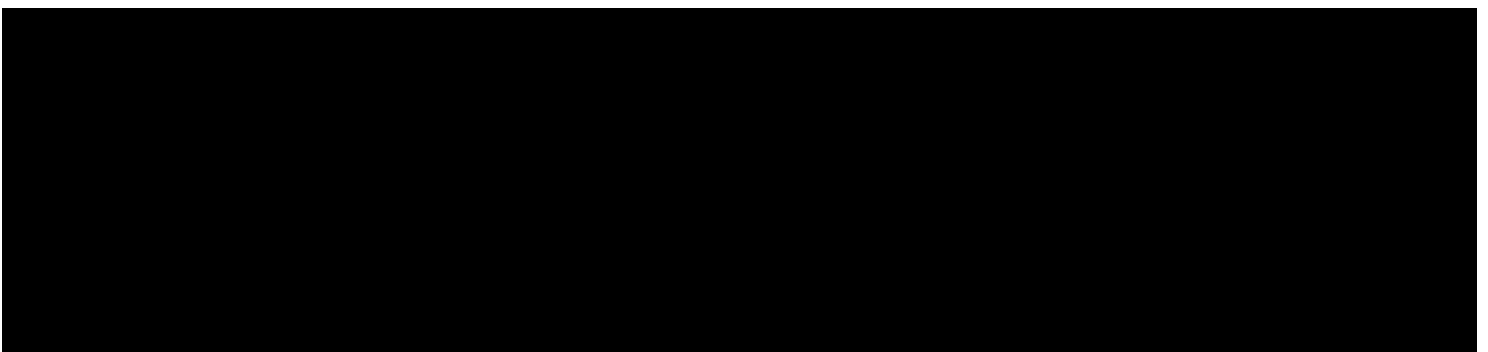
- The pressures on local government finances and increasing demands present a substantial challenge to services and outcomes.
- Strong leadership and governance is required in this period of transition and change, including in police and fire and rescue services.
- It is vital that statutory officers, and in particular the statutory officer for finance, have appropriate access and influence.
- Local authorities need to take a structured approach to options appraisal and demonstrate the basis for decisions.
- Councils and their partners need to develop partnership working to deliver better value for money and improved outcomes, to ensure that partnership performance systems are sound and that accountabilities are clear.
- Good-quality performance information and effective management is required, with an increasing focus on costs and measures which monitor partnership performance and outcomes.

115. Overall, the main priority is best value. The appendices contain information and prompts which will assist councils and councillors to meet the challenges in 2012.

Part 2. Review of resource use in 2011



Councils dealt well with budget pressures in 2011 but there are further opportunities for more effective management of finances, workforce, assets and procurement.



116. In this part of the report, we review how local authorities managed resources in 2011 under four headings:

- Finances
- Workforce
- Assets
- Procurement

Finances

117. Revenue expenditure is the day-to-day cost of providing services and includes employee costs, supplies such as food and fuel, and materials for routine repairs. Capital expenditure

is the cost of building property such as schools and acquiring large items of equipment which will be used over time in providing services.

118. In financial year 2010/11, income from government grants, council tax, housing rents and other fees and charges was £19 billion. Spending on services was £18.5 billion and, after accounting adjustments of £0.4 billion, £0.1 billion was transferred to reserves (Exhibit 13).

119. Spending across the main services (Exhibit 14) was broadly similar to 2009/10 with the exception of housing where spending has

increased by £0.4 billion, reflecting revenue-related costs associated with progress towards the Scottish Housing Quality Standard.

120. Of the total income in the year of £19 billion, £12.4 billion came from Scottish Government grants and £4.3 billion came from housing rents and benefits and fees and charges for services. The remaining £2.3 billion came from council tax.

121. Our SPIs showed that most councils increased the amount of council tax collected, with the overall figures showing an increase from 94.4 to 94.7 per cent. Eight councils experienced small reductions

Exhibit 13

Income and expenditure

Where the money came from	2010/11 (£ billion)	
General revenue funding from government		8.1
Service fees, charges, other revenue government grants and housing rents		5.9
Capital grants and contributions		0.6
Council tax		2.3
Non-domestic rates		2.1
Total income		19

How the money was spent	2010/11 (£ billion)	
Education	5.5	
Social work	3.8	
Housing	3.9	
Roads, environment, culture and planning	3.5	
Police and fire & rescue services	0.9	
Other services and operating expenditure	0.9	
Total spending on services		18.5
Accounting adjustments		0.4
Increase in General fund/Housing revenue account balances		0.1
Total expenditure and transfer to reserves		19

Source: Audit Scotland

in collection rates. Around £120 million of 2010/11 council tax was not collected in year and councils will continue to pursue this through ongoing recovery processes.

122. Budget pressures in 2010/11 came from demand-led social work services including services for looked-after children and services for older people. There were also additional costs associated with extreme winter weather, particularly unbudgeted overtime payments, and from rising fuel costs. In the event, most councils stayed within budget, principally by achieving planned reductions in staff costs through, for example, voluntary severance schemes.

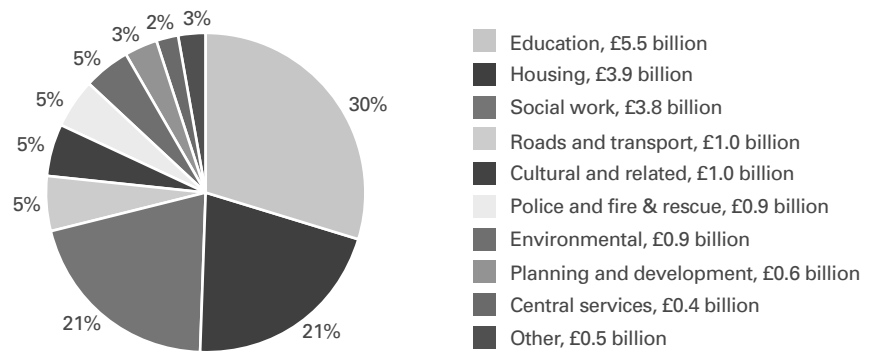
123. Total capital spending in 2010/11 amounted to just under £2.1 billion, representing a significant decrease against both planned spending of £2.5 billion and compared with the previous year's spending of £2.2 billion (Exhibit 15).

124. The main areas of capital spending were housing (including capital work relating to the Scottish Housing Quality Standard and developing affordable housing) and the schools estate including building and refurbishment work.

125. Slippage in capital programmes is a recurring and worsening issue, with one-half of councils reporting some slippage in 2011. While some is attributable to adverse weather, this points to the need for more accurate and achievable capital plans, and the need to review project and programme management.

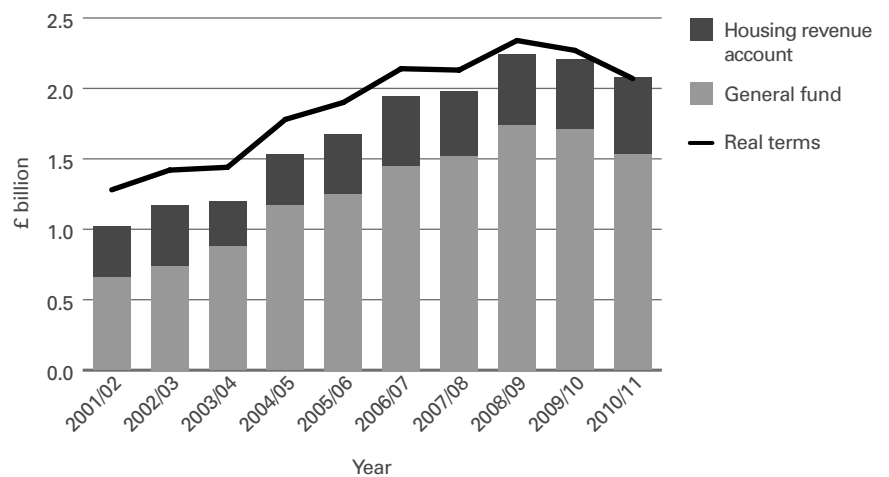
126. Improvements in capital management are increasingly important if councils are to get the best from reducing capital funding while at the same time ensuring buildings and other assets are available and in the right condition to deliver services. A common theme in capital projects where there

Exhibit 14
Expenditure by service 2010/11



Source: Audit Scotland

Exhibit 15
Capital expenditure 2001/02 to 2010/11



Source: Audit Scotland

have been difficulties is the lack of objective expert advice and timely reporting to elected members.

127. The main sources of money for capital spending are borrowing, capital receipts (from the sale of assets such as land and buildings), capital grants and the application of capital reserves. Borrowing is the main source and has grown significantly since 2008 with just over £1.1 billion borrowed

in 2010/11 to finance capital projects (Exhibit 16, overleaf). The shift to borrowing reflects reduced capital receipts because of lower asset values and less sales. The recent drop in funding from revenue, grants and reserves indicates a tightening of budgets and less flexibility to fund capital from revenue.

128. Councils are considering new ways of financing capital expenditure. Tax Incremental Financing (TIF) involves using forecasts of the additional rate income expected from property developments as a basis for borrowing.

129. Councils' financial statements show usable reserves, which are cash-backed, and unusable reserves, which are as a result of accounting entries required to comply with financial reporting standards. Councils hold usable reserves to ensure stability in cash flow, to build up funds for known and predicted cost pressures, and as a contingency for unforeseen expenditure. In 2010/11, there was a significant increase in the level of usable council reserves (Exhibit 17).

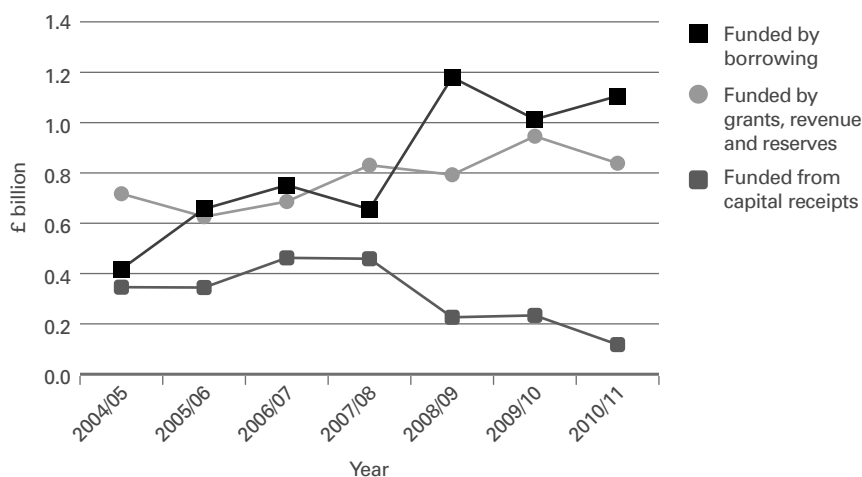
130. The overall level of usable reserves increased by £204 million (16 per cent) compared with the previous year and totalled £1.47 billion at 31 March 2011. Two-thirds of councils increased usable reserves in 2010/11. Appendix 2 shows overall increases in general funds, capital funds and repair and renewals funds.

131. The general fund is the main usable reserve and overall these increased by £127 million (20 per cent) in 2010/11 and totalled £768 million at 31 March 2011. £498 million was earmarked to meet known commitments such as PPP/PFI payments and equal pay claims. This represents 65 per cent of the amount held in general funds and is broadly in line with previous years, but varies from council to council depending on local priorities and decisions.

132. The overall level of non-earmarked balances was £270 million or 35 per cent of general fund reserves. This has risen over the last year from 1.8 per cent to 2.1 per cent of net cost of services, and within individual councils varies from 0.6 to 8.1 per cent of net cost of services (Exhibit 18).

Exhibit 16

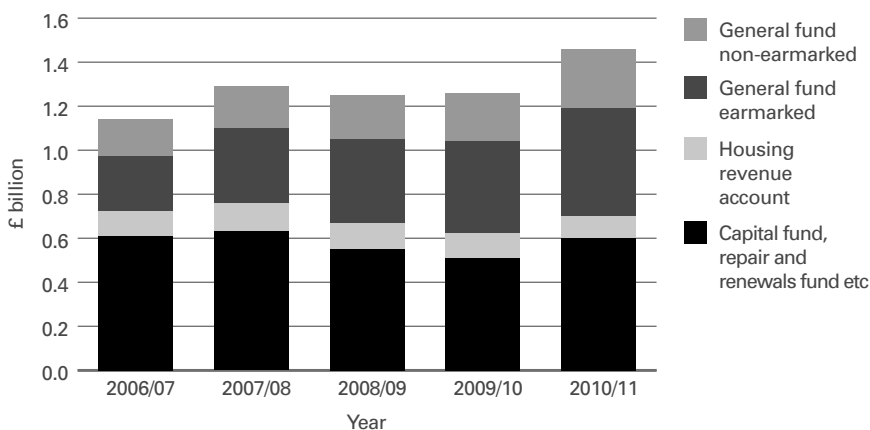
Capital expenditure financing sources, 2004/05 to 2010/11



Source: Audit Scotland

Exhibit 17

Total usable reserves and balances¹



Note: 1. Excludes Orkney and Shetland Islands councils which hold large reserves and balances arising mainly from harbour and oil-related activities.

Source: Audit Scotland

133. Councils have policies setting out the optimum level of reserves that they will maintain to deal with unforeseen circumstances. These are usually set at a percentage of net costs of services and are typically in the range of one to four per cent.

134. A number of councils show non-earmarked general fund reserves greater than the level set out in their

policies. This approach is prudent in the current environment but it may point to the need for councils to refresh reserve policies, to ensure they align with current financial plans and strategies. Review and discussion about reserves policies will also support awareness and transparency in reserves. It will also help councils to explain why they are holding substantial amounts of money in

reserve at a time when budgets are reducing and the competing pressures on financial resources are intensifying.

Financial management and reporting

135. There was a significant change in the layout and format of local authorities' financial statements in 2010/11 as they moved to comply with International Financial Reporting Standards (IFRS). The changes to the accounts increased clarity and transparency in some areas, eg accounting for PFI. The Chartered Institute of Public Finance and Accountancy (CIPFA)³⁰ and the Local Authorities (Scotland) Accounts Advisory Committee (LASAAC)³¹ issued guidance to assist the preparation and interpretation of financial statements.

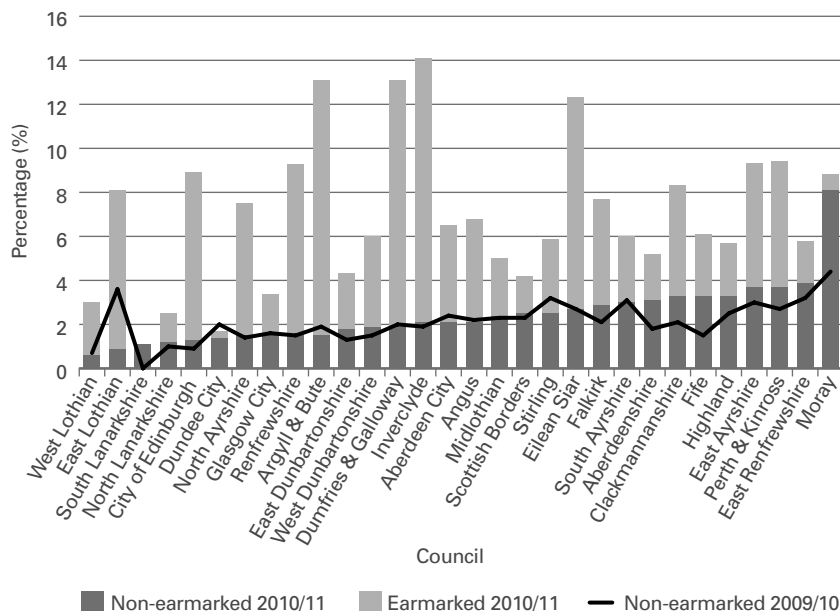
136. The introduction of IFRS, which aim to standardise financial reporting, brought additional work for finance departments, with a substantial increase in the information included in published accounts. Councils coped well with the changes but some auditors highlighted concerns about the quality of the accounts presented for audit and the need for significant changes as a result of the audit.

137. Clean audit certificates were issued for all councils except Shetland Islands Council where the auditors qualified the accounts for the sixth year in succession. The council had not included Shetland Charitable Trust and its subsidiaries in its group financial statements which, in the auditors' opinion, meant that the accounts were not in accordance with proper accounting practice.

138. The audits of local government pension funds previously formed part of the audit of the administering council but from 2010/11 a separate pension fund audit was required. These new arrangements generally went well and none of the audit

Exhibit 18

General fund balances¹ (as a percentage of net costs of services²)



Notes:
 1. Excludes Orkney and Shetland Islands councils which hold large reserves and balances arising mainly from harbour and oil-related activities.
 2. Net cost of services figures have been adjusted to take account of pensions accounting entries.
 Source: Audit Scotland

opinions was qualified. Recurring themes from audits included the need to clarify governance arrangements and to develop performance monitoring and reporting.

139. Councils are required to produce accounts for activities such as catering services and building maintenance services. These operations are known as significant trading operations (STOs) and they are required by law to break even over a rolling three-year period. During 2010/11, there were 73 STOs with 60 (82 per cent) meeting the requirement to break even (Appendix 2). The main reasons for failure to achieve targets included the cost of settling equal pay claims, voluntary severance agreements and service restructuring.

140. This year we have noted higher than usual instances at individual councils of non-compliance with financial regulations and procedures which have resulted in investigations and in some cases disciplinary action. This risk is increasing as councils reduce staff numbers as part of wider savings strategies and remaining staff are required to take on new roles and responsibilities. It is important that staff have a good knowledge and understanding of financial systems and regulations and a good working knowledge of financial controls. They need to know why these are important and where to get advice and support.

141. A strong and effective internal audit function provides independent and objective assurance by examining, evaluating and reporting on the adequacy of controls. External auditors

30 Example financial statements and notes to the accounts for local authorities 2010/11, CIPFA, 2011.
 31 Holding to account: using local authority financial statements, LASAAC, May 2011.

aim to place reliance on the work of internal auditors. This was not possible in some cases, often because internal audit has been unable to complete its planned programme of work due to lack of resources.

142. Eight councils had investments totalling £46.5 million in Icelandic banks when they failed in October 2008. By the end of October 2011, £7.6 million had been recovered from £13.5 million invested in Heritable and Kaupthing banks. Councils expect to recover between 80 and 90 per cent of the total. There has been no recovery of £33 million invested in Landsbanki and Glitnir banks. However, following legal cases, the preferential creditor status of UK councils has been confirmed clearing the way for recovery of the sums involved.

Workforce

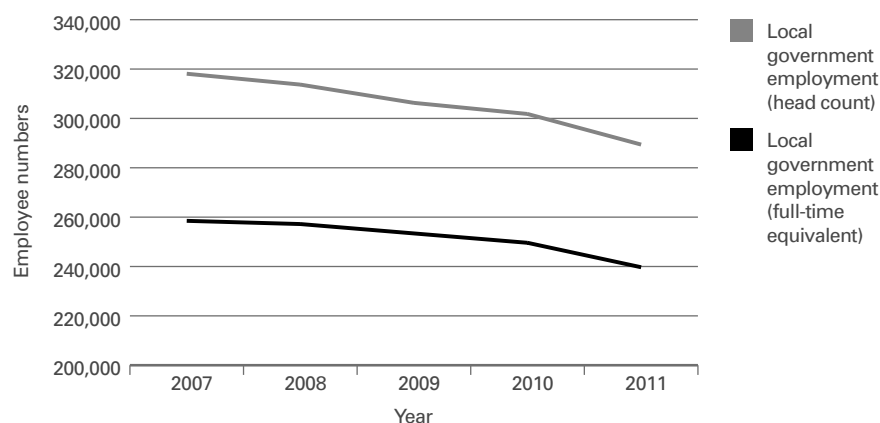
143. Staff costs are the largest single element of council budgets representing £7.9 billion in 2010/11,³² around 40 per cent of overall spending. Effective workforce management requires effective human resource strategies, policies and procedures and workforce planning that is closely linked with financial and asset planning.

144. Workforce reductions are the most significant part of the overall savings made by councils in response to the budget pressures. This is reflected in the local government employment figures which show numbers reducing over the last five years, with the biggest changes between 2010 and 2011 (Exhibit 19). Staffing numbers for headcount and full-time equivalent fell by 4.1 per cent (12,400) to 289,400 and 4 per cent (9,900) to 239,700 respectively.³³

145. Councils achieved reductions in staff numbers through natural staff turnover, recruitment freezes and voluntary severance schemes. Most

Exhibit 19

Local government employee numbers – headcount and full-time equivalent



Source: Joint staffing watch Quarter 2 (September) each year

councils had voluntary severance schemes in place in 2010/11 and the full impact on finances and services will become apparent over the next few years. At the time of the joint Accounts Commission/Auditor General report on Scotland's public finances in August 2011,³⁴ around half of councils said that they may consider compulsory redundancy to reduce staff levels in future.

146. Performance information shows that the average sickness absence rates in Scotland were 6.6 days for teachers (7.6 the previous year), 10.8 days for council officers (11.6 days the previous year) and 8.3 days for firefighters (8.7 days the previous year). Sickness absence for police officers was 3.8 days compared to 4.1 the previous year (police figures are calculated as a proportion of working days as, due to shift patterns, the length of the working day can vary). Sickness absence has ongoing cost implications and councils need to regularly review their approach to secure further improvement in absence rates.

147. A pay settlement for councils was agreed in August 2010 involving a pay freeze for all staff in 2011/12. However, individual councils have negotiated positions relating to pay progression, particularly for those on lower pay scales which means that an element of pressure on pay costs remains.

148. The purpose of single status³⁵ in councils is to have non-discriminatory pay scales. Since its introduction councils have been dealing with claims from employees relating to previous terms and conditions of service. Dealing with equal pay claims and the associated costs remains a pressure on council finances. Cumulatively, councils had paid £450 million to March 2011 (£50 million in 2010/11) and future costs are likely to be of the order of £180 million. Three-quarters of councils make reference in their accounts to potential future equal pay claims not yet presented and/or that can not be accurately quantified. Employment tribunals continue and recent cases have opened up the possibility of more claims for compensation.

³² *Scotland's public finances: addressing the challenges*, Accounts Commission and Auditor General for Scotland, August 2011.

³³ Scottish Government staffing watch, September 2011.

³⁴ *Scotland's public finances: addressing the challenges*, Accounts Commission and Auditor General for Scotland, August 2011.

³⁵ The single status agreement was signed in 1999 with an intended implementation date of April 2002. Most councils implemented after this date. It harmonises the terms and conditions of employment of manual and administrative, professional, technical and clerical workers.

149. Reducing staff numbers can pose risks which need to be managed properly. The loss of experience and skills, for example, may present a risk to effective service delivery (Exhibit 20) and there may be a wider impact on the local economy.

150. Large reductions in senior managers may affect 'corporate capacity' and there is a risk that officers will not have sufficient time to manage the range of initiatives that their council wishes to pursue. Our reports on police authorities have expressed concern that reducing non-police staff numbers may reduce the level of support available leaving police officers to perform administrative tasks and reducing their time on frontline duties.

151. Councils are making progress on workforce planning but they need to ensure workforce plans are up to date and reflect changes in workforce numbers, skills and experience.

152. Our 1997 report³⁶ *Buy now, pay later?* and the 2003 follow-up report³⁷ emphasised the importance of identifying the full costs of early retirements and effective governance, particularly when decisions relate to senior officers where the sums tend to be relatively large and where the consequences of getting it wrong are at their greatest. The calculations can be complicated but it is crucial, in the interests of good decision-making and public accountability, that the position is clear and provides value for money. Exhibit 21 sets out the recommendations from the 2003 follow-up report.

153. In the Accounts Commission's joint report with the Auditor General we drew attention to the significant pressures and potential changes in the six main public pension schemes in Scotland, including the Local Government Pension Scheme (LGPS).³⁸ Over the five years 2005/06 to 2009/10, there were significant

Exhibit 20

Risks from workforce reductions

Key risks to workforce reductions	Potential reasons why the risk may occur
Reduced leadership skills and professional competence to manage with lower budgets.	Loss of essential skills and corporate knowledge.
Reduced quantity and quality of service delivery.	Unmanaged reductions resulting in staff shortages in key service areas.
Lower morale and increased sickness absence. Lack of motivation among remaining staff to innovate, change and do more.	Increased workload for remaining staff as a consequence of staff reductions. Lower reward packages.
Benefits may not be achieved in the time required. Lack of commitment from existing staff to be re-trained or re-deployed to other posts.	Cost and time commitment of re-training and re-deployment. Higher than expected associated costs of reducing workforce levels. Longer than anticipated time taken to make changes happen.

Source: Audit Scotland

Exhibit 21

Buy now, pay later? 2003 follow-up report recommendations

Framework for decision-making

- Early retirement policies should be approved by elected members and be reviewed regularly.

Informing members

- Members should receive a report at least annually that details the number of early retirement decisions made in the year, along with the associated costs and savings attached to these decisions.

Decision-making

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

Source: Audit Scotland

³⁶ *Buy now, pay later? The management of early retirement in local government*, Accounts Commission, December 1997.

³⁷ *Buy now, pay later? A follow-up review of the management of early retirement*, Accounts Commission, June 2003.

³⁸ *The cost of public sector pensions in Scotland*, Accounts Commission and Auditor General for Scotland, February 2011.

increases in both the number of pensioners (up 11 per cent over the period) and the value of pension payments to them (up 26 per cent, in real terms). Over the same period employers' contributions to the LGPS increased 25 per cent in real terms, from £667 million to £836 million a year, reflecting increased scheme membership, real increases in pay rates and higher contribution rates required from employers to meet cost pressures in the scheme.

154. The number of pensioners increased 4.5 per cent between 2009/10 and 2010/11 with the corresponding payments to them increased by 15.4 per cent. Employers' contributions have also increased, from £836 million to £962 million.

155. In March 2011, the Independent Public Service Pensions Commission chaired by Lord Hutton published its final report.³⁹ As a result of UK government decisions in respect of this review, all the main public sector pension schemes remain subject to change. Changes made or under consideration include higher employee pension contributions, linking pension age in occupational schemes to the state pension age, changes in the indexation of pensions, and moving from final salary to a career average pension. These changes are intended to mitigate cost pressures in all the schemes but it is not yet clear whether and how far they will apply to the LGPS in Scotland. Pension cost pressures for councils therefore remain.

Assets

156. Councils manage and use assets, ie buildings such as schools and offices, roads, vehicles etc, with an overall value of £35 billion. This requires substantial investment in

terms of maintenance, refurbishment and replacement. Councils need to make the most economic, efficient and effective use of their assets and they need to work across councils and with partners in managing their assets.

157. The condition of council assets remains a concern. The cost of addressing the maintenance backlog in council-owned property assets is estimated at around £1.4 billion, with £376 million of this described as urgently required.⁴⁰ The joint Accounts Commission/Auditor General report on maintaining Scotland's roads⁴¹ identified that the condition of roads in Scotland is worsening. Transport Scotland and councils estimate that the cost of removing all road defects in Scotland is £2.25 billion. Most councils have plans to address backlogs. However, continuing reductions in capital budgets mean that it is unclear how long it will take to implement these plans in full.

158. In September 2011, the Scottish Futures Trust (SFT)⁴² published two reports on asset management in the public sector.⁴³ Overall the SFT concluded that while good work had been done, there are further savings and operational benefits to be secured, in particular from greater collaboration between public bodies in managing property assets.

159. The SFT estimated that, based on its pilot examination of ten public bodies operating in the south-east of Scotland,⁴⁴ improvements could ultimately provide some £500 million of potential revenue savings and capital receipts across Scotland. For example, the public bodies in the south-east, including councils, NHS bodies and fire and police services, identified the following opportunities for improvement from stronger partnership working:

- Joint planning and shared accommodation, to identify shared facilities including depots and workshops, offices, customer contact centres and training centres. This will entail locality asset rationalisation and co-location planning and involve peer reviews of partner asset management plans.
- Sharing people, management and contracts, which will involve pooling expertise, sharing contract management (including operational PPP-type contracts) and joint procurement of facilities management contracts, reducing duplication of consultants and internal resources and exploiting economies of aggregation.
- Sharing data, to allow each organisation's property assets to be viewed by others and to enable place-based asset management and benchmarking.
- Surplus property coordination, to help manage the release of property to the market to ensure competitive pricing, and to help identify opportunities to increase value, for example by exploring joint ventures with the private sector.
- Pooling assets, involving consideration of alternative models for collectively managing assets.

160. As with previous reform programmes, on procurement and efficiency for example, there will be challenges in moving beyond high-level savings targets, to coordinating and gaining acceptance from all the public bodies affected to allow change and ultimately deliver real and measurable economies. The SFT has identified the need for

39 *Independent Public Services Pensions Committee: final report*, Independent Public Services Pensions Committee, March 2011.

40 *Asset management in local government*, Accounts Commission, May 2009.

41 *Maintaining Scotland's roads: A follow-up report*, Accounts Commission and Auditor General for Scotland, February 2011.

42 SFT is a limited company, wholly owned by Scottish ministers, established in September 2008. Its remit is to examine and develop new financing arrangements for investment and to work in partnership with other public bodies to secure more efficiency from investment.

43 *Improving Asset Management across the Scottish Public Sector – The Local Civil Estate; Improving Asset Management across the Scottish Public Sector – The Scottish Government Civil Estate*, Scottish Futures Trust, 2011.

44 The ten bodies in the south-east pilot included four councils (Edinburgh, West Lothian, East Lothian and Midlothian), and the Lothian & Borders Police and Fire & Rescue Services.

strong leadership, and programme management to overcome these and other constraints.

161. Common good assets comprise land, buildings or other assets, such as works of art bequeathed to the common good, and are held by a council for the 'common good' of the people of the area to which the common good relates. The value of common good assets was £219 million at 31 March 2011. While this is relatively small compared with the overall value of assets held, there is significant public interest in the stewardship of assets and in how common good money is recorded and used.

162. Guidance⁴⁵ requires identification of common good assets in councils' accounts and underlying records. Councils have been working to confirm that all common good assets are appropriately recorded in asset registers. Some councils are consulting with community councils and, given the other demands on councils, this can be a practical approach in resolving questions about ownership and title of assets.

163. Information and Communications Technology (ICT) underpins all aspects of frontline and back office local government services. The pressure on public finances is affecting ICT services and councils are taking actions to generate savings and efficiencies. These include:

- upgrading websites to provide more interactive services and to inform the public
- extending the lifecycle of PCs and other equipment
- cutting back on network maintenance and reviewing rental agreements

- delaying renewal of contracts and agreements where possible
- entering into more collaborative purchase agreements
- downsizing workforces in line with other service departments
- introducing home and flexible working for staff.

164. In June 2011, the Scottish Government published a report,⁴⁶ the *McClelland Review of ICT infrastructure in the public sector in Scotland*. The report's key finding was that the public sector is behind where it should be and there is an opportunity to benefit from radical changes in how ICT is adopted and deployed. The report states that stand-alone and self-sufficient operating is no longer affordable and that public bodies should commit to an era of sharing in ICT.

165. The report also found that there are differences across the major parts of the public sector. Councils are aware of the value that an ICT strategy can bring and there is a strong commitment to using ICT to deliver savings and improve the quality of access to local services. Many councils are involved in the Customer First programme,⁴⁷ the programme for national ICT infrastructure⁴⁸ and the National Entitlement card scheme.⁴⁹

166. Although there is considerable ongoing development work, most is taking place at individual council level with limited evidence of joint working or of a coordinated approach which may provide efficiencies and economies of scale.

Procurement

167. Scottish local authorities spend around £4 billion annually in procuring goods and services to deliver services to their communities. This varies from entering into contracts for the supply of utilities and the purchase of computers, supplies and equipment to buying in professional services or social and community care. In 2010/11, local authorities reported savings of £13 million from better purchasing.

168. It is more important than ever, in the challenging economic climate, that public procurement is conducted as effectively as possible. It can also impact significantly on local suppliers and the economy. Better procurement can help councils do more with less and the Procurement Capability Assessment (PCA)⁵⁰ was introduced in 2009 to assist organisations to improve their structure, capability, processes and, ultimately, performance, allowing improvement plans to be implemented to ensure the promotion of efficiency and effectiveness and continuous improvement.

169. From the responses to a series of questions, the PCA assesses a council's procurement capability against common criteria and standards. Local authorities are given a percentage score which will place them in one of four categories:

- Non-conformance (to 25 per cent).
- Conformance (26 to 50 per cent).
- Improved performance (51 to 75 per cent).
- Superior performance (76 to 100 per cent).

⁴⁵ *Accounting for the common good fund: a guidance note for practitioners*, Local Authorities (Scotland) Accounts Advisory Committee, December 2007.

⁴⁶ *Review of ICT infrastructure in the public sector in Scotland*, John McClelland CBE, June 2011.

⁴⁷ A Scottish Government-sponsored programme aimed at delivering 'first time' public services by designing them around customer needs.

⁴⁸ A primary data processing centre with all 32 councils having a network connection to use hosted applications.

⁴⁹ A smartcard system used to support the national concessionary travel scheme for all 32 councils and by a significant proportion for leisure, libraries and school meals.

⁵⁰ *Procurement Capability Assessment 2011*, Scottish Government, September 2011.

170. Councils in the non-conformance category are considered to have inadequate or weak systems; those at the conformance level will meet the minimum standards and have the basics in place. Those achieving superior performance will have a clear focus on procurement and be able to demonstrate best value.

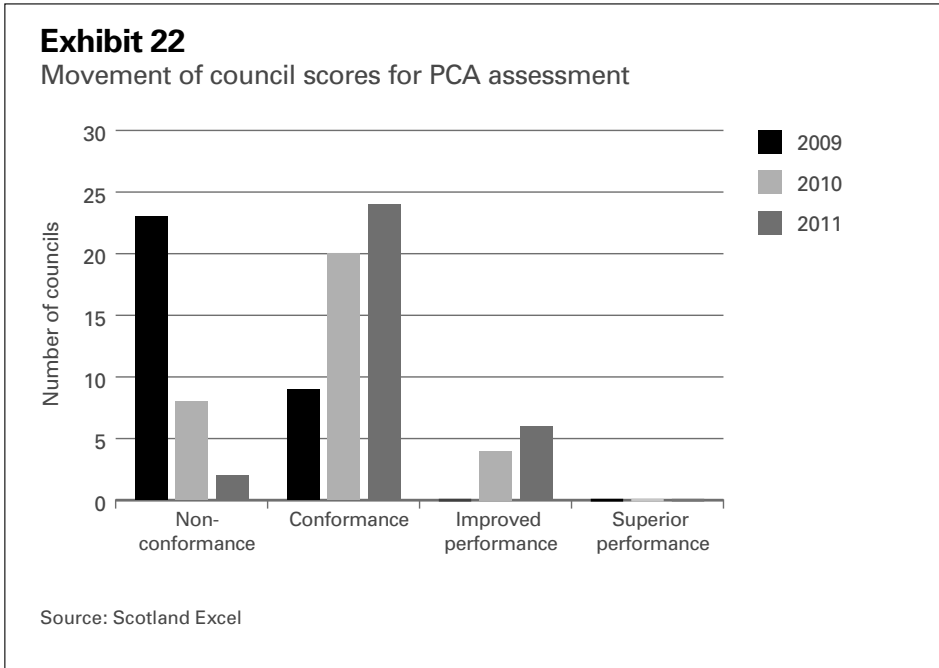
171. Between the 2009 and 2011 PCA assessments (reported in 2012) more councils have moved into the conformance and improved performance categories (Exhibit 22). The average scores for councils as a whole have been increasing steadily over the three rounds of the PCA from an average 23 per cent in 2009 to 40 per cent in 2011. This moves councils well into the conformance category but still falls short of categories that would indicate councils are achieving best value from procurement.

172. The scores suggest the need for better contract management and performance measurement linked to the need for a more corporate approach to procurement. There are a very small number of councils who are still in the non-conformance category but Scotland Excel⁵¹ is working with these councils to help them improve their procurement performance.

173. We welcome councils' response to the PCA. However, some councils are not routinely reporting the results of the PCA and improvement plans to full council or appropriate committee, particularly audit or scrutiny committees. This is essential in managing procurement performance.

Summary and conclusion

- The accounts for 2010/11 showed a relatively stable financial position.
- Accounts were unqualified, with the exception of Shetland Islands Council.



- There is increasing evidence of non-compliance with financial regulations and procedures.
- There have been substantial changes in the local authority workforce, and more change is likely.
- More work is required to improve asset management and procurement practices.

174. Based on the most recent audited financial information, councils appear to have coped well with the financial pressures. Financial reporting continues to be a strength but the time is right for councils to reaffirm the importance of financial procedures and ensure that staff who hold positions that are central to strong and effective financial control are fully aware of their responsibilities.

175. There have been and will continue to be substantial changes in the local government workforce; this brings opportunities in terms of new structures and new individuals in post that can bring fresh thinking in

services and at the corporate centre. However, there are also risks and staff will need time fully to understand their new roles and to build the necessary networks and working relationships within the local authority and with community partners.

176. Asset management continues to be an area requiring attention; the backlog of maintenance of roads and buildings is substantial. Taking together with the slippage in capital programmes, local authorities need comprehensive and effective asset management plans to ensure they have the right assets in the right condition available to match service plans and developments.

177. Overall, there has been progress in procurement but more work is required to deliver better value from the substantial amount of money involved.

51 Scotland Excel is the Centre of Procurement Expertise for Scotland's local government sector. It is dedicated to serve all local authorities and related organisations across Scotland in obtaining value for money from procurement practices.

Appendix 1.

Checklist for new and returning elected members

Leadership and governance		Assessment	Action required
1	Do you understand fully all aspects of your role and how to find out more?		
2	Do you know who the statutory officers are, what they do and when you need to talk to them?		
3	Have you prioritised what you need to do in the next 12 months?		
4	Do you have access to relevant training and development?		
Partnership working			
5	Do you have a good understanding of partnership arrangements?		
6	Are you assured that the council is making the most of partnership working?		
7	Are you kept informed about partnership working developments and the outcomes being achieved?		
Options for service delivery			
8	Are you aware of alternative service delivery models being considered?		
9	Do you have access to all of the information you need to make a decision on alternative service delivery options?		
Performance information			
10	Do you have a good understanding of performance information arrangements? Are you assured that there is emphasis on cost and partnership performance in addition to level and quality of service?		
11	Are you provided with appropriate reports and information to enable you to scrutinise performance effectively?		
Use of resources			
12	Do you have a good understanding of the council's financial position including the impact of future funding?		
13	Are you aware of the level of future savings required by the council and are you assured that firm plans are in place to achieve these?		
14	Have you asked how your council is addressing the actions set out in the most recent external auditors' report and this overview report? Are you assured that action is being taken and quickly enough?		
15	Are you assured that arrangements are in place (through internal audit or other processes) to ensure ongoing compliance with financial regulations and strong internal controls?		
16	Do committee papers on resource issues enable you to scrutinise effectively? Are they adequate in terms of clarity, level of detail and ease of understanding?		
17	Are you aware of the council's workforce strategy? Are you assured that any potential impact on service delivery is being minimised?		
18	Do you know how well your council performs on procurement and the steps being taken to ensure further improvement?		
19	Do you know what your council's risk management arrangements are, where you can find information on risk and where you can ask questions and challenge?		
20	Do you understand what best value involves, what it means in practice and how your council demonstrates it is achieving best value? 87		

Appendix 2.

Summary financial information

Reserves

	31 March 2011 (£ million)	Change in 2010/11 (£ million)
General fund	768	+127
Housing revenue account	100	-6
Capital fund	293	+32
Capital receipts reserve	57	-11
Insurance fund	79	0
Repair and renewal fund	119	+30
Other	50	+32
Total	1,466	+204

Performance of significant trading organisations (STOs)

	2006/07	2007/08	2008/09	2009/10	2010/11
Number of STOs	117	108	89	81	73
Number of STOs breaking even or over three-year rolling period	91	81	75	71	60
Percentage of STOs breaking even over three-year rolling period (%)	77.8	75.0	84.3	87.7	82.2
Total surplus over rolling three-year period (£ million)	86.6	78.0	97.2	128.5	145.7

Appendix 3.

Resources and links

Leadership and governance

Roles and working relationships: are you getting it right? Accounts Commission, August 2010
http://www.audit-scotland.gov.uk/docs/best_value/2010/bvrm_100826_councillors_officers.pdf

Response to consultation on reforming police and fire and rescue services in Scotland, Accounts Commission, November 2011
http://www.audit-scotland.gov.uk/work/scrutiny/docs/as_111101_response_fire_police_consultation.pdf

Working in partnership

Community planning: an initial review, Accounts Commission and Auditor General for Scotland, June 2006
http://www.audit-scotland.gov.uk/docs/central/2006/nr_060616_community_planning.pdf

Review of Community Health Partnerships, Accounts Commission and Auditor General for Scotland, June 2011
http://www.audit-scotland.gov.uk/docs/health/2011/nr_110602_chp.pdf

The role of community planning partnerships in economic development, Accounts Commission and Auditor General for Scotland, November 2011
http://www.audit-scotland.gov.uk/docs/central/2011/nr_111103_community_planning.pdf

Transport for health and social care, Accounts Commission and Auditor General for Scotland, August 2011
http://www.audit-scotland.gov.uk/docs/health/2011/nr_110804_transport_health.pdf

Options for service delivery

Arm's-length external organisations (ALEOs): are you getting it right? Accounts Commission, June 2011
http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf

Code of Guidance on Funding External Bodies and Following the Public Pound, Accounts Commission/Convention of Scottish Local Authorities, 1996
http://www.audit-scotland.gov.uk/docs/local/2003/nr_040311_following_public_pound.pdf

Accounts Commission's findings on a report by the Controller of Audit, *The Highland Council: Caithness Heat and Power – Follow-up report*, March 2011
http://www.audit-scotland.gov.uk/docs/local/2010/sr_110302_chap_findings.pdf

Performance information

Full details of performance information reported by councils against our SPIs are available at
<http://www.audit-scotland.gov.uk/performance/>

Resource management

Scotland's public finances: addressing the challenges, Accounts Commission and Auditor General for Scotland, August 2011
http://www.audit-scotland.gov.uk/docs/central/2011/nr_110825_scotlands_public_finances.pdf

The cost of public sector pensions in Scotland, Accounts Commission and Auditor General for Scotland, February 2011
http://www.audit-scotland.gov.uk/docs/central/2010/nr_110210_public_sector_pensions.pdf

Buy now, pay later? The management of early retirement in local government, Accounts Commission, December 1997
http://www.audit-scotland.gov.uk/docs/local/pre1999/nr_9712_early_retirement.pdf

Buy now, pay later? A follow-up review of the management of early retirement, Accounts Commission, June 2003
http://www.audit-scotland.gov.uk/docs/local/2003/nr_030612_early_retirement.pdf

Asset management in local government, Accounts Commission, May 2009
http://www.audit-scotland.gov.uk/docs/local/2009/nr_090507_asset_management_councils.pdf

Maintaining Scotland's roads: A follow-up report, Accounts Commission and Auditor General for Scotland, February 2011
http://www.audit-scotland.gov.uk/docs/central/2010/nr_110216_road_maintenance.pdf

Modernising the planning system, Accounts Commission and Auditor General for Scotland, September 2011
http://www.audit-scotland.gov.uk/docs/central/2011/nr_110915_modernising_planning.pdf

Appendix 4.

Partnership assessment framework

Good governance principles for partnership working

There are several key principles for successful partnership working.

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

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

Appendix 5.

Glossary of terms

Arm's-length External Organisations (ALEOs)	Companies, trusts and other bodies that are separate from the council but are subject to council control or influence.
Best value	Continuous improvement in the performance of an authority's (council's) functions.
Break-even	When income equals expenditure.
Budget	A projection of income and expenditure.
Capital financing	Sources of money to purchase or build property, vehicles or other tangible items required for the provision of services.
Community Health Partnership (CHP)	A partnership between health and social care which is responsible for the delivery of a wide range of community health provision including GP services, pharmacy, social care and community nursing.
Community Planning Partnership (CPP)	A partnership between a council, health board, police, fire and rescue services, third sector organisations and other public sector organisations in a geographical area.
Continuous improvement	Ongoing effort to improve services or activity.
Deficit	The excess of expenditure over income.
Efficiency savings	The amount saved by delivering the same services with less money or delivering more services with the same money.
Financial regulations	Rules set by a council as to how finances will be internally managed to ensure safeguard and propriety.
Financial statements	The annual accounts of a council providing the financial position for a year from 1 April to 31 March.
General fund	The main cash fund or reserve held by a council.
Governance	The framework of accountability to users, stakeholders and the wider community, within which councils take decisions, and lead and control their functions, to achieve their objectives.
IFRS (International Financial Reporting Standards)	Guidelines and rules set by the International Accounting Standards Board (IASB) that companies and public sector organisations must follow when compiling financial statements. They are aimed at making the comparison of financial statements easier.
Outcomes	Determination and evaluation of a council's activity and services and their comparison with objectives.
Performance management	Processes at individual, team and service level to enable assessment of performance against objectives.
Preventative spending	Directing financial resources away from dealing with the symptoms of disadvantage and inequality towards tackling their causes.

Private Finance Initiative (PFI)/ Public Private Partnership (PPP)	A government initiative to encourage the development of private finance in the public sector. A generic term for projects involving both the public and private sectors. The involvement can be to varying degrees and the partnership can take different forms.
Real-terms increase/decrease	The amount of funding compared to previous or future years after taking into account the effect of inflation.
Regulatory services	Regulatory services are services to ensure public, consumer and environmental protection. They include planning, trading standards and environmental services.
Resource management	The efficient and effective use of a council's collective resources, directed where they are needed. Refers to the workforce, finances and assets, including ICT.
Risk management	The identification, analysis, assessment, control and avoidance, minimisation or elimination of unacceptable risks. It relates to both corporate functions and services.
Section 95 officer	The statutory officer for finance, as required by section 95 of the Local Government (Scotland) Act 1973 – 'every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs.'
Shared services	The provision of a joint service or function by more than one council.
Statutory Performance Indicators (SPIs)	A set of performance indicators specified by the Accounts Commission, the information for which must be collected and reported on by councils.
Surplus	The excess of income over expenditure.
Unusable reserves	Non-cash, accounting reserves.
Usable reserves	A council's cash reserves. The main reserves are the general fund, capital fund, repair and renewals and insurance fund.
Value for money	Obtaining the maximum benefit from resources with regards to economy, efficiency and effectiveness.
Workforce planning	Systematic identification and analysis of a council's workforce needs in terms of size, experience, knowledge and skills to achieve its objectives.

An overview of local government in Scotland

If you require this publication in an alternative format and/or language, please contact us to discuss your needs.

You can also download this document in PDF, black and white PDF or RTF at:
www.audit-scotland.gov.uk



Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

ISBN 978 1 907916 56 4

Printed on Revive 100 Uncoated, a Forest Stewardship Council (FSC) certified recycled grade containing 100% post consumer waste and manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).



REPORT TO: Audit and Governance Committee

MEETING DATE: 18 September 2012

BY: Chief Executive

SUBJECT: 2012/13 Council Improvement Plan

5

1 PURPOSE

- 1.1 To present the 2012/13 Council Improvement Plan to the Audit and Governance Committee.

2 RECOMMENDATIONS

- 2.1 That Audit and Governance Committee notes the 2012/13 Council Improvement Plan (Appendix 3) and considers whether it wishes to seek further reports on any items in the Plan.

3 BACKGROUND

- 3.1 In 2010 Council replaced the Best Value Improvement Plan with a Corporate Improvement Plan. In order to emphasise that the Improvement Plan is relevant to the whole Council and, not just what used to be termed the 'Corporate services', the Plan is being re-named the Council Improvement Plan (CIP).
- 3.2 The latest CIP was approved by Council on 26th June 2012.
- 3.3 The diagram in Appendix 1 illustrates the sources used to determine the 2012/13 CIP action points. The action points in the CIP are primarily drawn from the results of the How Good is Our Council? (HGIOC) self-evaluation carried out by all services and the Corporate Governance self-evaluation (reported to Audit & Governance Committee, 19th June 2012). All of the improvement points raised in the self-evaluations have been reviewed to ascertain which actions should be addressed corporately. The results of the 2012 Employee Engagement Survey have also been taken into account.
- 3.4 The CIP also contains relevant improvement points and actions from Audit Scotland's Overview of Local Government in Scotland, Audit Scotland's Annual Report to Members and the Shared Risk Assessment prepared by the Local Area Network.

- 3.5 A report on the 2011/12 CIP is provided in Appendix 2. A small number of action points from the 2011/12 CIP that have not been completed have also been carried forward into the latest CIP.
- 3.6 In accordance with the principles of Best Value the Council strives to pursue 'continuous improvement' and seeks to deliver services in as effective and efficient way as possible. The recommendations arising from all of the self-evaluation, review and inspection work identified above help to inform the Council's pursuit of 'continuous improvement through the adoption and implementation of the 2012/13 CIP.
- 3.7 The 2012/13 CIP outlines the actions that the Council as a whole will be undertaking at a council-wide level. Improvement points from HGIOC and other sources relating to specific Council services are not contained within the CIP as they are dealt with in Service and Business Plans.
- 3.8 One of the four objectives of the Council Plan 2012-2017 is: *Growing the capacity of our Council to deliver excellent services as effectively and efficiently as possible within our limited resources.* All the improvement points in the 2012/13 CIP will contribute to growing the capacity of the Council to meet this outcome.
- 3.9 Also, the 2012/13 CIP Council Plan supports the Council's improvement programme based around the following four key elements:
- Services built around people and communities
 - Effective, efficient and excellent services
 - Working together to achieve outcomes
 - Prioritising prevention and promoting equality
- 3.10 Implementation of the CIP will be assured via ongoing internal monitoring of progress on key actions points by the relevant lead officers and Executive Directors. Monitoring reports on progress with implementing the CIP will be made to the Council Management Team and the Audit & Governance Committee.

4 POLICY IMPLICATIONS

- 4.1 The 2012/13 CIP will assist the Council in demonstrating that it is achieving Best Value. It will provide the necessary focus to improve key areas of the Council at a corporate level, thus aiding delivery of the Council Plan. Moreover, it will support East Lothian Council in its constant striving for continuous improvement, to continue improving the quality and delivery of its services and to meet the Council Plan objective: *Growing the capacity of our Council to deliver excellent services as effectively and efficiently as possible within our limited resources.'*

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel – none directly, although certain actions within the Plan are likely to require the commitment of staff resources.
- 6.3 Other – none.

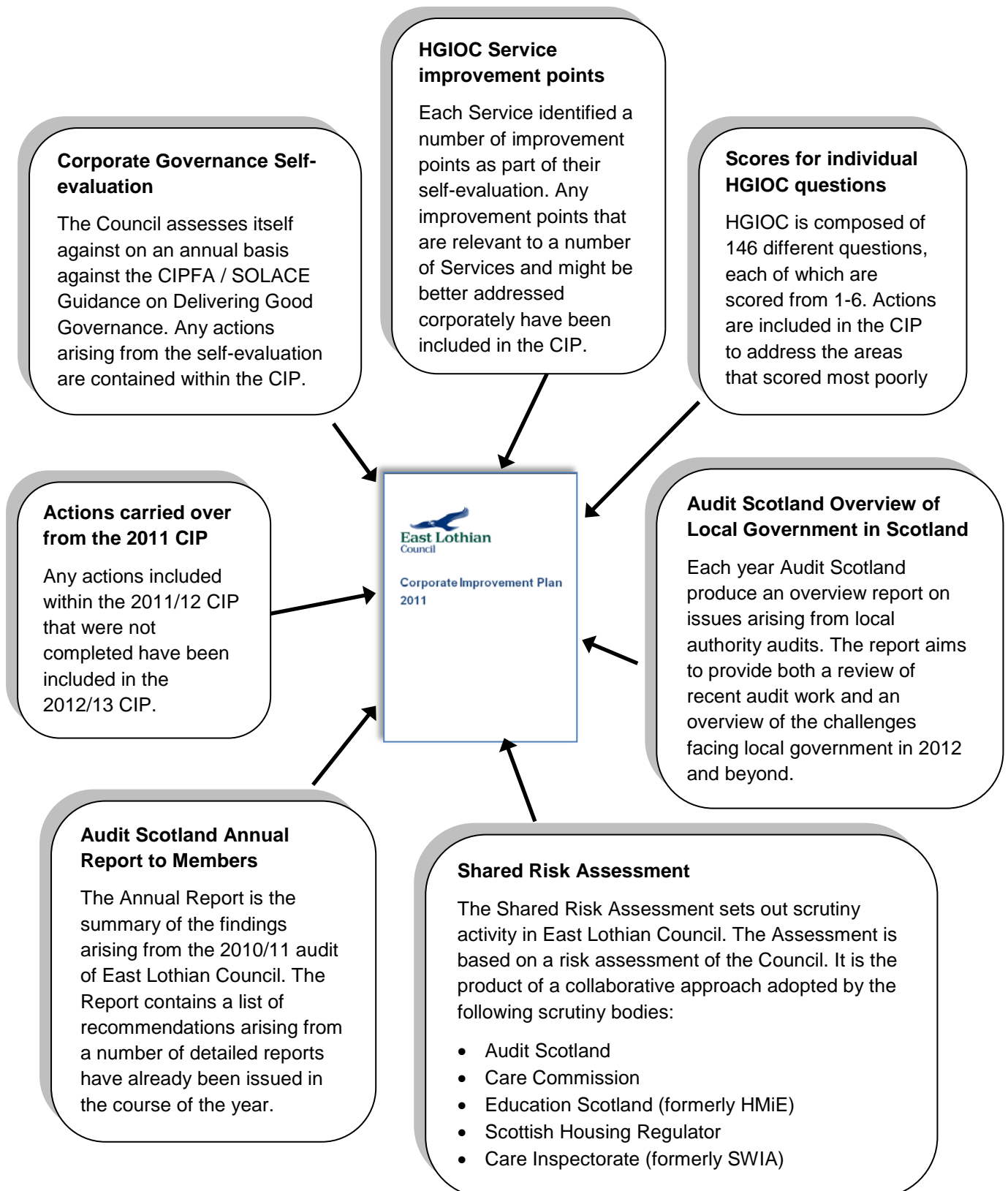
7 BACKGROUND PAPERS

- 7.1 Corporate Improvement Plan; report to the Council, 17th May 2011
- 7.2 Overview of Local Government in Scotland; report to Audit & Governance Committee, 9th June 2012
- 7.3 Corporate Governance Self-Evaluation and Annual Governance Statement 2012; report to Audit & Governance Committee, 9th June 2012
- 7.4 Council Improvement Plan; report to Council, 26th June 2012
- 7.5 Appendix 1: Sources of the Content of the Council Improvement Plan
- 7.6 Appendix 2: 2011/12 Corporate Improvement Plan Report
- 7.7 Appendix 3: 2012/13 Council Improvement Plan

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Corporate Policy Manager
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	22 nd August 2012

Appendix 1: Sources of the Contents of the Council Improvement Plan

Actions contained within the Corporate Improvement Plan have arisen from several different sources.



Appendix 2: 2011/12 Corporate Plan Report

1. Efficient & effective services are delivered, providing value for money to East Lothian Residents

Ref.	Required Action	Monitoring Report
1.1	Review the Council's approach to Best Value and self-evaluation to ensure they incorporate a standard approach to options appraisal	New Council improvement Framework adopted (March 2012) HGIOC audited and revised and all services carried out HGIOC self-evaluation by March 2012 Options appraisal approach to capital projects is being developed
1.2	Develop guidance to ensure that services have a consistent approach to achieving efficiency savings (e.g. to ensure that one off savings and ongoing savings are not treated in the same way)	To be included in the review of the budget setting process
1.3	Improve risk analysis regarding the implications of budget options and future revenue and capital expenditure proposals	To be included in the review of the budget setting process
1.4	Identify where efficiency savings can be made by working in partnership / sharing services with Community Planning partners and/ or other local authorities	Proposal to integrate education services with Midlothian Council included consideration of efficiency savings Work underway on integration of health and social care services Consideration to be given to making more efficient use of staff resources through internal shared services
1.5	Implement relevant recommendations from How Good is Our Partnership?, the Community Planning Partnership's (CPP) self-evaluation	CPP's Improvement Plan agreed by CPP Board and is being implemented. Review of governance and structures has been delayed to take account of the national review and developments such as national police and fire and rescue services. Local Community Planning is being reviewed
1.6	Improve service planning with Community Planning partners, including asset management	Being addressed as part of the CPP Improvement Plan
1.7	Improve consistency of asset management planning across all services	Asset Management Strategy approved

2. Staff have the leadership and capacity to deliver high quality outcomes

Ref.	Required Action	Monitoring Report
2.1	Implement recommendations from Review of Multi-Member Wards and Officer Member relations	On-going; introduction of electronic caseload management system is on hold until it is introduced successfully by other Councils; CPD for elected members to be re-launched; full induction programme for new members included consideration of roles and responsibilities and legal duties
2.2	Review Scheme of Delegation	Review of Standing Orders, Schemes of Administration and Delegation started in early 2012, some amendments made following conclusion of senior officer review; full review will be completed in autumn 2012
2.3	Review reports template and guidance on report preparation, taking account of the review of the Scheme of Delegation	Will follow on from Review of Schemes of Administration and Delegation
2.4	Increase awareness of whistle blowing policy	Whistle blowing policy being updated and revised policy will be publicised to all staff
2.5	Review leadership / management development in the Council with a view to improving project & change management skills among leaders	New People Strategy adopted March 2012 – promoting a culture of enabling change, building on the Transformational Leadership programme and fostering the One Council approach
2.6	Implement the recommendations from the review the impact of the PRD process	Review completed and amended PRD template adopted
2.7	Review communications to employees, including ways to share good practice and inform staff of priorities	Communication of council priorities to be undertaken on back of new Council Plan following May 2012 election, the creation of the new Council Management Team (CMT) and the extended CMT

3. East Lothian Council is equipped to deliver, measure and review specific outcomes

Ref.	Required Action	Monitoring Report
3.1	Develop and maintain a methodology for systematically reviewing and updating corporate policies, strategies and guidance	A database of all Council policies, strategies and guidance is being created and will be reviewed annually as part of the Corporate Governance self-evaluation. The new database will also allow a systematic review of the policies, strategies and guidance
3.2	Develop the use of HGIOC as the Council's self-evaluation and improvement framework: <ul style="list-style-type: none"> Establish a Management Information System to allow the storage and sharing of self-evaluation evidence Undertake a validation process for HGIOC Make further improvements / share best practice regarding evidence for HGIOC 	HGIOC improvements put in place following an audit carried out by Internal Audit, e.g. a 'facilitation team' was established, new guidance and question set issued in December. All services completed HGIOC in March 2012
3.3	Develop the reporting and use of performance information across the Council: <ul style="list-style-type: none"> Review performance indicators to adhere to the criteria outlined in the 'Statutory Performance Indicators Direction 2010' Develop a training programme for Aspireview users 	New Improvement Framework adopted; new East Lothian Council Performs pages being put on Council website; use of Aspireview being developed. Use of benchmarking needs to be developed further, possibly through undertaking best value reviews
3.4	Develop the use of the Risk Monitoring function in Aspireview or alternative package to assist in the effective deployment of Risk Management Framework	The use of Aspireview for risk monitoring is being developed
3.5	Review operation of PPR Co. and Audit & Governance Co.	Review of PPR Co and A&G Co has been carried out; reported to PPR Co (March) and to A&G Co (June)

3.6	Establish a means of identifying risks in the process of developing new policies or procedures and regularly reporting on risk to senior managers	The use of Aspireview for risk monitoring is being developed
-----	---	--

4. East Lothian residents, customers and partners value the Council's services

Ref.	Required Action	Monitoring Report
4.1	Improve the identification and measurement of equality outcomes for Council services and monitoring of participation / take-up of services from vulnerable groups	Equality monitoring template being developed
4.2	Develop processes and procedures for involving equalities groups in Equality Impact Assessment	To be undertaken following adoption of new EQIA framework based on Single Equality Act duty
4.3	Implement the corporate consultation and engagement strategy, including: <ul style="list-style-type: none"> • improving / increasing service user involvement in the review and development of Council services • encouraging the use of consistent satisfaction measures across all council services • enabling public consultations to be conducted via the Council website 	Consultation Strategy approved by CMT, May 2012
4.4	Refresh the Corporate Plan and ensure the Council's Vision and priorities are reflected in the Plan and that these are promoted among employees	Draft Council Plan 2012-2017 adopted by Council (Jan 2012) and to be revised following May 2012 election – to be approved by August Council meeting

Appendix 3: 2012/3 Council Improvement Plan

2012/13 Council Improvement Plan

We will deliver excellent services as effectively and efficiently as possible within our limited resources

	Required Action	Timescale	Lead	Source
1	Complete review of Schemes of Administration and Delegation	Aug 2012	Legal and Governance & Democracy	Corp Gov
2	Expand and make more effective use of performance information and benchmarking including benchmarking of cost information Undertaking best value reviews of two or three service areas	Oct 2012 March 2013	Policy & Performance Policy & Performance and relevant services	HGIOC / OLG OLG/ 2011 CIP
3	Review How Good is Our Council? process and guidance and integrate with Investor in People and Customer Service Excellence frameworks	Oct 2012	Policy & Performance and Human Resources	HGIOC/ SRA
4	Increase capacity for research and analysis including: <ul style="list-style-type: none"> • sharing resources for data collection and analysis across the Council and Community Planning Partnership, including developing the use of Geographical Information System • developing shared data sharing protocols • investigate the potential to better interrogate / utilise existing datasets or information systems to provide an improved understanding of diversity in the community 	Nov 2012	Policy & Performance	HGIOC
5	Complete the review of Community Planning Partnership governance arrangements and structures within the context of the national review and embed system of Local Community Planning	Nov 2012	Policy & Performance	Corp Gov

6	Review and revise the reports template	Nov 2012	Governance & Democracy	Corp Gov
7	Promote the Council Plan and the Single Outcome Agreement to all staff and East Lothian citizens	Dec 1012	Chief Executive	HGIOC/ Corp Gov
8	Review policies in line with new Equalities Act duties, including: <ul style="list-style-type: none"> develop improved monitoring regarding equalities and indicators to demonstrate the equality aspect of the Council's mainstream work review and revise provision of equalities training 	Dec 2012	Policy & Performance and all Heads of Service	HGIOC/ OLG
9	Review and revise Service Planning process and guidance, including: <ul style="list-style-type: none"> identification of risk links between budget process, service planning and employee development 	Dec 2012	Policy & Performance	HGIOC/ 2011 CIP
10	Roll out Continuous Professional Development for all elected members	Jan 2013	Governance & Democracy	Corp Gov
11	Review Customer Contact Strategy including: <ul style="list-style-type: none"> expanding the services available through the Council Contact Centre and the Council's website improving our response to complaints and ensuring feedback is used to review and improve services joining up services around developing customer service training and setting customer care standards. 	Feb 2013	Customer Services	HGIOC/ OLG
12	Develop guidance to ensure that services have a consistent approach to achieving efficiency savings (for example, to ensure that one off savings and ongoing savings are not treated in the same way)	Feb 2013	Finance	2011 CIP
13	Implement the Consultation and Engagement Strategy, ensuring greater co-ordinate of consultation and engagement activities across the Council and Community Planning Partnership	Mar 2013	Policy & Performance	HGIOC/ 2011 CPP
14	Further develop asset management planning, including the use of options appraisal and joint asset planning with Community Planning partners	Mar 2013	Housing & Environment	HGIOC/ OLG/ SRA

15	Identify and exploit opportunities for making savings by making more efficient use of staff resources through internal shared services and by working in partnership with Community Planning partners	Mar 2013	Council Management Team	HGIOC/ OLG/ 2011 CIP
16	Develop a leadership development programme for senior managers to increase their skills and capability to manage change, to promote and encourage a culture of innovation, continuous improvement and best value across the Council	Mar 2013	Council Management Team	HGIOC / EES
17	Implement the Procurement Improvement Plan including the development of the process for monitoring of contracts	Mar 2013	Finance	HGIOC
18	Review governance of arms length services, commissioned services and partnerships including: <ul style="list-style-type: none"> • development of a greater understanding of exposure to risk relating to arms length /outsourced / commissioned services • incorporate monitoring of commissioned / outsourced services into performance indicators 	Mar 2013	Legal / Finance / Policy & Performance	HGIOC
19	Establish arrangements for scrutiny of and engagement with the new national Police and Fire and Rescue services	Mar 2013	Policy & Performance and Governance & Democracy	OLG
20	Further develop the Council's approach to options appraisal to ensure Best Value and the highest standard of financial planning	Mar 2013	Policy & Performance	OLG

Sources – Glossary of Acronyms

2011 CIP	2011/12 Corporate Improvement Plan
Corp Gov	2012 Corporate Governance Self-evaluation
EES	Employee Engagement Survey 2012
HGIOC	How Good is Our Council 2012
OLG	Overview of Local Government in Scotland 2010/11 (Audit Scotland)
SRA	Shared Risk Assessment Update 2011-15

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 September 2012

BY: Executive Director (Support Services)

SUBJECT: Using Cost Information to Improve Performance: are you getting it right?

6

1 PURPOSE

- 1.1 To inform Audit & Governance Committee of the contents of the Audit Scotland report: *Using cost information to improve performance: are you getting it right?*

2 RECOMMENDATIONS

- 2.1 Committee is asked to note the contents of the Audit Scotland report and the request that the Chief Executive report back to the Council on extending and making better use of benchmarking cost and performance information and developing the use of cost information to inform service planning and budgeting.

3 BACKGROUND

- 3.1 The Accounts Commission, as part of its policy of encouraging improvement, seeks to support developments in best value and resource management, recognising these as two key components vital to the successful delivery of council services. The purpose of Audit Scotland's '*how councils work*' series of reports is to stimulate change and improve performance. The Commission selects topics based on the recurring themes and issues from its Best Value audit work, the work of local auditors and the annual overview report. It draws mainly on its existing audit work but supplement it with new audit work and other information.
- 3.2 *Using cost information to improve performance: are you getting it right?* is the third in the '*how councils work*' series. The report highlights the importance of having good-quality cost information to inform policy decisions and scrutinise performance, and identifies some of the guidance and cost measures that already exist. The report also provides

some case studies to illustrate how councils and councillors are currently using cost information.

3.3 The key messages in the report are:

- councillors need good cost information if they are to make well-informed policy decisions and scrutinise performance effectively
- cost information needs to be presented in an open and accessible way along with policy options and performance information to help councillors carry out their role
- officers need good-quality cost information to help them manage services efficiently, assess performance and demonstrate value for money
- a council's approach to using cost information should be driven by its priorities and objectives, with a focus on outcomes for service users and communities
- tightening public sector budgets and increasing service demands require more effective use of cost information. Being open about costs can help keep communities engaged in the difficult decisions that lie ahead for councillors
- the effective use of cost information can lead to improved corporate and partnership working
- councils can do more to share good practice and learning and could make more effective use of the existing cost measures and guidance available.

3.4 The report's findings can be summarised into four broad categories:

- Developing the use of cost measures
- Using cost information for planning and budgeting
- Providing greater openness about service costs to staff and communities
- Using cost measures and sharing good practice more effectively

Developing the use of cost measures

3.5 The report notes that Councils require a combination of measures to manage performance effectively, including: inputs, processes, outputs and outcomes. Understanding service costs is a key input measure and is essential to gain an understanding of value for money. Despite this councils do not normally consider information regarding the cost and quality of services alongside each other. Costs are generally monitored and reported in regard to spend against budget. While this information is useful, it generally relates to cost centres rather than outcomes or priorities.

3.6 Integrating cost indicators into performance management frameworks and scrutiny arrangements is suggested to help officers and members gain a better understanding of value for money. Examples of existing

cost measures (for example, the UK audit bodies' indicators of value for money in corporate services) are provided.

- 3.7 The report suggests that an effective council will:
- ensure that self-assessment and performance management frameworks include information on costs and assess whether the council is providing value for money
 - understand the different levels of cost information required to support assessments of value for money in terms of: overall council performance; service performance, and the delivery of outcomes
 - ensure that officers provide meaningful cost information to councillors to help ensure that the scrutiny of a council's activities and service provision includes the consideration of costs.
- 3.8 The Council's self-evaluation framework, *How Good is Our Council?* does encourage consideration of the quality and use of cost and performance information. It is recognised that councillors could be provided with more budget information during the year and a system of quarterly reporting on the Council's budget and financial position is being established.

Using cost information for planning and budgeting

- 3.9 Local Government generally uses traditional accounting methods that focus upon ensuring that the annual accounts are accurate and presented accordance with various standards. Less focus has been placed on management accounting, for example working out unit costs by linking expenditure with service outputs. Unit costs are highlighted as being particularly useful in linking service costs to performance management and options appraisal. However, Audit Scotland recognises the difficulty in apportioning costs where there is not a direct link between staff activity and output.
- 3.10 Audit Scotland also caution that the development of cost measures should be focussed upon priority areas due to the difficulty of collating the information. Councils need to ensure that any cost measures are meaningful for the intended purpose.
- 3.11 The example of Aberdeen's priority based budget is provided in order to demonstrate how cost measures can be linked to purpose. Aberdeen mapped the links between their outcomes and the cost of delivering the services required to meet those outcomes. Different options for service delivery are appraised as part of the budget process. Audit Scotland highlights this approach because setting the budget is one of the most important decisions taken during the year. However, attributing the actions (and costs) of a particular organisation to a specific outcome is very difficult. One action might contribute to the achievement of several outcomes.
- 3.12 The report suggests that an effective council will:

- use cost information to inform decisions about what services to provide and how best to provide them
- ensure budgeting arrangements consider the costs of different policy options and do not rely only on incremental budgeting
- focus on its priorities, and from there identify the most useful and appropriate cost information to use
- ensure that decision-making arrangements are supported by good-quality information on costs which is provided to councillors in a way that is clear and unambiguous
- options appraisals have robust costing information to support decision-making
- councillors have agreed what cost information they need to support their decision-making
- councillors are provided with the appropriate training on how to understand and use cost information effectively.

3.13 The Council is reviewing how its service planning and budgeting arrangements can be better aligned and more effective use can be made of cost information. Work is also on-going on developing a more robust approach to options appraisal for capital programmes and in service and best value reviews.

Providing greater openness about service costs to staff and communities

3.14 The report highlights that decisions regarding savings resulting from staff cuts need to be supported by information on cost and the potential impact on the quality of services provided. Providing information on the cost of delivering services to staff and communities could also help them feel more involved in difficult decisions regarding budget reductions.

3.15 The report suggests that an effective council will:

- promote an awareness and understanding of the importance of costs and make clear that costs are everyone's business, not just the finance officers'
- ensure that communities are involved in discussions about the cost and service delivery implications of budget choices. This will help ensure communities have a greater understanding of what options are being considered and why, and the implications of those decisions.

3.16 The Council last undertook a major public budget consultation exercise in relation to the 2010/11 budget. Consideration is being given to whether the Council should conduct further budget consultation exercises.

Using cost measures and sharing good practice more effectively

3.17 The report outlines a range of existing cost measures and guidance that councils could apply more effectively including: the Statutory

Performance Indicators, benchmarking between local authorities, value for money indicators for corporate services and benchmarking networks such as the Association of Public Service Excellence (APSE).

- 3.18 In relation to benchmarking cost information it should be noted that the Society of Local Authority Chief Officers (SOLACE) in Scotland has been developing a set of indicators to supplement the performance information that is currently available for the local government sector. The aim of this work is to identify indicators which will cover efficiency, process and outcomes and support benchmarking for each of the major service areas provided by councils. SOLACE has recently approved the initial set of indicators and after testing and refining these measures local authorities will soon be in a position to use the first two sets of indicators (2010/11 and 2011/12) for benchmarking purposes.
- 3.19 The Council's Improvement Framework recognises the importance of benchmarking of performance information and some benchmarking does take place. However, it is recognised that this area of work needs to be developed further and a more robust and comprehensive approach to benchmarking is being developed.

Key points for action

- 3.20 The report concludes with a list of the characteristics of an effective 'cost-aware' council as detailed above in paragraphs 3.7, 3.11 and 3.13. The Appendix to the report is a tool for checking progress through sets of questions for councillors and officers covering the areas dealt with in the effective 'cost aware' council characteristics.

4 POLICY IMPLICATIONS

- 4.1 The Audit Scotland report *Using cost information to improve performance: are you getting it right?* provides useful guidance on the potential use of cost information to improve performance. The guidance will contribute to the development of the Council's improvement framework which aims to move the Council from improvement to excellence.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial - none
- 6.2 Personnel - none
- 6.3 Other - none

7 BACKGROUND PAPERS

7.1 *Using cost information to improve performance: are you getting it right?*
Audit Scotland, May 2012

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Corporate Policy Manager
CONTACT INFO	pvestri@eastlothian.gov.uk Tel: 01620 827320
DATE	30 th August 2012

How councils work:
an improvement series for councillors and officers

Using cost information to improve performance: are you getting it right?



 AUDIT SCOTLAND

Prepared for the Accounts Commission
May 2012

The Accounts Commission

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

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

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

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

Contents

Key messages

Page 2

Part 1. Councils need to use cost information more effectively

Page 4

Cost information is an essential element in assessing overall performance

Page 5

Effective decision-making relies on good cost information

Councillors need good cost information to scrutinise performance and assess whether they are delivering value for money

Page 7

The use of cost information must be driven by what the council is trying to achieve

Page 9

A focus on outcomes needs to be supported by a good understanding of costs

The financial challenges in the public sector are demanding more effective use of cost information

Page 12

Greater openness about cost implications can help communities engage in the difficult decisions that lie ahead

Page 14

Part 2. Councils should use cost measures and share good practice more effectively

Page 15

There is a range of existing cost measures and guidance that councils could apply more effectively

Page 16

Using cost information at different levels can help deal with both strategic and front-line service issues

More effective use of cost information can help to improve corporate and partnership working

Page 19

Part 3. Key points for action

Page 23

Appendix 1. A tool for checking progress

Page 25



What do auditors say?

These boxes appear throughout this report and represent findings from individual councils.

They have been drawn from Audit Scotland audit reports. They are not key findings for all councils.

About our 'how councils work' series

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

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

This is the third report in the series. The first report, published in August 2010, examined roles, responsibilities and working relationships of councillors and council officers in achieving best value. The second report, published in June 2011, examined the relationships between councils and their ALEOs (arm's-length external organisations). These two reports are available on Audit Scotland's website: www.audit-scotland.gov.uk

This report highlights the importance of having good-quality cost information to inform policy decisions and scrutinise performance, and identifies some of the guidance and cost measures that already exist.

The report also provides some case studies to illustrate how councils and councillors are currently using cost information. In some instances, the activity in councils covered in the case studies is still developing and we recognise that what works in one council may not be appropriate for another. However, we consider that the case studies provide a useful insight into how some councils are using cost information to inform their work. This can help other councils and councillors think about how they might use cost information at a strategic and operational level more effectively.

We have worked closely with the Improvement Service,¹ the Association of Public Service Excellence (APSE),² CIPFA Directors of Finance³ and the councils covered in the case studies in developing this report and we are grateful for their contributions.

1 www.improvementservice.org.uk

2 www.apse.org.uk

3 www.cipfa.org.uk/regions/scotland/directors/

Key messages



A good understanding of both the cost and the quality of services is essential if councils are to demonstrate that they are delivering good value for the public money that they spend.


1. Many of our audit reports have found that councils need to make better use of cost information. Using cost information effectively can help councils and councillors make well-informed policy decisions and assess the efficiency and effectiveness of their services. This is all the more important in the current economic climate where public spending is being reduced significantly.

2. Councils have a statutory duty to provide Best Value, set out in the Local Government in Scotland Act 2003. This duty applies to both elected members (councillors) and council employees (council officers). Best Value requires councils to manage their performance and resources effectively and a sound understanding of costs is central to this. A good understanding of both the cost and the quality of services is essential if councils are to demonstrate that they are delivering good value for the public money that they spend.

3. The key messages in this report are:

- tightening public sector budgets and increasing service demands require more effective use of cost information. Being open about costs can help keep communities engaged in the difficult decisions that lie ahead for councillors
- the effective use of cost information can lead to improved corporate and partnership working
- councils can do more to share good practice and learning and could make more effective use of the existing cost measures and guidance available.
- councillors need good cost information if they are to make well-informed policy decisions and scrutinise performance effectively
- cost information needs to be presented in an open and accessible way along with policy options and performance information to help councillors carry out their role
- officers need good-quality cost information to help them manage services efficiently, assess performance and demonstrate value for money
- a council's approach to using cost information should be driven by its priorities and objectives, with a focus on outcomes for service users and communities

Part 1. Councils need to use cost information more effectively



Cost information is an essential element in assessing overall performance. Without good cost information, councillors cannot fully monitor and scrutinise service performance.

4. In August 2010, we published the first report in the 'how councils work' series, *Roles and working relationships: are you getting it right?* The report provided checklists, examples and other information to help councils assess their current working practices and identify how they might better equip themselves to deal with the challenges ahead.

5. In the report we highlighted the importance of all councillors and officers having a clear understanding of their respective roles.



What do auditors say?

"A councillor's role is to represent constituents, to provide leadership and direction for the council and to scrutinise service performance. Council officers are responsible for operational leadership and management and for providing professional advice to support councillors in their role. In other words, on an issue-by-issue basis, councillors determine policy at the start, officers manage delivery of the policy in the middle and councillors scrutinise delivery at the end. Senior officers have key roles at the transition between these phases, supporting policy development and scrutiny by ensuring the right information is available at the right time."

"Good governance requires that those involved in leadership, management and decision-making are clear about their own roles and responsibilities, and those of others. Training for councillors and officers, as well as tailored guidance, can help them understand roles and responsibilities."

Source: *How councils work: an improvement series for councillors and officers – Roles and working relationships: are you getting it right?*, Accounts Commission, 2010

6. In order to fulfil their respective roles effectively, councillors and officers need good-quality information:

- Councillors need good-quality information to inform policy decisions and set strategic direction.
- Officers need information to help them implement policy decisions and manage service performance.
- Councillors need information to scrutinise performance, to hold officers to account, and assure themselves and the public that the council is delivering its commitments and offering value for money.
- Councillors and officers need information to inform decisions about where improvement is needed.

7. Knowing what things cost is important, but our audit reports often highlight the need for councils to make better use of cost information. Best Value reports on individual councils, performance audit reports into specific themes and service areas, annual reports to members and our local government overview reports have all concluded



What do auditors say?

"Councils urgently need to ensure that they have comprehensive and comparative baseline data on service costs and quality, and integrate this information into their approaches to performance management and options appraisal."

"The council needs to identify more clearly and manage the costs of its activities, and the assets and people needed to deliver them, if it is to generate best value."

Source: Audit reports

that councils are not using cost information effectively.

Cost information is an essential element in assessing overall performance

8. To manage performance effectively a council needs to set clear objectives and then use a combination of measures to track progress and impact. It needs good-quality information on:

- inputs – to understand what resources are being used to deliver the services/objectives
- processes – to know when and where services are being delivered and whether they are being delivered on time
- outputs – to understand what level of service is being delivered and the quality of that service
- outcomes – to assess what impact the services being delivered are having and whether they are achieving the agreed objectives.

9. Knowing what it costs to deliver a service is a key 'input measure'. A council may, for example, find that services are being delivered promptly (a process measure) and that the services are of high quality (an output measure). It may also know that services are having a positive impact in the community and delivering the council's objectives (an outcome measure). However, if the council does not know what it costs to deliver the services, it cannot really assess whether the services truly represent value for money.

10. Would an apparently high-performing service be viewed in the same light if it appeared to be costing twice as much as a similar service in a neighbouring council for example? Without good cost information, councillors cannot fully monitor and scrutinise service performance.

11. Bringing together an understanding of both the cost and quality of service delivery is therefore necessary to assess whether a service is providing value for money. [Case study 1](#) on West Lothian

Council illustrates the benefits of incorporating cost information into an assessment framework in order to consider performance in a robust and rounded way. Including cost information in self-assessment helps

to embed consideration of costs as a key measure of performance. This kind of self-assessment can provide assurance to councillors and officers on where progress and performance is good and also where improvement is needed.

Case study 1

West Lothian Council – using cost information in self-assessment

The West Lothian Assessment Model (WLAM) is a self-assessment framework used across the council as one of the mechanisms to ensure that it is providing high-quality and value-for-money services. All services report the results of their self-assessment and their improvement actions to the council's performance committee, where elected members monitor and challenge the results and progress.

The assessment model covers nine topics separated into two themes: 'what we do' and 'what we achieve'. Within the 'what we achieve' section there is a subsection on 'efficiency results' which focuses on the indicators and outcomes each service uses to assess its efficiency. This includes indicators such as:

- the unit cost of outputs (for example the cost of dealing with one customer enquiry)
- unit cost per re-work (for example the cost of having to collect a missed bin)
- unit cost per customer engaged (for example the cost of school education per pupil or the cost of street cleaning per head of population)
- units of output per full-time equivalent (FTE) staff (for example the number of active cases per social worker)
- failure demand as a percentage of total demand (for example repeat repairs as a percentage of all repairs)
- percentage of FTE staff resourcing front-line service delivery (for example the ratio of teaching staff to total education services staff).

There is guidance given to services on how to use these measures, the purpose of the measures and how these should link to their other planning tools. Services are encouraged to make the indicators meaningful for their own service, for example by defining who their customer is.

Prompts and guidance for reviewing cost information are also included throughout the assessment model, including in sections such as leadership, strategies, plans and policies and partnerships.

Reviewing these cost measures along with other performance information has helped the council to identify areas for improvement. For example, by measuring the cost of dealing with a customer enquiry at their local offices and through the customer service centre, the council identified that the cost for the customer service centre was almost half that of the local offices (£2.23 per enquiry as opposed to £4.34 per enquiry). As a result, the council has focused on encouraging customers who use local offices to consider using the contact centre or other contact methods such as online or direct debit payments. The council also developed a new customer service strategy to support this improvement, which was approved by elected members in January 2012.

Through this process, all services have to evaluate cost and efficiency measures. All services undertake an assessment at least every three years and more regularly where determined by the assessment results or other risk factors. The inclusion of cost measures throughout their approach to self-assessment encourages the mainstreaming of cost considerations along with service performance and improvement.

The WLAM was the basis from which the now widely used Public Sector Improvement Framework (PSIF) was developed. PSIF includes many of the same suggested indicators and guidance as the WLAM.

Source: West Lothian Council



What does CIPFA say?

“Without an understanding of the starting point, the baseline, and why it costs what it does and how it will change if the various cost drivers are altered, cost cannot be managed and controlled.”

Source: *Counting Costs: Understanding and Using Cost Information to Make Better Decisions*, CIPFA, 2011



Want to know more?

- *Better Benchmarking for High Performance (CIPFA, 2010)*
http://www.tisonline.net/managementoffinance/content/Better_Benchmarking.pdf



What others are doing

- In Sweden, an annual report is published jointly by the National Board for Health and Welfare and the Society of Local Authorities and Regions, which provides comparative healthcare quality and efficiency information.

The report covers 75 set indicators on which the local regions and counties in Sweden have to report. These indicators cover a variety of performance and cost measures.

The report sets out two main aims from publishing this information. Firstly, it aims to provide transparent and reliable comparative data for service users to be able to judge how well their local healthcare services are performing. Secondly, it aims to promote improvement by publicly reporting on performance and by increasing the sharing of information between the regions and counties.

Source: Audit Scotland – based on *Quality and Efficiency in Swedish Healthcare: Regional Comparisons 2010*

Effective decision-making relies on good cost information

12. An improved understanding of costs is not an end in itself. Understanding what things cost is an important factor when making policy decisions. Councils face significant financial challenges. Councils recognise that in the current financial climate making efficiency savings

will only go so far. More fundamental decisions will have to be taken about the levels of service on offer and whether some services may need to be withdrawn altogether. Councils need to have a clear understanding of the level of service being provided, and at what cost, to be able to identify whether further efficiencies are achievable. Councillors need to be clear about which services are most important.

13. *Case study 2 (overleaf)* on Dundee City Council illustrates how making decisions on a spend-to-save initiative can reduce costs in the longer term.

Councillors need good cost information to scrutinise performance and assess whether they are delivering value for money

14. Councillors have a key role in scrutinising performance and need good performance information to fulfil this role effectively. This means that they need information not only about the quality of services, but also the cost. Our audit work tells us that councillors are keen to get better information to help them do this important job. Our 2010 report *Roles and working relationships: are you getting it right?* highlighted that councillors recognised that they need to focus on costs and the financial implications of policy decisions.

15. Councillors need support to feel more confident about challenging what services cost and therefore whether those services represent good value



What do auditors say?

“We encourage the council now to improve its performance management capacity and ensure that it has effective mechanisms to test value for money and provide robust options appraisal. This is essential to allow the most effective decision-making by elected members when budgets are under increasing pressure.”

“Councillors need good-quality information to assist them making informed decisions. They are generally aware of the total cost of their services, and budgets are monitored regularly. However, they still do not have sufficient information on service costs and quality, user satisfaction, and performance information which compares performance with that of other service providers.”

Source: Audit reports

Case study 2

School vandalism at Dundee City Council – using cost information to proactively target activity and reduce ongoing costs

Dundee City Council identified that vandalism to its schools was resulting in significant repair costs and was affecting the learning environment for pupils. To address this issue, the council's risk management section and education department worked together to adopt a risk-based approach to targeting vandalism of school properties.

Using a centrally collated robust record of all incidents of vandalism and the repair costs, the team identified trends and hotspot areas to target. Having the cost information allowed it to demonstrate that targeted up-front spending could achieve a significant saving on repair costs. Targeted spending was made on measures such as:

- replacing window glass with polycarbonate panels
- increasing CCTV and security coverage
- offering diversionary activities for young persons, particularly during school holidays.

Knowing the baseline costs was key to being able to demonstrate and continue to monitor the value of these proactive measures. Between 2008 and 2010, there was an 18.7 per cent reduction in vandalism incidents at schools. This resulted in a significant 34.8 per cent reduction in repairs expenditure, from just over £280,000 in 2008 to less than £184,000 in 2010. The average cost per repair claim was also reduced by 19.8 per cent. The proactive work is funded by an annual allocation of £35,000 from the council's risk management budget, representing a good spend-to-save return for the council. There have also been non-financial benefits from this activity, such as a reduction in the amount of disruption to teaching time due to repair work and more attractive and welcoming school facilities.

Strong partnership arrangements, through the Dundee Community Safety Partnership, have helped the sharing of information between partners, including cost information. This has supported more effective targeting of joint activity and more coordinated use of resources. For example, this has led to the partnership jointly funding diversionary activities during school holidays, which was identified as a hotspot period for vandalism.

Source: Dundee City Council

for money. Our observations of committee meetings have shown that councillors frequently ask for more meaningful financial information. Councillors should ask for, and officers should offer, training and support to help members better understand cost information and become more confident at using it to scrutinise policy options and service performance.

16. When considering financial information, councils do not generally bring together the two core elements of value for money: cost and quality. Councillors need to have reports that provide an assessment of what is being delivered and what that is costing in order to assure themselves that the council is providing value for money. This would support councillors to be more involved in the scrutiny of their council's performance.

17. The monitoring of financial information in councils tends to focus on spend against budget. Reporting typically focuses on the budget, the expenditure to date, and the difference between the two. Where there are any significant over or underspends the councillors and officers can then consider the reason for the difference and whether any action needs to be taken. These budget-monitoring reports are an essential element of sound financial



What do councillors say?

"We have to be even more cost conscious. We have to ask ourselves what we can actually do with the resources."

"The council has not properly embraced best value as there are issues where it appears decisions are taken without fully considering the financial consequences."

Source: *How councils work: an improvement series for councillors and officers – Roles and working relationships: are you getting it right?*, Accounts Commission, 2010



Want to know more?

- *Counting Costs: Understanding and Using Cost Information to Make Better Decisions* (CIPFA, 2011)
<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/PUBFM035H>
- *Improvement Service Notebook: Effective Decision Maker – Using Information to Make Better Decisions* (Improvement Service, 2011)
<http://www.improvementservice.org.uk/access-to-national-elected-member-portal/>

management. However, as these reports focus on cost centres which do not necessarily align with defined services or objectives, they do not cover what it actually costs to deliver specific services. In very simple terms, a budget-monitoring report on an education service will highlight how the service is managing its budget, but it will not, for example, tell the reader how much it costs to educate a child.

18. The local government sector still operates a largely traditional financial accounting system. The focus of this financial accounting is to ensure that the annual accounts are accurate and presented in accordance with the range of guidance laid out for their preparation. There is good reason for this, to ensure that public bodies have complied with the range of guidance about the acceptable use of public funds and to standardise the approach to producing annual accounts.

19. There has been less of a focus on management accounting. Management accounting adopts a different perspective and makes clearer links between spend in an area and the service output. Where financial accounting tends to focus on the past, ie accounting for what has been spent, management accounting is more forward looking, aiming to understand cost patterns and therefore what resources will be needed in the future. By looking forward, management accounting techniques can support councils' planning and decision-making processes, more so than by using financial accounting alone. Councils could integrate aspects of management accounting practices to support their strategic planning and decision-making processes.

The use of cost information must be driven by what the council is trying to achieve

20. If councils are to use cost information more effectively it is important that they consider carefully where the information is most needed and where it will add most value. Given that the use of cost

information is relatively undeveloped across councils we are not advocating the immediate adoption of a comprehensive and detailed costing measurement system. If councils were to do this, there is a risk that setting up and maintaining a cost measurement system becomes an end in itself rather than a means to an end. The focus should be on putting

What do we mean by these accounting terms?

Financial accountancy: accountancy concerned with the preparation of financial statements. The main purpose of financial accounting is to prepare accurate financial reports that provide information about the organisation's financial performance and demonstrate that it is managing its finances appropriately and in accordance with regulations and guidance.

Management accounting: accountancy to support internal decision-making. The main purpose of management accounting is to provide financial and cost information to help managers make decisions and plan and manage their services.

Source: Audit Scotland



What others are doing

- Police forces in England and Wales, supported by the Home Office, have introduced a framework, called Police Objective Analysis, to help provide clear, relevant and comparable cost information across police services. The aim of the framework is to promote reporting of cost information against areas of activity, rather than against cost codes or budget lines. Reporting costs in this way makes it easier to assess the impact of the activity alongside the cost of the activity.

This framework was endorsed by the Association of Chief Police Officers in Scotland (ACPOS) in January 2010 and has now been developed for use by Scottish police forces. The framework requires reporting of cost information against a number of set headings and subheadings, covering topics such as local policing, roads policing, specialist operations, intelligence, and support functions. Guidance has been developed to help ensure that results are comparable and consistent across the forces.

In England and Wales, the output of the framework is already being used to challenge value for money within and between forces. Once embedded in Scottish forces, comparisons should be able to be made between all forces, and in future between divisions and services of the single Scottish police force, giving a wide pool of comparators. The Police Objective Analysis framework will help forces to manage, compare and review their costs, therefore promoting improved value for money.

Source: Audit Scotland – based on *Police Objective Analysis Guidance Notes 2, Scottish Version 0.3*

What does CIPFA say?

“Costs can be measured, analysed, and reported in many ways. A particular cost measurement has meaning only in the context of its purpose. It can vary depending upon the circumstances and purpose for which the measurement is to be used. So before the question ‘what is the cost of ...?’ can be answered, we need to know the purpose of the information and its intended use.

In other words, ‘what decision are you making?’. The cost information needed to support a decision requires clarity about:

- the ‘unit’ (the cost object) about which costs are to be collected
- the timeframe over which cost information is collected and analysed.”

Source: *Counting Costs: Understanding and Using Cost Information to Make Better Decisions*, CIPFA, 2011

Want to know more?

- *Holding to Account: Using local authority financial statements (LASAAC, 2011)*
<https://www.cipfa.org.uk/scotland/download/110706DGHoldingToAccount.pdf>
- *IFRS: How to tell the story (CIPFA, 2010/11)*
http://www.cipfa.org.uk/ifrs/download/IFRS_how_to_tell_the_story.pdf

some key measures in place to understand costs in important areas. From that basis, councils can then review their approach to using cost information and refine this as required on an ongoing basis. The value of adopting a pragmatic approach to using cost information is a common theme running through the case studies in this report.

Choosing the right cost measures

21. Councils should establish cost measures at a level that is meaningful for the intended purpose. The important thing is to establish what it is that the council needs to understand about its service delivery, and then identify the best cost measure for that purpose.

22. Setting the council’s budget is one of the most important areas of decision-making for councillors in the council’s business cycle. Traditionally, council departments set high-level budgets using an incremental approach, adding on percentage increases or decreases to cover inflationary pressures and other cost pressures and savings.

23. Priority-based budgeting is a different approach which uses the council’s stated objectives as a starting point.

24. Case study 3 is about Aberdeen City Council’s approach to priority-based budgeting. The council carried out a mapping exercise to understand the links between its objectives, the services involved in achieving those objectives and their costs.

Unit costs

25. Unit costs are defined as the calculated costs for a distinct unit of a product or service. Calculating unit costs can be particularly useful because they clearly link resources, ie costs, with a specific output, ie a product or a service. Unit costs can therefore be used to help assess value for money. In addition they can be informative when making comparisons, by benchmarking costs over time or between councils.

What does CIPFA say?

“Trends in unit costs can help managers track productivity – how much has been got out for what has been put in – and compare themselves to other similar services through benchmarking to assess efficiency. The use of unit costs will also help link cost management with performance management and feed back into the setting of the budgets.”

Source: *Counting Costs: Understanding and Using Cost Information to Make Better Decisions*, CIPFA, 2011

Case study 3

Aberdeen City Council – using cost information to support priority-based budgeting

In 2010, Aberdeen City Council decided to adopt a priority-based budgeting approach to help determine its future service demands and related costs. The aim was to develop a five-year business plan to more effectively manage the council's finances and support the achievement of the council's priority outcomes.

This involved extensive work to understand the baseline costs of the council's current service provision. The work showed the council that if it carried on providing the services in the same way as it currently was, the cost of providing these services would increase by almost 19 per cent over the next five years. The council's approach focused on 'building' its budgets based on what it costs to carry out the activities and functions required, rather than focusing on where to make savings in existing budgets.

The core aim in adopting this approach was to allow councillors to make informed decisions about the services the council provides. It allowed them to effectively consider the relationship between cost, value and outcomes.

The basis of the council's priority-based approach was its key strategic documents: the Single Outcome Agreement and the Corporate Plan. These were reviewed and the outcomes which the council considered most important to deliver were identified. The council then assessed which services contributed most to the achievement of these priority outcomes.

Specialist cross-council teams worked together to gain a better understanding of the costs of the services. Dedicated finance staff worked alongside service representatives and managers to cost service provision and produce baseline figures. Options for service changes and new delivery methods were then reviewed and costed. This allowed the council to evaluate the impact both on the council's budget and on achieving its priority outcomes. Using cross-council teams to develop and challenge the budget options helped to foster a corporate approach and collective ownership of the options.

The council saw it as essential to include communities and partners in the thinking and planning of changes to its services. Each directorate held stakeholder consultation events, inviting their key stakeholders to attend briefings with officers and senior elected members. The draft final report was shared with elected members from the administration and opposition parties. Briefings had also been given to elected members at various stages of the process and directorates updated their respective committee convenors and vice-convenors of the draft options throughout the process. There was also a significant investment in engaging with local communities at key stages in the process, for example through questionnaires and public events.

Priority-based budgeting is now recognised in all services as the process by which Aberdeen City Council prepares its draft budget for consideration by elected members and approval by the council. The outcomes of the priority-based budgeting exercise are integrated with the detailed draft five-year business plan, which pinpoints the priorities and essential services which the council seeks to deliver over the next five years.

In February 2011, the council approved £71.5 million of savings options over a five-year period and has delivered the £15.7 million of savings approved for 2011/12. The individual savings options vary in value and impact on services. The five-year rolling business plan is reviewed annually and this review is used to determine the annual draft budget. A further £36 million of potential savings options over the five-year period to 2016/17 was presented to the council in December 2011. From these options, a further £3 million of new savings were approved to be delivered in 2012/13, in addition to previously approved savings of £15 million.

Those options which have been accepted by the council are monitored throughout the year by the Programme Management Office. The change-control procedure includes considerations of the impact of options on future years' budgets. The budget team work closely with the individual directorate finance teams to ensure consistency of reporting.

Source: Aberdeen City Council

26. As with other performance measures, it is important that councils understand the key assumptions on which the unit costs are based to ensure that any comparisons are relevant and that any differences are understood. For example, when comparing costs, councils must be clear about what overheads are included in the make-up of a unit cost. If this is not clear there is a risk that councils are not comparing like with like.

27. This is particularly important when councils are using cost information to inform an options appraisal process. For example, if comparing the costs of an external supplier with an 'in-house bid', councils must ensure that the cost information is comparable to ensure that the bids are being assessed consistently.

28. The Edinburgh Leisure case study (Case study 6, page 21), in Part 2 of this report, illustrates how the organisation made decisions about using unit costs. It illustrates the difficulty of apportioning some costs where there is not a direct link between staff activity and individual service provision.



Want to know more?

- *A Question of Cost – How Costs Behave and How to Control Them: A Practical Guide for All Managers (CIPFA, 1995)*
<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/FM008>
- *Unit Costs – not exactly child's play: a guide to estimating unit cost of children's social care (Department of Health, Dartington Social Research Unit and The Personal Social Services Research Unit at the University of Kent, 2000)*
<http://www.pssru.ac.uk/pdf/B062.pdf>

A focus on outcomes needs to be supported by a good understanding of costs

29. Over recent years there has been an increasing emphasis on an outcomes-based approach to delivering local services. A focus on outcomes has underpinned the relationship between local and central government in Scotland since the 2007 Scottish Parliament election. The Concordat agreement between the Scottish Government and local government gave councils more flexibility in how they spend their budgets. In return for this flexibility, the Scottish Government set out 15 (now revised to 16) national outcomes which councils had to respond to at a local level. Councils and their partners set out how they would deliver against these objectives, through their Single Outcome Agreements.

30. An outcome-focused approach needs to be supported by a sound understanding of costs. Outcomes are often long term and require councils and other public and private sector organisations to work in partnership. Working in partnership with other organisations can present challenges. Bringing together information on resources and costs across partner organisations can be a particular challenge. This is often the case because organisations such as health boards, enterprise agencies or private sector partners have different financial management and accounting arrangements. In addition, outcomes are often interrelated, and staff can be working to fulfil a range of outcomes at the same time. This makes it harder to determine how much is being spent on the delivery of outcomes, particularly where information from different public sector bodies needs to be brought together.

31. There is, however, a strong appetite across public sector organisations to better understand

how resources link to outcomes. Community Planning Partnerships recognise that they need to understand how the collective spend of public bodies affects the delivery of their shared outcomes.¹ Work is currently being undertaken to develop outcome-focused budgeting; this is covered in Part 2 of this report.

32. Case study 4 on North Ayrshire Council's fostering service illustrates how looking at the costs associated with delivering an outcome can influence how a service is provided.

The financial challenges in the public sector are demanding more effective use of cost information

33. The Scottish public sector is currently responding to budget reductions. The Scottish Government published its 2011 spending review and its draft 2012/13 budget in September 2011. The spending review sets out planned spending for the next three years, to 2014/15. The overall local government allocation, in real terms, is set to decrease by £350.2 million in 2012/13, £328.4 million in 2013/14 and by £44.9 million in 2014/15. The most significant year-on-year reduction occurred in the previous spending review period, between 2010/11 and 2011/12, where local government funding dropped by £654 million in real terms.

34. Local government capital allocations, in real terms, are also set to decrease, from £691.8 million in 2011/12 to £549.3 million in 2012/13 and £491.4 million in 2013/14, before rising to £702.7 million in 2014/15. The rise in 2014/15, is due to the re-profiling of capital spend from the first two years of the spending review to the latter year.

35. Councils have been responding to the planned budget reductions, updating their financial plans and savings targets accordingly. Councils have had to move quickly to reduce

1 Context for the Outcome Budgeting Project, report to Outcome Budgeting Project Board, Improvement Service, April 2011.

Case study 4

North Ayrshire Council's fostering service – using cost information to help inform service delivery options

In 2009/10, North Ayrshire Council undertook a review of its fostering service to inform an options-appraisal process to look at service models for shifting the balance of care provision from residential care to foster placements. The review focused on understanding the service the council was currently providing, the needs of those in the service, and the supply of foster carers. The review identified that:

- demand was increasing and outstripped the supply of council foster carers, exacerbated by the increasing age profile of the council's foster carers
- to meet service demand the council had needed to purchase independent sector placements, which were expensive and often outwith North Ayrshire
- many prospective foster carers in North Ayrshire had applied to foster with independent providers and other local authorities, as these providers paid higher carers' fees and provided increased support packages
- children under the age of 12, who require to be accommodated, achieve the best outcomes if they are placed in foster care rather than residential care
- the fostering budget was projected to overspend and if the current balance of provision continued this overspend would increase sharply.

The review concluded that the current service delivery model was not sustainable in financial terms and was not achieving best value in terms of the outcomes for children.

The service developed three potential service delivery options: maintaining the current model, outsourcing all fostering services, and introducing an internal fee-based scheme. This scheme would involve paying carers a more competitive fee and was aimed at making being a foster carer with the council more attractive compared to other providers.

To support the options-appraisal process the three options were costed. This process involved understanding the different cost elements of the service, for example payments to carers, staff costs and overheads. Understanding these elements was essential to making sure officers knew which costs to include when comparing in-house and external options. Fully understanding the different cost elements also meant that officers could accurately assess the impact that changing the service model would have on the overall service costs.

The costing exercise demonstrated that the current service model was not a sustainable option. It was shown that maintaining this model would lead to a budget overspend of more than £4 million by 2013/14. Option two, to fully outsource the service, was found to not provide value. The costing exercise showed that the internal unit costs of £436, for mainstream placements, and £644, for placements with additional needs, were lower than the average external provider fees of £895 and £1,047. While moving to this model was found to reduce the service's overhead costs, the exercise showed that this would not offset the higher placement costs. This option would also not achieve the best outcomes for children in foster care, for example due to many placements being outwith the local area resulting in children losing community ties. The third option was identified as the preferred option. The appraisal identified that this model would reduce costs – by helping to retain existing foster carers and attract new ones, therefore reducing the need to purchase external placements – while also promoting the best outcomes.

While it was identified that a new service model would reduce costs, the review also found that the current fostering budget would still not be sufficient to meet demand. It was also identified that some up-front investment would be needed, for example for recruitment and training costs.

The options appraisal was presented to the councillors with information on the cost impact of each option along with the impacts on service sustainability and achievement of outcomes. This supported the councillors to be confident that their decision was based on sound evidence.

The service has successfully started to implement this new service delivery model. In 2010/11, the service appointed 16 additional foster carers and has achieved a saving of just over 50 per cent compared to the cost of the equivalent external placements. The service has exceeded its target for reducing the number of external placements and has transferred six children from residential units to foster placements, supporting its service objectives. By adopting this new model, the projected cost per placement per year will reduce by approximately 36 per cent. The council's fostering and adoption services have also received positive feedback from recent inspection activity, noting the developments since the approval of the new approach.

their spend and of necessity have focused on methods that make an immediate impact, such as voluntary early release schemes and reducing spend in some services. This has often been done without a clear understanding of what the cost of delivering services and functions has been. A freeze on recruitment and the introduction of staff early release schemes have delivered some savings, however these changes have potential impacts on whether the same level and quality of service can be maintained.

36. The effective use of cost information is crucial for identifying policy options and supporting decision-making on those options which would work best for the individual circumstances of councils. For example, accurate cost information is essential to understand whether service levels and quality can be sustained when the workforce is reducing. A clear focus on the effective use of cost information is therefore required to support decisions about how services can best adapt to reducing budgets. However, effective use of cost information to support budget setting processes should not be seen as important only during times of financial constraints. Embedding the use of cost information is a key element of delivering value for money services whatever the financial context.



What does APSE say?

“The need for high-quality performance information on value for money has never been greater. Local government is facing difficult and turbulent times with the prospect of ongoing financial constraints. The need for services to demonstrate their competitiveness, efficiency and cost effectiveness has never been greater.”

Source: *Performance Networks Prospectus: Benchmarking for Success*, Association of Public Service Excellence (APSE)

Greater openness about cost implications can help communities engage in the difficult decisions that lie ahead

37. It is clear that the impact of budget reductions is leading to some difficult decisions for councils and some are in the challenging position of having to reduce levels of service provision. This often results in negative reactions from local communities and the media and puts pressure on local councillors.

38. Greater openness about the choices that councils need to make can help communities to understand and appreciate the difficult decisions that councillors are having to take. Having robust information to hand on what it costs to deliver services and how this is becoming increasingly difficult within the context of reducing budgets is essential. Using this information to discuss options with communities can also help to make them feel more involved in decisions about changes to local services.

39. Involving staff in the discussions about the cost implications of budget choices is also important. Involving staff in developing ideas for improvements and efficiencies can help keep them engaged in what can often be difficult and unsettling periods of change. In the Glasgow City Council example ([Case study 5, page 20](#)) in [Part 2](#) of this report, staff engagement was crucial. Staff were provided with training on continuous improvement and efficiency and were involved in identifying opportunities for improvement and savings. The council saw positive results from this engagement as staff were more involved in, and supportive of, the changes being made.

Part 2. Councils should use cost measures and share good practice more effectively



Established frameworks and indicators could be brought into councils' performance management arrangements to help inform decision-making and assess performance and value for money.

40. In this part of the report we draw attention to some of the existing guidance, frameworks and performance indicators that have already been established and which councils could use more effectively. These established frameworks and indicators could be brought into councils' performance management arrangements to help inform decision-making and assess performance and value for money.

41. The benefit of using existing frameworks, such as the Statutory Performance Indicators (SPIs), is that these are underpinned by definitions on what should and should not be counted within the cost and expenditure information. This should mean that they provide more robust benchmarking information because all councils should be capturing information in broadly the same way. However, even here, where performance measures and guidance are long established, we are aware that there remain local interpretations and so variations in how costs are apportioned.

There is a range of existing cost measures and guidance that councils could apply more effectively

42. There is a range of cost measures and guidance on using costs information available to councils. Councils could make more effective use of these existing resources to support their own approaches to using cost information. The following sections provide some examples of these existing measures and highlight current work being undertaken to support improvements in the use of cost information.

The Statutory Performance Indicators

43. The Accounts Commission's SPIs have been in place since 1992 and are reviewed on a regular basis to reflect the changing context of the local government sector. As part

Exhibit 1 **Cost and income SPIs**

- The gross cost per case for benefits administration
- The cost per dwelling of collecting Council Tax
- The income due from Council Tax for the year, net of reliefs and rebates, and the percentage of that which was received during the year
- The total annual rent loss due to voids expressed as a percentage of the total amount of rent due in the year
- The net cost per premises for
 - refuse collection
 - refuse disposal

Source: Accounts Commission

of this review process the number of SPIs was reduced significantly in 2009. This was to offer flexibility and encourage the local government community to establish its own performance measures to support improvement. Within the SPIs there are a number of measures which use cost information to inform an assessment of performance. Examples of the cost and income-related indicators are shown in [Exhibit 1](#). These indicators help to give councils a picture of their performance compared to other councils and over time.

44. Councillors and officers can use SPIs to explore the reasons why costs may be higher or lower than comparator councils. For example, in 2010/11, the SPIs show that the cost of collecting council tax per dwelling varied significantly between councils, from a low of £4.16 to a high of £26.56. Similarly, the SPIs show a wide range in the cost of benefits administration per case across councils from a low of £28.80 to a high of £77.70.

45. Indicators such as these can help councils to compare their performance with others. Councils with higher costs should use this information to start exploring why

they are spending more than others and look to those with lower costs to identify any learning or good practice that can be shared. Similarly, those with very low costs should be interested in knowing what impact this has on the quality of the service being provided. It would be too simplistic to say that high cost is a bad thing and low cost good. The important question is 'why is the cost so different and does the difference have an impact on the service that customers receive?'

46. It is also useful to use family or comparator groupings when comparing cost indicators such as these. Using family groupings means that councils compare themselves to others who are 'like them' in terms of size and location. This can help to eliminate or explain factors such as geography or demographics and therefore identify areas where variations in costs or performance are the result of service performance or efficiency.

47. In the introduction to the 2011 SPI Direction,² the chair of the Accounts Commission noted: "Councils are making progress in providing comprehensive public reporting in line with the 2008 Direction and their wider duty of Best Value. But

there remains scope for further improvement in the approach to, and coverage of, public performance reporting, both of which are highly variable in quality across councils. We would like to see further progress in these areas.” The chair went on to set out the Accounts Commission’s position on the development of performance reporting, [Exhibit 2](#).

48. Further information on the SPIs can be found at www.audit-scotland.gov.uk/performance

Improving local authority benchmarking

49. The Society of Local Authority Chief Officers (SOLACE) in Scotland has been developing a set of indicators to supplement the performance information that is currently available for the local government sector. The aim of this work is to identify indicators which will cover efficiency, process and outcomes and support benchmarking for each of the major service areas provided by councils.

50. In establishing these indicators, SOLACE wanted to ensure that all measures could be collected on a comparable basis across all 32 councils. It also wanted to focus on indicators that would meaningfully add to and improve the cost information of service delivery on a comparative basis for major service areas and corporate functions.

51. SOLACE is taking the financial information used in these measures from the returns councils submit to the Scottish Government called the Local Financial Return (LFR). The SOLACE project team is aware that there are limitations with this information source at present, for example the guidance on completion of the financial information is not always properly adhered to and local interpretations can be applied. However, the project team identified

Exhibit 2 2011 SPI Direction

“We want to be able to use our statutory role to underpin performance reporting designed by councils themselves, rather than impose an additional regime. To this end, we intend to undertake in 2012 a more fundamental review of Statutory Performance Indicators to ensure that they remain relevant and fit for purpose. We have also examined developments in scrutiny and auditing, and the Scottish Government’s approach to performance measurement. We are encouraged by the initiatives that the local government community is currently engaged in to improve performance information, including the development of local outcome indicators and a suite of benchmarking indicators covering costs and services.

But we expect the local government community to move forward quickly with its own performance information initiatives. It needs to implement and sustain the infrastructure that will be required to deliver an effective set of performance information which enables citizens and service users to understand how their services are performing in terms of quality, cost and impact. It must also enable comparison across councils and over time, as required by the legislation.

We hope that we will see positive progress over coming months. If such progress can be demonstrated, this may enable us in future Directions to consider requiring councils to produce information that draws more heavily on their own local outcome indicators and benchmarking indicators.”

Source: Chair’s Introduction to 2011 SPI Direction, Accounts Commission

the LFR as the best source for comparative financial information and aim to deliver a more consistent approach to LFR reporting through this project.

52. SOLACE has recently approved the initial set of indicators and is now working with its members to test and refine them.

Value-for-money indicators for corporate services

53. The UK public sector audit agencies³ have undertaken a project to develop a series of indicators to help measure and demonstrate the value for money of corporate function in the public sector. They have produced a range of efficiency and effectiveness indicator sets covering HR, finance, ICT, procurement, estates, legal and communications

functions. The indicator sets are divided into efficiency (cost) and effectiveness measures, with effectiveness being subdivided into measures on impact, satisfaction and modernisation. [Exhibit 3 \(overleaf\)](#) provides examples of the cost-related indicators for each of the functional areas. Using these indicators is voluntary but we encourage councils to consider using them to measure the value for money of their corporate support services.

54. Further guidance on these measures and information on the project can be found on the Audit Scotland website: <http://www.audit-scotland.gov.uk/performance/corporate.php>

3 The UK audit agencies are Audit Scotland (working on behalf of the Auditor General for Scotland and the Accounts Commission), the National Audit Office, the Audit Commission, the Northern Ireland Audit Office and the Wales Audit Office.

Exhibit 3

UK public sector audit agencies, value-for-money indicators

Human Resources

Cost of the HR function: a) as a percentage of organisational running costs (expenditure) and within this the proportionate cost of (a) learning and development and (b) all other HR costs; and b) the cost of the HR function per employee

Cost of learning and development activity as percentage of the total pay bill

Cost of agency staff as a percentage of the total pay bill

Cost of recruitment per vacancy

Finance

Cost of the finance function: as a percentage of organisational running costs (expenditure) and within this the proportionate cost of a) transaction processing, b) business decision support and c) reporting and control

Cost of customer invoicing function per customer invoice processed

Cost of accounts payable per accounts payable invoice processed

Payroll administration costs per employee paid

ICT

Cost of the ICT function as a percentage of organisational running costs (expenditure)

Cost of providing support: a) per user and b) per workstation

Acquisition costs per workstation

Procurement

Cost of the procurement function: a) as a percentage of organisational running costs (expenditure) and b) as a percentage of third-party spend

Average value of invoices

Estates

Total property costs per FTE employee

Total property costs (occupancy, operational and management) per square metre

Cost of the organisation's estates management function: a) per square metre and b) as a percentage of organisational running costs (expenditure)

Total property occupancy/occupation costs (revenue) per square metre

Total building operation (revenue) costs per square metre

Legal

Total cost of legal function: a) as a percentage of organisational running costs (expenditure) and b) total cost of legal function (net of external income) as percentage of operational running costs (expenditure)

Total cost of a) the in-house legal function and b) externally sourced legal work as a percentage of total legal function costs

Cost of legal function per FTE employee

Cost of learning and development activity as a percentage of the legal unit pay bill

Cost per hour of providing legal work

Communications

Total cost of communications as a percentage of organisational running costs (expenditure)

Cost of central communications function as a percentage of operational running costs (expenditure)

Cost of embedded communications function as a percentage of operational running costs (expenditure)

Benchmarking through APSE

55. There are a number of cost-related indicators available through the Association of Public Service Excellence (APSE) performance networks. The networks are benchmarking groups which are open to local authorities across the UK. There are currently performance networks in place covering 14 service areas:

- building cleaning
- building maintenance
- civic, cultural and community venues
- culture, leisure and sport
- education catering
- highways and winter maintenance
- other (civic and commercial) catering
- parks, open spaces and horticultural services
- refuse collection
- sports and leisure facility management
- street cleansing
- street lighting
- transport operations and vehicle maintenance
- welfare catering services.

56. Each performance network makes use of a range of measures, including costs indicators along with a variety of other performance indicators. [Exhibit 4](#) provides an example of the cost-related measures for the street cleansing benchmarking group.

57. Similar to the SPIs outlined above, these indicators and benchmarking reports can be used by councils to question why their performance or costs are different from others.

Exhibit 4

APSE street cleansing performance network – cost-related indicators

- Cost of cleansing service per household (including central establishment charges (CEC))
- Cost of cleansing service per household (excluding CEC)
- Total staff costs as percentage of total expenditure
- Transport costs as percentage of total expenditure
- Front-line staff costs as percentage of total staff costs
- CEC as percentage of total expenditure
- Percentage of street cleansing budget allocated to education and publicity of initiatives
- Cost of services per head of population (including CEC)
- Cost of service per head of population (excluding CEC)
- Front-line labour costs as percentage of total costs
- Net cost per site – public conveniences

Source: *Street Cleansing Summary Report 2009/10*, APSE Performance Networks

For example, the 2009/10 report on street cleansing shows that the cost of cleansing services per household (including central establishment costs) ranges across the participating councils from a low of £11.38 to a high of £87.92. The report also shows that the percentage of the total service expenditure accounted for by staff costs ranges across councils from 46.7 per cent to 84.8 per cent. This type of comparative information should prompt those at the edges of the ranges to ask why their costs are significantly higher or lower than others and what they can learn from other councils.

Improving outcome-focused budgeting

58. Part 1 of this report discussed the public sector focus on outcomes. This needs to be accompanied by corresponding focus on having fit-for-purpose performance management arrangements in place so that public sector bodies are monitoring robustly the impact of outcomes for communities.

59. A survey of community planning partners in early 2010 found that partners wanted a better understanding of how the individual and collective spending of public bodies affected the delivery of outcomes.

60. The Improvement Service has been leading work in this area and pilot work in two community planning areas has produced 'funding maps' on two areas of spend: health and social care for older people, and community safety. The pilot has found that it is extremely difficult to accurately map a relationship from spend to outcome.

61. The next stage of the project is focused on developing a methodology to achieve an outcome-focused budgetary process at local level. This will then be supported by appropriate tools, materials and resources to help other community planning partnerships to understand how their budget decisions will affect their agreed priority outcomes and, in turn, the communities they serve.

Using cost information at different levels can help deal with both strategic and front-line service issues

62. The case study examples that we present in this report illustrate the importance of establishing a robust approach to using cost information at different levels of a council.

Using cost information at a corporate level

63. Cost information needs to be incorporated more effectively in corporate performance management systems. Corporate improvement programmes and large-scale projects aimed at redesigning services need to have a good understanding of the current costs of the services being reviewed. Councils also need to have a good understanding of how those costs might change if the council delivers services in different ways. This is needed so that councillors may have meaningful discussions with their electorates, contribute to informed debate in committees and take sound and robust decisions in committees and full council.

64. Case study 5 (overleaf) on Glasgow City Council's shared services shows how cost information featured at key stages of its improvement programme.

Using cost information at a service level

65. A clearer understanding of performance at a service level also requires more effective use of cost information. Case study 6 (page 21) on Edinburgh Leisure illustrates how cost information has been incorporated into the regular monitoring of the service performance.

Case study 5

Glasgow City Council – using cost information to support an improvement programme

In 2009, Glasgow City Council realised there were opportunities for improving the effectiveness and efficiency of its administrative and customer service processes. The council had successful shared services and customer contact centres, now known as customer and business services (CBS). However, the council was not using the service to its full potential and, as a result, was not maximising the benefits. Less than half of the council's finance and HR work and less than a third of customer contact were being carried out by the shared services centre. Across the council, administrative and customer services processes were overly complex and were being carried out in different ways by each department. As a result, the council's administrative and customer contact costs were unnecessarily high and the shared services function was not achieving its full impact.

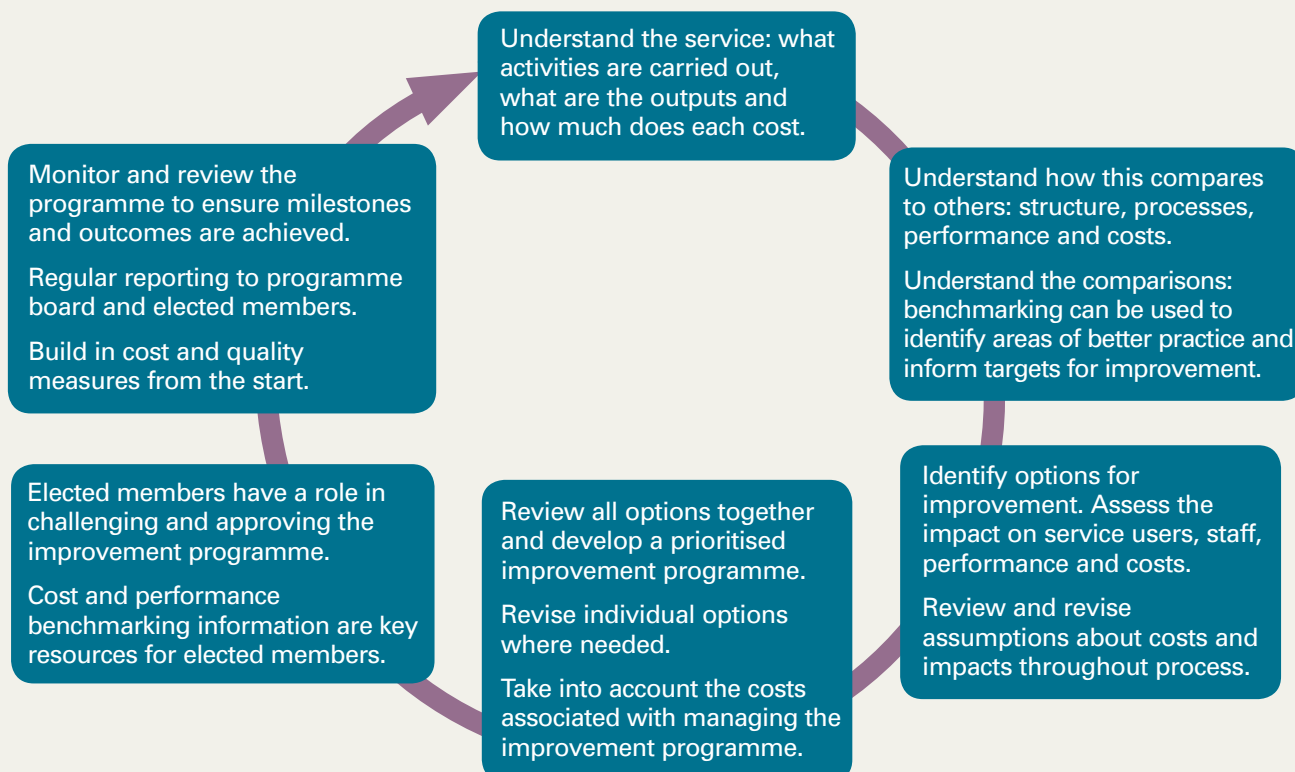
The council decided to undertake a systematic review of its shared services centre and its administrative and customer services activity to develop an improvement plan. The diagram below sets out the key elements of the approach it took.

Having good-quality cost information was essential throughout the review process. By understanding how much current services cost and how this compared to cost and performance elsewhere, the council could robustly identify areas for improvement. Sharing cost

and performance information with councillors helped to demonstrate the impact that could be achieved by undertaking improvement activity. The team presented the cost information in ways that made it more meaningful to councillors, for example by comparing the savings achievable by changing the payroll process to how many social workers this could fund. Regular monitoring and reporting of the cost benefit analysis of the improvement activities was crucial to ensuring the buy-in and continued support of councillors and council officers.

As a result of undertaking the review the council developed a three-year improvement plan, built around three core workstreams covering HR, finance and customer contact. Implementation of the improvement programme is planned to achieve savings of £5.1 million per annum for the three years against a total project cost of £6 million, resulting in an overall saving of £9.3 million.

In the first two years of the programme, gross savings have exceeded £2 million with net savings after project costs of £0.8 million. Monitoring of performance and quality indicators has ensured that service quality has not suffered as a result of the improvement programme. In many cases, the quality of service has improved as the service processes have been made more efficient. For example, the council has achieved a 50 per cent reduction in the time taken to deal with appeals against parking notifications.



Case study 6

Edinburgh Leisure – using cost information in a meaningful way for your service

Edinburgh Leisure is the leisure trust that manages and develops sports and recreation services on behalf of the City of Edinburgh Council. The trust has considered its approach to understanding its costs and has taken a pragmatic approach. The trust breaks down its financial information to a level that allows it, and its board members, to make informed decisions.

In particular, the trust has adopted a pragmatic approach to identifying suitable unit costs. The trust identified that it was not easy to allocate whole leisure centre costs to individual activities. For example, costs associated with some staffing roles, such as receptionists and general managers, could not meaningfully be allocated to individual activities such as a game of badminton or a football session. The trust decided it was more useful to concentrate on the income generated by the different activities, through tracking sales and adding only those costs that can be directly linked to that activity, for example lifeguard costs per swimming sessions. This approach allows the trust to compare the income and direct costs for each activity in a way that is meaningful for its service. This approach provides the information needed by the trust to identify areas of stronger financial performance and activities where they could better balance costs and usage levels.

The trust analyses its income by leisure centre as well as by activity, helping it to identify the most appropriate actions to address areas of weaker performance. Having this information helps the trust decide whether to target improvement action at a particular activity or target a specific leisure centre.

The trust also monitors facility costs, such as salaries, property costs, supplies and services. This allows it to benchmark its costs both over time and across its facilities, to help identify good practice and target improvement. Employee costs are by far the biggest area of spend for the trust. In order to effectively monitor costs the trust looks at staffing information, such as staff numbers and skills mix, alongside cost information. There are regular reviews of staffing benchmarks and evaluation across facilities to identify the most effective staffing models. The trust uses this information to identify potential efficiencies for other facilities.

Source: Edinburgh Leisure

More effective use of cost information can help to improve corporate and partnership working

66. Putting in place a robust process for understanding and analysing cost information can bring added benefits to corporate working within a council. The improvement programme undertaken by Glasgow City Council outlined in [Case study 5](#), involved staff by asking them to help identify areas where improvement could be made. The improvement programme resulted in a number of staff posts being freed up from completing manual tasks as the programme has improved service process and introduced more automated, time-efficient processes. Staff were engaged in this process and volunteered for redeployment to other areas of the council, seeing it as an opportunity to try something new and learn new skills.

67. Several of the case studies have brought finance and service staff together to understand costs and the impact of changing services. This has led to an improved understanding between professional groups. Finance staff have gained a greater understanding of the demands on the service, and how these can impact on costs. In turn, service managers have benefited from the skills of financial professionals to support them in identifying the current cost of service provision and the costs of options for future service delivery. This has helped create a corporate culture which is based on constructive challenge.

68. The Dundee City Council case study ([Case study 2](#)) in [Part 1](#) of the report shows how a clear understanding of the cost impact of an issue can help reinforce a partnership response and lead to a more integrated approach to tackling an issue.

69. [Case study 7 \(overleaf\)](#) on East Ayrshire Council shows that there are benefits to be gained when councils work together to analyse costs.

Case study 7

East Ayrshire Council – working with other councils to better understand costs

During 2009/10, East Ayrshire Council developed an efficiency strategy, designed to reduce expenditure across the council to meet its projected budget gap. The strategy was approved by elected members who had recognised that at a time of budget constraints, there was a need for further substantial information to be gathered relating to the cost and performance of key services. A key element of the efficiency strategy was therefore to review service budgets and performance, identifying the cost of providing a service and linking it to performance.

To be able to more effectively and accurately use this cost and performance information, a Cross-Council Budget and Performance Working Group was established. The focus of this group was to identify a consistent basis for calculating the costs of services and comparing these to service performance. The group is coordinated by East Ayrshire Council and consists of officers from East Ayrshire, North Ayrshire, South Ayrshire, Clackmannanshire, East Renfrewshire, South Lanarkshire, Inverclyde and West Dunbartonshire Councils. The aim of the group is to learn from best practice and analyse each service to identify how costs can be reduced without impacting adversely on service delivery and performance. The group also establishes how individual councils can maintain low costs and high performance in certain services.

The basis of the cost information is the Local Financial Returns (LFRs) and the group quickly became aware that there were significant inconsistencies in the data. Work was therefore required to analyse, validate and revise

the LFR income and expenditure in order to ensure the information was consistent across the group. Once the councils involved had reached an agreed process to achieve consistency in financial and performance analysis, ongoing reviews and benchmarking of performance, both across councils and over time, were possible.

This review and benchmarking activity allowed the councils to identify where there were additional costs in particular service areas. By also reviewing related performance data, they were able to identify where this additional spending did and did not link to better performance. As a result, councils within the group were able to identify areas of their service spend that could be reduced without affecting their service provision and quality. The willingness to share financial and performance information, and to meet and discuss in detail the issues affecting certain services, was a particular strength of this approach. All councils recognised the benefits that would arise from comparing consistent information on cost and performance, resulting in a real willingness to participate and share information. Good working relationships and a sense of ownership have helped the group to overcome any challenges which arose in the process.

The working group has now progressed into its second year and a workplan for 2012/13 has been agreed. The plan will see the group consider education data and undertake a detailed analysis of the costs and performance across a number of areas within their education services. The group intends to continue beyond the current year.

Source: East Ayrshire Council

Part 3. Key points for action



There are a number of issues councillors and officers should consider when developing an effective approach to using cost information.

The table below offers support to councillors and officers in using cost information more effectively.

Characteristics of a cost-aware council

An effective council will:

- know how much it costs to deliver core services
- use this information to inform decisions about what services to provide and how best to provide them
- ensure self-assessment and performance management frameworks include information on costs and assess whether the council is providing value for money
- understand the different levels of cost information required to support assessments of value for money in terms of:
 - overall council performance
 - service performance
 - delivery of outcomes
- ensure budgeting arrangements consider the costs of different policy options and do not rely only on incremental budgeting
- focus on its priorities, and from there identify the most useful and appropriate cost information to use. This will help to ensure a pragmatic approach is adopted which best fits the needs of the council
- seek out examples of existing good practice in the council and share this information across council departments
- consider benchmarking performance and costs with other councils (and other organisations) to make value-for-money comparisons
- promote an awareness and understanding of the importance of costs and make clear that costs are everyone's business, not just the finance officers'
- use cost information to focus improvement activity.

An effective council will ensure that:

- officers provide meaningful cost information to councillors to help ensure that the scrutiny of a council's activities and service provision includes the consideration of costs
- decision-making arrangements are supported by good-quality information on costs which is provided to councillors in a way that is clear and unambiguous
- options appraisals have robust costing information to support decision-making
- councillors have agreed what cost information they need to support their decision-making
- councillors are provided with the appropriate training on how to understand and use cost information effectively
- communities are involved in discussions about the cost and service delivery implications of budget choices. This will help ensure communities have a greater understanding of what options are being considered and why, and the implications of those decisions.

Appendix 1.

A tool for checking progress

Questions for councillors	Assessment	Required actions/timescale
<ul style="list-style-type: none"> • Do I receive the information I need on the cost of my council's activities and services? If not, what information do I need? • When scrutinising performance do I get information on both the quality and the cost of services? • How well can I currently evaluate whether the cost of my council's service provision demonstrates value for money? • Is cost information presented together with relevant performance information? • How easy is it to compare my council with others? • When I am presented with decisions to make, are policy options supported with adequate information on the cost implications of those options? • Do reports include information on current costs? • Are the options I am being asked to consider costed? • Which priorities/service areas do I most need cost information on? • Do officers support me to fully understand and interpret the financial information I receive? • What training do I need to better understand cost information and what it means? 		

Questions for officers	Assessment	Required actions/timescale
<ul style="list-style-type: none"> • Can I provide a clear and accurate assessment of what services cost? • Do I know how this compares to other organisations? • Do I use cost information as part of a performance management framework? • Can I give an informed assessment of whether council services provide value for money? • Am I satisfied that we have enough accurate and up-to-date cost monitoring information at the different levels of the organisation? • Am I making effective use of cost measures that already exist (for example SPIs, value-for-money indicators, SOLACE indicators, APSE indicators, etc)? • When I present reports to councillors, do the reports include cost information relating to performance and/or policy options? • Have we given councillors the appropriate training to enable them to understand costs effectively? • Where I use cost indicators, am I clear about how they are calculated and what this means when making comparisons over time or with other organisations? • How can I start to implement a more effective approach to using cost information? • What more can I do to foster a culture of cost awareness across the council? • Do all staff (not just the finance team) understand the importance of cost information and the fact that costs are everyone's business? 		

Using cost information to improve performance: are you getting it right?

If you require this publication in an alternative format and/or language, please contact us to discuss your needs.

You can also download this document in PDF, black and white PDF or RTF at:
www.audit-scotland.gov.uk



Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

ISBN 978 1 907916 61 8

Printed on Revive 100 Uncoated, a Forest Stewardship Council (FSC) certified recycled grade containing 100% post consumer waste and manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).



REPORT TO: Audit and Governance Committee

MEETING DATE: 18 September 2012

BY: Chief Executive

SUBJECT: Annual Work Programme

7

1 PURPOSE

- 1.1 This report provides the Committee with an opportunity to adopt an annual work programme.

2 RECOMMENDATIONS

- 2.1 Committee is requested to agree the annual work programme (Appendix 1) and provide guidance on additional reports the Committee would like to be included in the work programme.

3 BACKGROUND

- 3.1 The Audit and Governance Committee, 19th June 2012 agreed to establish an annual work programme.

- 3.2 The draft annual work programme (see Appendix 1) includes five categories/ columns reflecting the main areas of the Committee's remit:

- Internal Audit Reports
- External Audit Reports
- Audit Scotland reports
- Governance
- Risk.

- 3.3 The work programme will be updated for each meeting of the Committee to take account of notification of forthcoming reports from Internal Audit, External Auditors and Audit Scotland and reports called for by the Committee.

4 POLICY IMPLICATIONS

- 4.1 The identification of items of business for the Committee's Work programme will assist in developing a programme of work that will meet the Committee's remit.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none
6.2 Personnel – none
6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 Review of the Use of the Guide to Scrutiny and Review by the Audit and Governance Committee: Audit and Governance Committee, 19th June 2012

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Corporate Policy Manager
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	5 th September 2012

Appendix 1: Audit and Governance Committee Annual Work Plan

Date	Internal Audit Reports	External Audit Reports	Audit Scotland reports	Governance	Risk
18/9/12	Carbon Management Reduction Schools Audit Payment Card Industry Data Security Standard	External Auditors Year-end report	Local Government Overview Report Assurance and Improvement Plan Update How Councils Work: Using Cost Information National Fraud Initiative	Council Improvement Plan 2012/13 Controls Assurance Statement	
13/10/12	Residential Unit for Young People Travel and Subsistence Review of Statutory Performance Indicators		How Councils Work: Improving services through managing performance		Corporate Risk Register / Risk Strategy Update
22/1/13	Rent Deposit Guarantee Scheme Adult Social Care – Framework Purchase Cards		Approaches to reduce reoffending	Council Improvement Plan 2012/13 monitoring report	Service Risk Registers
19/3/13	Adult Social Care – Care at Home Housing Allocations Electronic Document and Records Management System	Presentation of Audit Strategy and Plan Interim report			Service Risk Registers

30/4/13	Income Collection Council Tax Payroll Leavers' Access Controls			Council Improvement Plan 2012/13 Final monitoring report Annual Governance Statement Council Improvement Plan 2013/14	Service Risk Registers
11/6/13	To be confirmed on adoption of 2013/14 Audit Plan		Assurance and Improvement Plan Update		Corporate Risk Register / Risk Strategy Update

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 September 2012

BY: Executive Director (Support Services)

SUBJECT: Audit Scotland Report – The National Fraud Initiative in Scotland (May 2012)

8

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the Audit Scotland report on 'The National Fraud Initiative in Scotland' issued in May 2012.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the key messages contained in Audit Scotland's report, 'The National Fraud Initiative in Scotland'.

3 BACKGROUND

- 3.1 The National Fraud Initiative (NFI) is a data matching exercise, which is led by Audit Scotland and runs every two years. The purpose of the exercise is to match electronic data, both within and between participating bodies. NFI seeks to help participating bodies identify cases of fraud and detect and correct any over or under payments. The data for NFI in Scotland is processed by the Audit Commission on behalf of Audit Scotland.
- 3.2 The Audit Scotland report outlines the key messages and outcomes from the 2010/11 NFI exercise. In 2010/11, 81 bodies took part from local government, health and central government sectors and the total outcomes from the 2010/11 NFI exercise amounted to £19.8 million – of this £14.1 million were identified as a direct result of the NFI investigations. The most successful matches in terms of financial outcomes accounting for 94 per cent of the total are:

- Pensioners, 50%

- Housing Benefits, 28%
 - Transport, 16%
- 3.3 For the 2010/11 NFI exercise, East Lothian Council investigated data matches identified in a number of reports – reports reviewed included payroll to UK visas, payroll to payroll, payments to private residential care homes to DWP/DDRI deceased records and housing benefit claimants to pensions.
- 3.4 The Audit Scotland report concluded that 85 per cent of participating bodies had managed their role satisfactorily. However, concerns were highlighted in the following 5 areas:
- No internal audit monitoring of the NFI approach and outcomes to ensure identified weaknesses are addressed.
 - Fraud and error policies and strategy did not integrate NFI arrangements.
 - Bodies are slow to follow up matches.
 - Reporting NFI progress and outcomes to senior management and board/members is limited.
 - Self-appraisal checklist was not used to improve arrangements.

In an East Lothian context, Internal Audit has played a role in each NFI exercise undertaken to date. This involvement will increase for the 2012/13 exercise with Internal Audit taking a lead role.

- 3.5 The data collection for the 2012/13 exercise will be undertaken in October 2012 and the matches should be available early in 2013. The results of the data matching exercise for 2012/13 will be reported to the Audit and Governance Committee as part of the audit plan for 2013/14.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial - None
- 6.2 Personnel - None
- 6.3 Other - None

7 BACKGROUND PAPERS

- 7.1 Internal Audit Report – National Fraud Initiative, Audit and Governance Committee 13 March 2012.

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	7 September 2012

The National Fraud Initiative in Scotland



Prepared by Audit Scotland
May 2012

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

Contents

Summary

Page 2

Key messages

Page 3

Part 1. Impact and outcomes

Page 5

Key messages

Outcomes

Page 6

Benefit outcomes

Page 7

Pension outcomes

Page 9

Blue badges outcomes

Other matches

Page 10

What bodies actually save or recover because of the NFI

Page 11

What does the level of outcomes tell us?

Page 12

Part 2. Helping to improve, holding to account

Page 13

Key messages

Overall findings

Areas that need improvement

Page 14

Part 3. Future of the National Fraud Initiative

Page 16

Key messages

Page 17

Appendix 1. Governance arrangements

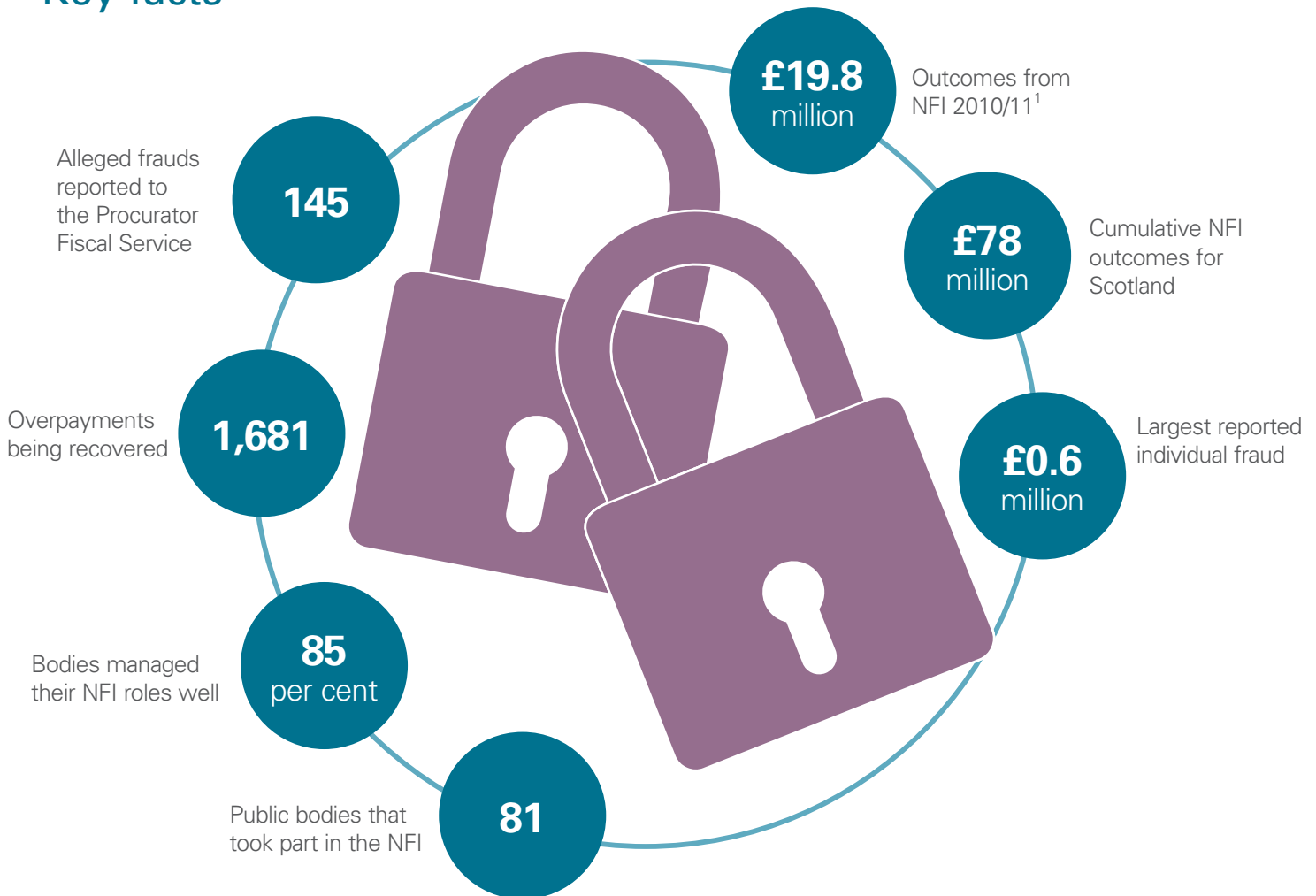
Page 18

Appendix 2. Self-appraisal checklist

Page 20

Summary

Key facts



¹ For national reporting purposes outcomes are collated as at 31 March 2012. Outcomes recorded by participants after this date are included in subsequent reports. Outcomes figures referred to cover detected fraud, overpayments and recoveries and includes those already delivered as well as ones that have been estimated where this is appropriate.

The NFI is an important regular check on the robustness of public sector arrangements for identifying and taking action to stop, reduce and recover fraud and error.

Key messages

- Audit Scotland, working closely with public bodies, external auditors and the Audit Commission, has completed another major counter-fraud exercise.
- The National Fraud Initiative (NFI) exercises make a significant contribution to the security of public sector finances by confirming that services are provided to the correct people and by eliminating fraud and error.
- Eighty-one bodies took part being the largest and most diverse group since the NFI began.

1. Public bodies spend billions of pounds of taxpayers’ money on the Scottish population providing services and financial assistance to those that need them the most. These systems are complex and errors can happen. Unfortunately, there are also some individuals who seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.

2. The recent Annual Fraud Indicator published by the National Fraud Authority has put the loss to the UK economy from fraud at £73 billion.² Of this total some £6.3 billion³ has been attributed to fraud within central government, the NHS, local government, and the benefits and tax credits systems.

3. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise (NFI 2010/11) started in October 2010 and is now nearing completion.

4. The success of the NFI comes primarily from the public servants who:

- investigate the NFI data matches
- identify and stop frauds and errors
- recover overpayments
- hold fraudsters accountable
- improve their systems.

5. The role of external auditors in the NFI is vital. They review and conclude on the effectiveness of local arrangements in terms of how well the NFI is integrated into counter-

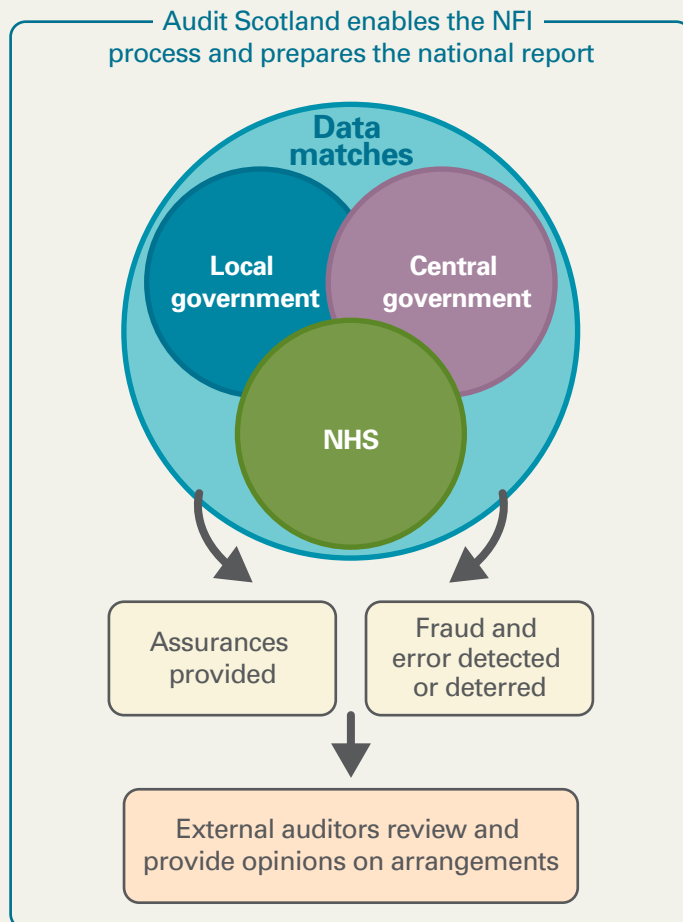
fraud polices. They also provide assurance on the progress being made on NFI investigations. Auditor conclusions provide the evidence for Part 2 of this report.

6. Exhibit 1 summarises the relationships and responsibilities within the NFI in Scotland.

7. The NFI in Scotland is now well established and has been operating for over a decade since it was first piloted. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention

Exhibit 1

Relationships and responsibilities within the NFI in Scotland



Source: Audit Scotland

² Annual Fraud Indicator, National Fraud Authority, March 2012.
³ Ibid.

scheme that can provide data matches within and between public bodies. Its key features are that it:

- acts as a deterrent to potential fraudsters
- identifies errors and fraud enabling appropriate action to recover money and/or press criminal charges
- can provide assurances, similar to a regular health check, that all is well and can also identify where improvements are required
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high-priority matches.

8. In NFI 2010/11, 81 bodies took part from local government, health and central government sectors. This number represents the largest and most diverse set of participating bodies since the NFI started. Audit Scotland also includes data about its own employees and those of audit

firms carrying out external audit work for the Auditor General for Scotland and the Accounts Commission.

9. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

10. Exhibit 2 provides some examples of the types of data set matches undertaken.

11. In addition to the main NFI matching exercise, a separate exercise has been undertaken to match electoral registers against those households where council tax single person discounts are being claimed. The matches took place in October 2011 and the results were provided to councils in February 2012 to investigate. Across the UK, Angus

and Perth and Kinross Councils were the only ones that decided not to participate due to their interpretation of data protection and electoral legislation. The NFI is one of the ways which councils can address fraud and error in this area. A number of councils also employ credit reference agencies to match single person details against a wider range of data sets such as credit and utility records.

12. Audit Scotland carries out the NFI process under powers in the Criminal Justice and Licensing (Scotland) Act 2010. It is important for all concerned that this exercise is properly controlled and data handled in accordance with the law. The governance arrangements for the NFI are summarised in Appendix 1.

13. The NFI is important in the context of the current economic climate and fiscal projections for future public sector expenditure. NFI exercises make a significant contribution to the security of public sector finances by ensuring that services and benefits are provided only to the correct people and by identifying and eliminating fraud and error.

Exhibit 2

Examples of the types of data set matches undertaken

Type of data match	Potential fraud or error
Housing benefit claimants to Employees and public sector occupational pensions	Employees or occupational pensioners may claim benefit without declaring their income or by under-declaring the amounts.
Employees to Employees	An employee may be on long-term sick leave while working at another body.
Public sector pensions to Deceased persons records	A pensioner's death may not have been reported to the pension authority. The pension continues to be paid to a bank account or may be collected by a relative.
Blue badges to Deceased persons records	The permit holder's death may not have been reported to the council. The permit may continue to be used fraudulently or be sold for improper use.
Employees to Failed asylum seekers or expired visas	It is unlawful for any body to employ persons who are not entitled to reside or work in the UK.

Part 1. Impact and outcomes



Cumulative NFI outcomes are now at £78 million for Scotland and represent a significant return to Scotland's public finances.

Key messages

- Outcomes from NFI 2010/11 are £19.8 million.
- £14.1 million have been identified directly from NFI 2010/11 investigations.
- £5.7 million are further savings from NFI 2008/09.
- £3.1 million overpayments are being recovered.
- Cumulative NFI outcomes are now at £78 million for Scotland and represent a significant return to Scotland's public finances.
- Across the UK, £939 million NFI outcomes have now been recorded.

Outcomes

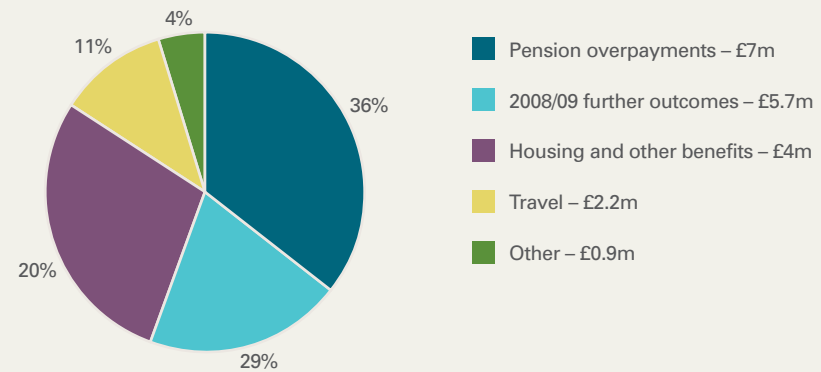
14. All outcomes start from when a match is made between two sets of data. However, a match does not automatically mean that there is a fraud and investigations are required to enable the correct conclusion to be drawn for each match.

15. The data supplied by participating bodies for NFI 2010/11 returned 287,559 matches. Of these, 33,846 were identified as recommended matches, being matches with a higher risk of fraud or error. It is up to individual bodies to determine which matches and the number of matches to investigate.

16. Since we last reported on the NFI in May 2010, outcomes valued at £19.8 million have been recorded. Cumulative outcomes from the NFI in Scotland are now at £78 million and represent a significant return to the public finances of Scotland.

Exhibit 3

Detail of key outcome areas recorded by bodies as at 31 March 2012



Source: Audit Commission NFI secure web application

17. The 2010/11 outcomes are split:

- £14.1 million of NFI 2010/11 matches.
- £5.7 million of outcomes from further follow-up work on NFI 2008/09 matches.

18. Exhibit 3 provides more detail of key outcome areas recorded by bodies as at 31 March 2012.

19. Investigations from NFI 2010/11 are ongoing. The evidence from previous exercises is that between reports significant outcomes continue to be delivered. The last two NFI reports showed that:

- 30 per cent of 2008/09 outcomes arose after NFI March 2010
- 45 per cent of 2006/07 outcomes arose after NFI March 2008 .

20. If this pattern is continued, we could expect to see further outcomes in the region of £4 to £6 million from NFI 2010/11. Further, the electoral register to council tax single person discounts matches were only released in February 2012. The

2008/09 exercise, which included 16 councils whereas 30 are taking part in the 2010/11 exercise, resulted in 4,322 discounts being cancelled at a value of £1.4 million.

21. Importantly, once overpayments have been identified recovery action can be taken. As at 31 March 2012, there was recovery action being taken in 82 per cent of cases which had an overpayment.

22. The NFI is more than the value of the financial outcomes recorded. Exhibit 4 sets out the main results from the 2010/11 matches.

23. What cannot be measured directly is the value of the deterrent effect that the planned biennial NFI data matching has on potential fraudsters. Its significance should not be overlooked and is a key benefit to the Scottish public and taxpayers.

24. No obvious national trend can be assumed from the results of the last four NFI exercises because of changes in the scope of the exercise and in the approach by bodies to tackling fraud and error.

25. The most successful matches in terms of financial outcomes accounting for 94 per cent of the total, are:

- pensioners, 50 per cent
- housing benefits, 28 per cent
- transport, 16 per cent.

26. It is worth noting that one of the more unusual matches the NFI undertakes – housing benefits to personal alcohol licences – has led to one of the largest potential multiple frauds that the NFI has ever detected in Scotland (see Case study 1).

27. This investigation illustrates clearly that where a fraud has been perpetrated by a person this can lead to the identification of further frauds and crimes. Determination and commitment are required on the part of the investigators to deliver successful outcomes such as in this case.

Benefit outcomes

28. The NFI provides councils with the opportunity to identify a wide range of benefit frauds and errors. The most common are caused by undeclared occupational pensions and undeclared earnings from public sector employment.

29. Where other benefits such as income support and Jobseeker's Allowance are also in payment, councils liaise with the Department for Work and Pensions and joint investigations may be carried out. The amounts in this report include these other benefits, where relevant.

Exhibit 4

Main results from the 2010/11 matches



Source: Audit Commission NFI secure web application

Case study 1

As a result of NFI data received an investigation was undertaken in respect of the benefit claimant. The investigation established that the claimant:

- was a personal licence holder and named premises manager, on the premises licence, in respect of a local public house
- was claiming incapacity benefit on the basis of being unfit for work
- had a spouse who was also a personal licence holder and had used the claimant's address on licence applications and had previously claimed housing benefits. This was potentially fraudulent as they failed to declare both their relationship to their landlord and that they had paid the deposit and legal fees for the property while also running another public house.

As a result of the investigation, the claimant and spouse were reported to the Procurator Fiscal Service with six potential benefit frauds totalling £50,804.

Following legal advice a further charge relating to the potential fraudulent use of the premises licence was also reported to the Procurator Fiscal Service estimated at £536,995. Charges have also been instigated regarding any proceeds of crime.

Source: Local authority

30. Exhibit 5 summarises the benefit outcomes from all NFI exercises to date.

31. This would indicate that there has been a decline in benefits outcomes in the last exercise. The possible reasons are:

- previous NFI exercises have likely detected the most significant and longest-running frauds and errors
- the trend may demonstrate the exercise's impact in deterring fraud.
- the efforts of bodies to continuously improve their systems.

32. However, £2.7 million of the 2008/09 figure were recorded after the last NFI report in May 2010. If this trend is repeated then we would expect to see benefits outcomes at similar levels to the last exercise.

33. The continuing high levels of benefits outcomes, despite expected reductions, are best explained by the increased number of bodies participating in the NFI 2010/11 and the impact of the economic recession resulting in increased numbers of benefits claims.

34. By the end of March 2012, councils had identified benefits overpayments from their NFI 2010/11 matches relating to (2008/09 figures are in brackets):

- 997 (1,042) public sector pensioners
- 322 (331) local government employees
- 100 (74) persons working in the NHS in Scotland.

35. While no overpayments are desirable, Exhibit 6 puts these figures in the context of the populations involved and it does provide some overall assurance that these areas do not have high levels of fraud and error.

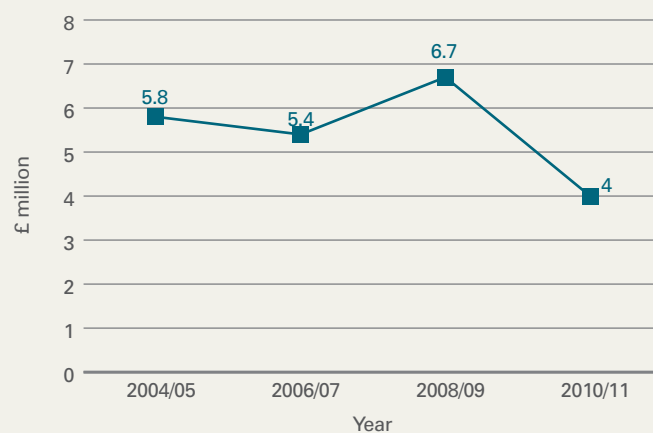
36. In terms of value, East Dunbartonshire and South Lanarkshire Councils have so far achieved the highest levels of outcomes from their NFI 2010/11 benefits investigations (£709,000 and £682,000 respectively). A further eight councils recorded benefits outcomes in excess of £100,000. Only Shetland Islands

Council and Comhairle nan Eilean Siar recorded no benefits outcomes.

37. Another measure of success is the yield in terms of benefits outcomes to total housing benefit expenditure. Exhibit 7 provides details of the top three councils in terms of yield ranking.

Exhibit 5

Housing and other benefits outcomes



Source: Audit Commission NFI secure web application

Exhibit 6

NFI benefits outcomes compared to source populations

Sector	Number	Overpayments identified
Public sector pensioners	300,000	997
Local government employees	283,491	322
NHS employees	154,424	100

Source: Audit Commission NFI secure web application, Scottish Government and Scottish Public Pensions Agency

Exhibit 7

Housing benefit yield by outcomes

Council	Total expenditure	2010/11 outcomes
East Dunbartonshire Council	£21,376,508	£708,895
South Lanarkshire Council	£109,638,063	£682,418
Falkirk Council	£46,725,600	£209,730

Source: DWP and Audit Commission NFI secure web application

38. Care must be taken when analysing these yield rankings as there are a number of factors that can influence movement. These factors are discussed later in this section. Generally councils need to consider whether finding significant outcomes indicate effective detection of fraud and error, or whether improvements to controls within systems could be made to reduce errors.

Pension outcomes

39. The NFI provides pensions administering councils and the Scottish Public Pensions Agency (SPPA) with an efficient and effective means of checking that payments are only being made to living persons. NFI 2010/11 helped these bodies identify 184 pensioners whose deaths had not been reported to them. Including other pension-related outcomes (for example, cases where early retirees have returned to work but not reported circumstances that require their pension to be reduced) and forward savings, the amounts for NFI 2010/11 total £7.1 million.

40. As in previous NFI exercises the majority of the outcomes in local government are in the:

- Strathclyde Pension Fund (SPF), administered by Glasgow City Council, which has a membership of 195,000 with outcomes of £1.5 million. SPF administers about 42 per cent of all the local government pensions in Scotland
- Lothian Pension Fund, administered by City of Edinburgh Council, which has 66,000 members with outcomes of £0.8 million.

41. The SPPA recorded outcomes of £4.4 million from its 2010/11 matches where 95 outcomes were identified. In 85 of these cases recovery is in progress. [Exhibit 8](#) summarises pension outcomes since the NFI started.

Exhibit 8

Pension outcomes



Source: Audit Commission NFI secure web application

Case study 2

The NFI matched housing benefit claim details against council payroll details. Following investigations of this match it transpired that a housing benefit claimant had failed to declare the fact that they had a partner living with them who was also working. Further investigations revealed that in fact both partners were employed by the council.

The overpayment value was £8,886 and the case was prosecuted by the procurator fiscal. After pleading guilty the claimant was sentenced to eight months' imprisonment and has resigned.

Source: Local authority

Case study 3

A man was sentenced to six months in jail in February 2012 for failing to disclose that he had received a lump sum payment from a pension fund totalling £27,000. Total overpayment of housing and council tax benefits and income support, obtained between October 2009 and March 2010, was £15,000. This fraud was discovered following an investigation of an NFI match.

Source: Local authority

42. The SPPA continues to work closely with the General Registers Office for Scotland⁴ following a successful exercise between the NFI 2006/07 and 2008/09. This significantly reduced the number of unknown deceased pensioners that remained to be detected from their NFI 2008/09 matches.

43. While the absence of notification of the death of a member still accounts for the majority of overpayments in the 2010/11 exercise, there has been an increase in the number that were due to members returning to work but not informing the SPPA that they had done so. The 2010/11 savings also capture legacy matches for reemployed

teachers that had not been included in previous NFI exercises.

“NFI was the catalyst, on the back of the experience of a previous exercise, for what has become a very successful relationship with General Registers Office for Scotland. SPPA reports that, with a view to further improving controls, they hope to engage with a data cleansing and mortality screening company, to improve processes further.”

External auditor SPPA

Blue badges outcomes

44. The ‘blue badge’ scheme allows individuals with mobility problems, and who may have difficulty using public transport, to park free at on-street parking meters and pay-and-display machines. Holders are also allowed to park in designated blue badge spaces and may also be permitted to park on single or double yellow lines in certain circumstances.

45. Badges are sometimes used or renewed improperly by people after the death of the badge holder. The use of a blue badge by an unauthorised person is an offence. Importantly, by using a blue badge to park without need the space is denied to people with real mobility issues. This is the true social cost of this type of fraud.

46. Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress but, by ‘flagging’ the relevant records, they can at least ensure that badges are not improperly renewed in the future. By sharing information with other departments councils can also recover valuable equipment and aids if they have not been informed of a person’s death.

47. Scottish councils have reported correcting 4,403 blue badge records where NFI helped them to identify that

Good practice 1

Perth and Kinross Council

In the 2008/09 exercise, over 1,000 badges were cancelled following NFI investigations. Only 242 were cancelled in the 2010/11 exercise. The council has now put in a process whereby the registration of a death in their area results in an immediate check into whether the deceased had a blue badge. If the registration check shows that a blue badge had been issued to the deceased then the system is updated and the blue badge is cancelled.

This demonstrates a good example of a positive outcome that can arise from NFI investigations but that do not result in large financial outcomes.

By reviewing the reasons for outcomes and taking action to strengthen systems, this council has taken steps to ensure that blue badge parking is available only to eligible people in its area.

Source: Perth and Kinross Council

the holder was deceased. Edinburgh and West Lothian Councils collectively corrected over 1,800 records.

48. The Audit Commission first identified the problem of blue badge fraud in a report published in September 2009 and also in their subsequent annual *Protecting the Public Purse* reports. They identified how criminals forge blue badges or steal genuine ones from cars, and how a blue badge can be sold on the black market for as much as £500.

49. On 1 January 2012, the new Blue Badge Improvement Scheme (BBIS) procured by the Department of Transport as part of the Blue Badge Reform Programme was made available to local authorities. The BBIS, which is being phased in over the next three years, is designed to help to prevent fraud and enable more effective monitoring of cancelled, lost or stolen badges.

50. These new arrangements are welcomed and the NFI will continue to undertake the deceased data matching to assist in identifying potential abuse of the badge scheme.

Other matches

Payroll

51. The NFI matches data to identify cases of potential payroll fraud. But investigations can also lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Apart from other consequences, excessive working hours may pose public safety risks.

52. The NFI also matches payroll data to UK Border Agency information about failed asylum seekers and expired and granted visas where there is no entitlement to work in the UK. It is unlawful to employ anyone who is not entitled to reside or work in the UK and NFI provides bodies with a means of supplementing their recruitment checks.

53. As a result of NFI 2010/11 matches, ten public sector employees in Scotland have so far been dismissed or resigned after bodies confirmed that they did not have permission to reside or work in the UK.

54. A key data match is between authorities to ensure that staff are not being paid twice or are continued to be paid after they have left one organisation. **Case study 5** represents, by value, one of the most significant payroll irregularities since we made these matches available in 2004/05.

Student matches

55. Information about full-time students was initially used by the NFI to help councils check for invalid awards of housing benefit. Except in limited circumstances, full-time students are not entitled to housing benefit. Over the last three exercises, NFI matches have helped councils identify hundreds of cases where housing benefit was being paid improperly to students.

56. Since NFI 2006/07, the Student Awards Agency for Scotland (SAAS) has been provided with its own matches, identifying cases where students may be failed asylum seekers or may not hold valid permissions to reside or study in the UK.

57. The SAAS has recorded 16 cases of students that were found, after investigating NFI matches with the UK Border Agency, not to be entitled to receive support. This was because either these individuals were not entitled to be in the UK or they had lied about their personal circumstances. These students had received student support amounting to £180,113.

Payments to private residential care homes

58. The NFI matches information about private residential care home payments to data about deceased persons. This can identify where payments may be continuing for people who have died.

59. The NFI helped councils identify 39 cases from these data matches and overpayments worth £29,206. All of these overpayments are being recovered.

Case study 4

Investigations into an NFI match between payroll and expired UK visas identified that an employee had no right to work in the UK but was still being paid. This was confirmed with the UK Border Agency. The employee was dismissed and an overpayment of £1,847.29 identified for recovery.

Source: Local authority

Case study 5 – update

We reported in the NFI 2008/09 report about a significant match involving a salaried professional who had been paid by two councils at the same time after they had left one council to work in another for over two years. The total net cost to the council which the employee left has since calculated to be £99,907.

A substantial portion of the overpayment has now been repaid. Importantly, revised procedures have been put in place in the council to prevent this from happening again.

Source: Local authority

Case study 6

An NFI match between student loans and UK visas identified that £28,531 of financial support was obtained by a student after they had provided counterfeit documentation. The UK Border Agency is also pursuing this person.

Source: Student Awards Agency for Scotland

What bodies actually save or recover because of the NFI

60. The estimated value of the NFI to the public purse since we last reported in May 2010 is £19.8 million. However, some of this represents overpayments that will never be recovered and estimated values that have been attached, for example, to cancelling a blue badge. These amounts may not translate into cash savings, but they are valuable outcomes nonetheless.

61. During 2009, we canvassed bodies and established from those that responded that NFI overpayments are usually subject to the same recovery processes that apply to other debt. Most bodies do

not keep separate records of NFI recoveries. Indeed, Audit Scotland would prefer that bodies devoted their resources to investigation work, rather than require them to record NFI amounts that are often recovered by frequent small payments over long periods of time.

62. Historically, the average level of housing benefit overpayment recoveries in Scottish councils is around 31 per cent. Assuming, very conservatively, that this is typical of all NFI recoveries, and if we add the estimated forward savings from areas such as benefits and pensions, we can reasonably estimate that the actual cash savings or recoveries for the public purse are at least half of the total outcomes of £19.8 million.

What does the level of outcomes tell us?

63. The NFI impacts on a number of levels and across a number of bodies. These levels can be summarised as shown in [Exhibit 9](#).

64. A key benefit of the NFI is the fact that by identifying fraud and error the opportunity is provided to bodies to establish why they occurred and then improve their systems. This can be done by:

- simplifying system processes
- reviewing and strengthening the internal controls that failed to stop or capture errors or fraud.

65. While it would be difficult to eliminate all errors and prevent all frauds the NFI can provide the focus for such reviews to take place. [Exhibit 10](#) summarises the circumstances where fraud and error are most likely to be found.

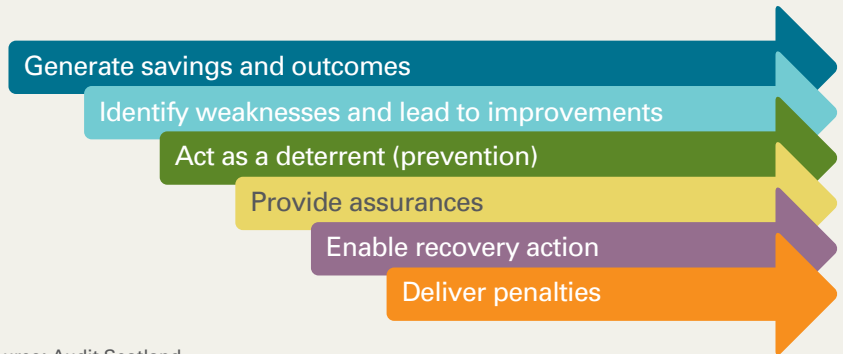
66. System complexity can result in errors made by either the individual wishing to obtain a service or by the public servant processing the data. Where an individual knowingly exploits systems and controls by providing incorrect information then this is fraud. Both fraud and error can be reduced by public bodies establishing sound systems of internal controls.

67. Audit Scotland does not take a view on whether high levels of NFI outcomes are a good result or not. High levels of outcomes could be due to increased fraud and error in the system or to poor internal controls in operation.

68. An important feature of the NFI is the deterrent effect created by the NFI exercise taking place and the communication of this to those whose data is included.

Exhibit 9

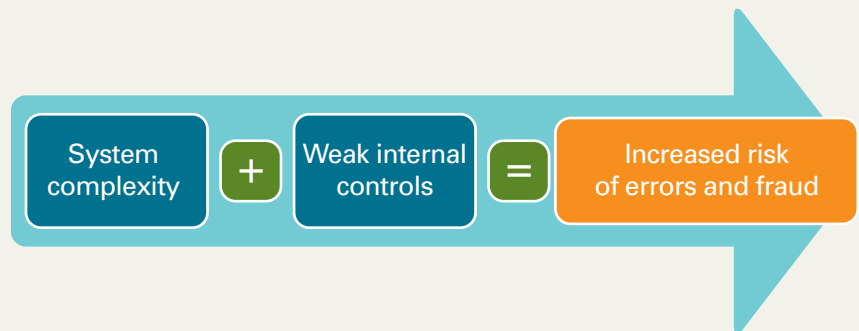
The NFI impacts on a number of levels and across a number of bodies



Source: Audit Scotland

Exhibit 10

Circumstances that increase the risk of error and fraud



Source: Audit Scotland

69. Equally important is the assurance given to those bodies with few matches that in the areas covered by the NFI there does not appear to be significant problems. This work can provide assurances to the Accountable Officers about the effectiveness of their control arrangements, and therefore strengthen the evidence for the Annual Governance Statements.

Part 2. Helping to improve, holding to account



External auditors concluded that 85 per cent of participating bodies managed their roles in the NFI 2010/11 exercise satisfactorily.

Key messages

- 85 per cent of participating bodies managed their roles in the NFI 2010/11 exercise satisfactorily.
- 31 per cent of bodies need to follow up their matches more promptly.
- A third of bodies need to integrate the NFI into their corporate policies and strategies for preventing and detecting fraud and error.
- Five bodies were considered not to have deployed sufficient resources on managing the NFI.
- Eight bodies did not use the NFI self-appraisal checklist.

Overall findings

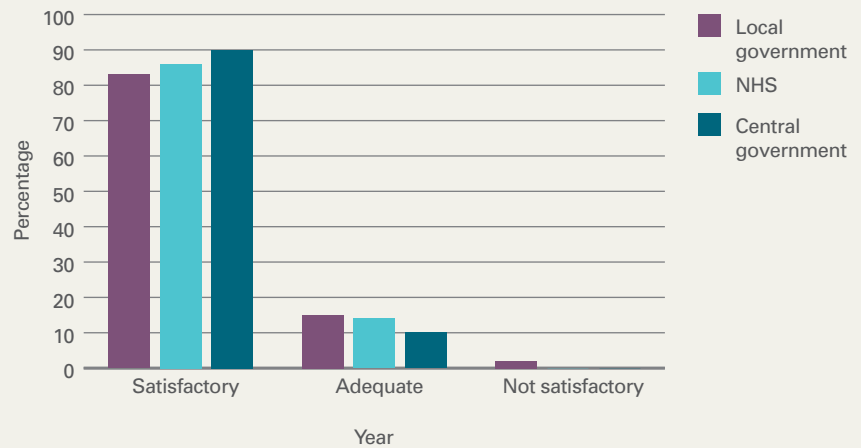
70. External auditors concluded that the 85 per cent of participating bodies had managed their role in the NFI 2010/11 exercise satisfactorily. However, a few showed scope for significant improvement.

[Appendix 2](#) includes a checklist that we encourage all bodies to use to self-appraise their involvement in the NFI prior to NFI 2012/13.

71. Auditors also provided up-to-date information about each body's NFI performance and progress at the end of February 2012. In reaching their conclusions, auditors do not attach significant weight to the value of NFI outcomes achieved by bodies ([Exhibit 11](#)).

72. While 85 per cent is slightly down on the 2008/09 exercise ratings, it continues to indicate a high degree of commitment to the NFI. Local auditors are providing strong assurance that all sectors are taking the NFI seriously by putting adequate arrangements in place. Central government bodies have slightly

Exhibit 11
External auditor review of NFI arrangements



Source: External auditors

better arrangements in comparison with NHS and local government sectors.

73. Local government has the largest number of matches across the range of data sets. It is not entirely unexpected, therefore, that they have been identified as having more scope to improve.

74. Almost all of the officers directly involved in preparing for the NFI and following up matches demonstrate commitment, while 90 per cent of the officers nominated to coordinate the exercise were considered suitable for the role.

75. Other key aspects of auditor reviews:

- 91 per cent of bodies submitted their data on time.
- 88 per cent of bodies gave priority to following up recommended matches.
- Five bodies were considered not to have deployed sufficient or appropriate resources on managing the NFI exercise.

Areas that need improvement

76. [Exhibit 12](#) summarises the key areas where local auditors indicated that there was room for improvement.

77. While a number of bodies could improve aspects of their approach to the NFI, Comhairle nan Eilean Siar is the only body where auditors rated their NFI arrangements as not satisfactory overall and that require improvement as a matter of priority. Disappointingly this is the same rating auditors gave the council two years ago.

78. We are pleased to report that auditors have identified improvements by the following bodies to NFI arrangements since the 2008/09 report:

- Argyll and Bute Council
- East Renfrewshire Council
- Moray Council
- Orkney Council
- Shetland Island Council
- Stirling Council.

79. Auditors confirmed that appropriate arrangements had been made for issuing fair processing notices to those individuals whose data is submitted for the exercise.

80. Auditors reported that nine per cent of bodies submitted data for NFI 2010/11 after the specified processing deadline. This creates a need for another processing run at a future date, and thereby increases unnecessarily the cost of processing data. These bodies fell several months behind the other participants while waiting for their matches, as well as causing other bodies to receive further matches.

81. Twenty-one per cent of bodies did not record their outcomes fully on the NFI secure web application. Many could also improve the way they record their investigations and conclusions on the NFI application. Audit Scotland will work with colleagues in the Audit Commission to improve the clarity of recording requirements. However, the likely effect is that the value of the outcomes referred to in this report is understated in some areas.

Exhibit 12

Areas of concern

Areas of concern	Percentage of bodies needing to improve
There is no internal audit monitoring of NFI approach and outcomes to ensure identified weaknesses are addressed	41
Fraud and error polices and strategy did not integrate NFI arrangements	33
Bodies are slow to follow up matches	31
Reporting NFI progress and outcomes to senior management and board/members is limited	15
Self-appraisal checklist was not used to improve arrangements	10

Source: External auditors

Part 3. Future of the National Fraud Initiative



The NFI 2012/13 exercise is due to commence in June 2012.

Key messages

- The NFI will continue and is seen as a key tool in the prevention of fraud and error in the public sector.
- The NFI 2012/13 exercise is due to commence in June 2012.
- The next exercise will look to expand the range of bodies and data sets.
- The NFI is developing real-time data matching aimed at fraud prevention.

82. The Scottish Government (SG) has recently updated its counter-fraud strategy⁵ including its zero tolerance approach to fraud. This strategy has five strategic objectives:

- **Awareness:** SG will prevent fraud by raising awareness of fraud and its safeguards among public organisations in Scotland, our partner organisations in the private and voluntary sectors and our stakeholders.
- **Prevention:** SG will prevent fraud through improving our systems and controls to support our business and public services.
- **Teamwork:** SG will prevent fraud by removing silos and working together across organisations and the public sector to share information and develop combined approaches to countering fraud.
- **Investigation:** SG will handle fraud by being proactive in analysing data to identify areas at risk of fraud, by being effective and professional in our investigations of specific cases and by maintaining a robust whistle-blowing procedure.

- **Enforcement:** SG will handle fraud by continuing to be tough on fraudsters by punishing them more efficiently and effectively.

83. The NFI has a clear contribution to make in assisting the Scottish Government deliver these objectives. This strategy identifies data matching as a key component in delivering these aims and also recognises the efficiencies that can be delivered.

84. There are ongoing discussions about which organisation is best placed to enable the NFI to be most effectively delivered once the Audit Commission is wound up. There is every indication from government that it will continue and be expanded in the future.

85. The overall aims of the NFI are to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation
- contributing effectively to the fight against fraud.

86. To meet these aims the NFI 2012/13, which will be launched in June 2012, will involve work under three broad themes:

- Continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks.
- Putting more emphasis on fraud prevention through the development of real-time data-matching services.
- Extending data matching for fraud purposes to a broader range of organisations and sectors.

87. Audit Scotland looks forward to the next NFI exercise and continuing to work with the Audit Commission and participating bodies to successfully deliver these aims.

Appendix 1.

Governance arrangements

Background

The following summarises the key legislation and controls governing NFI data matching.

Legislation

The NFI 2010/11 exercise was carried out under new powers given to Audit Scotland for data matching included in the Criminal Justice and Licensing (Scotland) Act 2010 passed by the Scottish Parliament. Under the new legislation:

- Audit Scotland may carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders (referred to hereafter as the 'permitted purposes')
- Audit Scotland may require specified persons to provide data for data matching exercises. These include all the bodies to which the Auditor General for Scotland (AGS) or the Accounts Commission appoints auditors, licensing boards, and officers, office holders and members of these bodies or boards
- other persons or bodies may participate in Audit Scotland's data matching exercises on a voluntary basis. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to Audit Scotland
- the requirements of the Data Protection Act 1998 continue to apply
- Audit Scotland may disclose the results of data matching exercises where this assists the purpose of the matching, including disclosure to bodies that have provided the data and to the auditors appointed by the Auditor General for Scotland and the Accounts Commission
- Audit Scotland may disclose both data provided for data matching and the results of data matching to the AGS, the Accounts Commission, the Audit Commission, or any of the other UK public sector audit agencies specified in Section 26D of the Public Finance and Accountability (Scotland) Act 2000, for the purposes described above
- wrongful disclosure of data obtained for the purposes of data matching by any person is a criminal offence
- Audit Scotland must prepare and publish a Code of Practice with respect to data matching exercises. All bodies conducting or participating in its data matching exercises, including Audit Scotland itself, must have regard to this Code
- Audit Scotland may report publicly on its data matching activities.

Code of Data Matching Practice

The Criminal Justice and Licensing (Scotland) Act 2010 Act includes important data protection safeguards such as a requirement for Audit Scotland to prepare a Code of Data Matching Practice, and to consult with the UK Information Commissioner and others before publication. Our Code was updated in November 2010 to reflect the new legislation and to ensure that NFI exercises continue to comply with data protection requirements and best practice in notifying individuals about the use of their information for NFI purposes. The code can be found on the Audit Scotland website.

Training

Audit Scotland provided guidance and held NFI training events for Scottish participating bodies and their auditors, in conjunction with colleagues in the Audit Commission.

NFI web application

Bodies access the application via the internet using password access and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Audit Commission regularly reviews the application and implements developments to improve its functionality, ease of use, and security.

Security review and accreditation

In 2009, the whole of the Audit Commission's NFI system was subjected to a stringent security review. This covered infrastructure, information storage, handling and processing when under the control of the Audit Commission's data processing contractor and the NFI team. The review was undertaken by a CLAS consultant from Hewlett Packard who confirmed compliance with government information standards.

This accreditation involved demonstrating to key government departments that the NFI is suitably secured and that information risks are managed to government standards. The National Computing Centre also undertook independent penetration testing of the NFI systems and concluded that the NFI was '...well implemented and robust from a security perspective'.

As well as regular internal reviews by the Audit Commission, the other UK audit agencies (ie, Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office and the National Audit Office) now also share a programme of independent audits of the different aspects of NFI data security. The Information Commissioner's Office has also conducted an NFI data security audit at the invitation of the Audit Commission.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.

Appendix 2.

Self-appraisal checklist

	Yes/no/ partly	Is action required?	Who by and when?
Leadership and commitment			
1. Are we committed to the NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?			
2. Do officers directly involved in preparing for the NFI and following up matches demonstrate commitment?			
3. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that the NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?			
4. Is our NFI key contact (KC) the appropriate officer for that role and do they oversee the exercise properly?			
5. Do KC's have the time to devote to the exercise and sufficient authority to seek action across the organisation?			
6. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?			
Planning			
7. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available?			
8. Do we confirm promptly (using the on-line facility on the secure website) that we have met the fair processing notice requirements?			
9. Do we plan properly to provide all NFI data on time using the secure data file upload facility?			
10. Do we adequately consider the submission of any 'risk-based' datasets in conjunction with our auditors?			
Effective follow-up of matches			
11. Do all departments involved in the NFI follow-up of matches promptly after they become available?			
12. Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?			
13. Do we recognise that the NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of the NFI and are we ensuring that all types of matches are followed up?			

	Yes/no/ partly	Is action required?	Who by and when?
14. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?			
15. In health bodies are we drawing appropriately on the help and expertise available from NHS Scotland Counter-fraud Services?			
16. Do all departments follow up their NFI matches on a reasonable timescale?			
17. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)?			
18. Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?			
19. Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?			
20. Overall, are we deploying appropriate resources on managing the NFI exercise?			
Recording and reporting			
21. Are we recording outcomes properly in the secure website and keeping it up to date?			
22. Do staff use the online training modules in the secure website and do they consult the NFI team if they are unsure about how to record outcomes?			
23. If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes?			
24. Do we review how frauds and errors arose and use this information to improve our controls?			
25. Does internal audit, or equivalent, monitor approach to the NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?			
26. Are NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?			
27. Do we publish internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?			

The National Fraud Initiative in Scotland

If you require this publication in an alternative format and/or language, please contact us to discuss your needs.

You can also download this document in PDF, black and white PDF or RTF at:
www.audit-scotland.gov.uk



Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

ISBN 978 1 907916 62 5

Printed on Revive 100 Uncoated, a Forest Stewardship Council (FSC) certified recycled grade containing 100% post consumer waste and manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).



REPORT TO: Audit and Governance Committee
MEETING DATE: 18 September 2012
BY: Executive Director (Support Services)
SUBJECT: Internal Audit Report – Prestonpans Infant School

9

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Prestonpans Infant School.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Prestonpans Infant School.

3 BACKGROUND

- 3.1 A review of Prestonpans Infant School was undertaken as part of the audit plan for 2012/13.
- 3.2 The objective of the audit was to ensure that the internal controls in place at Prestonpans Infant School were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	7 September 2012

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PRESTONPANS INFANT SCHOOL**

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls operating at Prestonpans Infant School was carried out as part of the Audit Plan for 2012/13. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place for the collection and banking of income received.
- All purchase card transactions are supported by adequate documentation.
- The systems in place for the checking and receipting of purchase invoices are considered satisfactory.
- Appropriate procedures are in place for ordering goods through the Pecos system.

1.3 Areas with Scope for Improvement

- There was a failure to ensure that the School Fund accounts were prepared and independently audited on an annual basis – key financial documentation for 2010/11 had not been retained including receipts, pay-in books and copy purchase orders. *Risk – errors and irregularities may occur and remain undetected.*
- The security arrangements in place require review – access to the safe keys was not restricted to authorised staff. *Risk – failure to ensure that cash is held securely.*
- There was a lack of checking procedures in place for purchase card transactions – in some cases cardholders were not reviewing their monthly transactions to confirm that purchases made were legitimate. *Risk – inappropriate purchases may be made.*
- The existing arrangements in place for the use of manual purchase orders require review. *Risk – inappropriate purchases may be made.*

1.4 Summary

Our review of Prestonpans Infant School has identified a number of areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

**Mala Garden
Internal Audit Manager**

September 2012

ACTION PLAN

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	The School should contact the bank and request a copy of the closing bank statement to evidence that the petty cash account has been closed and that all funds have been properly transferred.	Head Teacher	Agreed		October 2012
3.3.1	Management should ensure that all decisions in respect of the School Fund are properly documented and retained by the School.	Head Teacher	Agreed		In Place
3.3.2	The School Fund accounts should be prepared and independently audited on an annual basis. Copies of the audited School Fund accounts should be forwarded to the Council's Financial Services Section.	Head Teacher	Agreed		October 2012
3.3.3	The School Fund bank account, which is no longer in use, should be closed and a copy of the closing bank statement forwarded to the Council's Financial Services Section.	Head Teacher	Agreed		October 2012

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	All transactions on the cashbook summary sheet should be cross referenced to the entries recorded on the individual School Fund analysis sheets.	Head Teacher	Agreed		October 2012
3.5.4	Management should ensure that receipts issued by the security company for the bank bags uplifted are checked and countersigned by a member of staff from the school. Access to the safe keys should be restricted to authorised staff only.	Head Teacher	Agreed		In Place
3.6.2	A clear audit trail should be maintained for purchase order forms – a copy of all purchase orders should be retained in the purchase order file including cancelled or spoilt orders.	Head Teacher	Agreed		In Place
3.6.3	The school commitment system should be updated to reflect all purchase orders raised.	Head Teacher	Agreed		In Place
3.8.2	All cardholders should view and update their own monthly transactions to confirm that purchases made are valid and legitimate.	Head Teacher	Agreed		October 2012

REPORT TO: Audit and Governance Committee
MEETING DATE: 18 September 2012
BY: Executive Director (Support Services)
SUBJECT: Internal Audit Report – Payment Card Industry Data Security Standard

10

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Payment Card Industry Data Security Standard (PCI DSS).

2 RECOMMENDATIONS

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for the PCI DSS.

3 BACKGROUND

- 3.1 A review of the PCI DSS was undertaken as part of the audit plan for 2012/13.
- 3.2 The main objective of our review was to ensure that the Council has appropriate arrangements in place for compliance with the PCI DSS.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial - None
6.2 Personnel - None
6.3 Other - None

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	7 September 2012

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PAYMENT CARD INDUSTRY DATA SECURITY STANDARD**

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2012/13, Internal Audit reviewed the arrangements in place across the Council to ensure compliance with the Payment Card Industry Data Security Standard (PCI DSS).

1.2 Areas where Expected Controls were Met

- The payment processing function for card payments is undertaken by suppliers who are PCI DSS compliant, reducing the risks to the Council associated with certain PCI DSS requirements.

1.3 Areas with Scope for Improvement

- There was a lack of clear ownership and responsibility for ensuring that the Council meets the requirements of the PCI DSS. *Risk – non-compliance leading to fines, penalties, increased transactional costs and an inability to process card payments.*
- At present the complete card payment environment, including all processes that involve PCI related data, has not been clearly identified and documented. *Risk – failure to identify all key aspects of the storage, processing and transmitting of payment card data.*
- A consistent approach was not adopted across the Council for the processing of cardholder data – different systems and suppliers are currently used throughout the Council for accepting card payments. *Risk – increased vulnerability of the card payment environment.*
- The storage, retention and destruction of cardholder data require review. *Risk – non-compliance with PCI DSS requirements.*
- No arrangements are currently in place to validate compliance with PCI DSS requirements – an annual self assessment questionnaire has not been completed and quarterly scans have not been programmed. *Risk – failure to identify control deficiencies.*
- There was a lack of procedures and training in place for staff dealing with card payments. *Risk – breaches in data security may occur.*

1.4 Summary

Our review of the Payment Card Industry Data Security Standard identified a number of areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

**Mala Garden
Internal Audit Manager**

September 2012

ACTION PLAN

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Ownership and responsibility for ensuring that the Council meets the compliance requirements of the Payment Card Industry Data Security Standard should be clearly identified – a Senior Officer should be assigned responsibility for this area.	Executive Director (Support Services)	Agreed – A senior officer will be assigned responsibility for this area.		September 2012
3.2.1	Detailed corporate procedures should be drawn up to ensure that all staff dealing with card payments comply with the Payment Card Industry Data Security Standard.	Executive Director (Support Services)	Agreed		March 2013
3.2.2	Management should ensure that the Council's complete card payment environment is clearly identified and documented. Management should review the existing arrangements whereby different systems are used for payment processing – consideration should be given to rationalising the card payment process.	Executive Director (Support Services)	Agreed		December 2012

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	<p>Management should ensure that arrangements are in place to validate compliance with the Payment Card Industry Data Security Standard – the annual Self Assessment Questionnaire should be completed.</p> <p>Management should consider whether expertise currently exists within the Council to carry out the required self assessment or whether an external qualified assessor should be appointed.</p> <p>A timetable for the completion of the annual Self Assessment Questionnaire should be established and quarterly network scans programmed.</p>	Executive Director (Support Services)	Agreed		December 2012
3.4.1	<p>Management should ensure that the draft Corporate Retention Schedule is finalised.</p> <p>For cardholder data, the Corporate Retention Schedule should strictly limit storage and retention time to that which is required for business, legal and/or regulatory purposes.</p> <p>A consistent approach should be adopted in respect of the storage, retention and destruction of cardholder data, which is fully compliant with PCI DSS requirements.</p>	Records Manager	Agreed		January 2013

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	<p>Management should review the existing list of Paye.net users, with a view to restricting access to users who are required to accept card payments as part of their duties.</p> <p>Appropriate arrangements should be put in place to notify the Revenues Systems and Control Team of all leavers to enable access rights to be removed timeously.</p> <p>Management should consider whether it is appropriate for employees to have access to Paye.net while they are working from home.</p>	Executive Director (Support Services)	Agreed		March 2013
3.6.1	Appropriate training on PCI DSS requirements should be provided to all staff members dealing with card payments.	Executive Director (Support Services)	Agreed		March 2013

REPORT TO: Audit and Governance Committee
MEETING DATE: 18 September 2012
BY: Executive Director (Support Services)
SUBJECT: Internal Audit Report – Carbon Management Reduction

11

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Carbon Management Reduction.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Carbon Management Reduction.

3 BACKGROUND

- 3.1 A review of Carbon Management Reduction was undertaken as part of the audit plan for 2012/13.
- 3.2 The main objective of our review was to ensure that the Council had appropriate arrangements in place for meeting its statutory obligations in respect of the CRC Energy Efficiency Scheme.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial - None
6.2 Personnel - None
6.3 Other - None

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	7 September 2012

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CARBON MANAGEMENT REDUCTION

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2012/13, a review was undertaken of the arrangements in place in respect of the CRC Energy Efficiency Scheme (formerly known as Carbon Reduction Commitment).

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place to ensure that the Council meets its statutory obligations in respect of the CRC Energy Efficiency Scheme (CRC EES).
- The Council has met all statutory deadlines in respect of the CRC EES.
- Nominated officers have been identified with responsibility for the CRC EES and details have been provided to the Environment Agency.
- Adequate documentation is held to support the data used to collate energy usage and consumption levels.

1.3 Areas with Scope for Improvement

- Membership of the Carbon Management Programme Board requires to be updated and regular meetings held to ensure that the Council progresses with all key aspects of carbon management reduction. *Risk – failure to achieve carbon reduction targets.*
- There is a lack of detailed procedures in place outlining all key stages in the CRC EES process. *Risk – failure to adopt a consistent approach.*
- There is a lack of segregation of duties in respect of the collection, recording and compiling of CRC EES data. *Risk – errors and anomalies may occur and remain undetected.*
- No independent checking procedures are in place to ensure accuracy and completeness of data for the CRC EES Annual Report and evidence pack. *Risk – errors, anomalies and omissions may occur and remain undetected.*
- The approach currently adopted for the inclusion of electricity generation covered by Feed in Tariffs should be reviewed. *Risk – reported figures may be inaccurate.*

1.4 Summary

Our review of the CRC Energy Efficiency Scheme identified a number of areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

September 2012

ACTION PLAN

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	<p>Detailed procedures should be produced outlining all stages to be followed in the collection, aggregation and reporting of CRC Energy Efficiency Scheme data.</p> <p>The procedures should be issued to all relevant members of staff.</p>	Senior Environmental and Consumer Services Manager/Energy Officer	Agreed		December 2012
3.3.1	Membership of the Carbon Management Programme Board should be updated and regular meetings held to ensure that the Council progresses with all key aspects of carbon management reduction.	Executive Director (Services for Communities)	Agreed		December 2012
3.5.1	Management should ensure that appropriate segregation of duties exist in the collection, recording and compiling of CRC Energy Efficiency Scheme data.	Engineering Design Team Leader	Agreed		March 2013
3.5.2	Management should ensure that appropriate arrangements are in place for the review and checking of internal procedures and data quality prior to the submission of the Annual Report.	Senior Environmental and Consumer Services Manager	Agreed		March 2013

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.3	<p>Management should ensure that the Council actively pursues all sums due in respect of Feed in Tariffs.</p> <p>The approach adopted for the inclusion of generation covered by Feed in Tariffs should be reviewed – only electricity used by the Council should form part of the reported CRC emissions, rather than all electricity generated.</p> <p>The formula in the non-half hourly electricity usage spreadsheet should be reviewed to ensure that annual consumption is accurately recorded.</p> <p>Management should ensure that where possible actual meter readings are submitted rather than relying on estimated readings – this will reduce the need to apply the 10% uplift.</p>	Senior Environmental and Consumer Services Manager/Energy Officer	Agreed		March 2013
3.5.4	<p>Management should ensure that the evidence pack is updated timeously to reflect the data included in the 2011/12 Annual Report.</p> <p>The evidence pack should be reviewed and quality checked by a person independent of the preparer.</p>	Senior Environmental and Consumer Services Manager/Energy Officer	Agreed		December 2012