# WEST DUNBARTONSHIRE COUNCIL
**Council Offices, Garshake Road, Dumbarton G82 3PU**

28 February 2014

| | |
|---|---|
| **MEETING:** | **AUDIT & PERFORMANCE REVIEW COMMITTEE** |
| | **WEDNESDAY, 12 MARCH 2014**<br>**COMMITTEE ROOM 3**<br>**COUNCIL OFFICES**<br>**GARSHAKE ROAD**<br>**DUMBARTON** |

Dear Member,

Please attend a meeting of the **Audit & Performance Review Committee** to be held in Committee Room 3, Council Offices, Garshake Road, Dumbarton on **Wednesday, 12 March 2014** at **2.00 p.m.**

The business is as shown on the enclosed agenda.

Yours faithfully

**JOYCE WHITE**

Chief Executive

**Distribution:**

Councillor I Murray (Chair)
Councillor G Black
Councillor J Brown
Councillor M McGinty
Councillor J Finn
Councillor T Rainey
Councillor G Robertson
Councillor M Rooney
Mr SJ Doogan
Mr E Haynes
Mr F McNeil

All other Councillors for information

Chief Executive
Executive Director of Corporate Services
Executive Director of Educational Services
Executive Director of Infrastructure and Regeneration
Director of West Dunbartonshire Community Health and Care Partnership

## AUDIT & PERFORMANCE REVIEW COMMITTEE

## WEDNESDAY, 12 MARCH 2014

## AGENDA

**1. APOLOGIES**

**2. DECLARATIONS OF INTEREST**

Members are invited to declare if they have an interest in any of the items of business on this agenda and the reasons for such declarations.

**3. MINUTES OF PREVIOUS MEETING**

Submit for approval as a correct record, the Minutes of Meeting of the Audit & Performance Review Committee held on 11 December 2013.

**4. INTERNAL AUDIT PLAN 2014/15**

Submit report by the Executive Director of Corporate Services advising on the planned programme of work for the Internal Audit Section for the year 2014/15.

**5. INTERNAL AUDIT PLAN 2013/14 PROGRESS REPORT TO 31 DECEMBER 2013**

Submit report by the Executive Director of Corporate Services advising on the work undertaken by the Internal Audit Section against the Audit Plan 2013/14.

**6. AUDIT ACTION PLANS**

Submit report by the Executive Director of Corporate Services advising of:-

(a) Recently issued Internal Audit action plans; and
(b) Progress made against plans previously issued contained within Internal Audit and External Audit reports.

**7. /**

## 7. PUBLIC INTEREST DISCLOSURES FOR THE PERIOD 1 JULY 2013 TO 31 DECEMBER 2013

Submit report by the Executive Director of Corporate Services advising on public interest disclosures received during the period 1 July 2013 to 31 December 2013.

## 8. PRUDENTIAL INDICATORS 2013/14 TO 2016/17 AND TREASURY MANAGEMENT STRATEGY 2014/15 TO 2016/17

Submit report by the Executive Director of Corporate Services providing an update on:-

(a) Prudential Indicators for 2013/14 to 2016/17; and
(b) Treasury Management Strategy (including the Investment Strategy) for 2014/15 to 2016/17.

***NB**: For Members' information, this report was approved at the Council Meeting held on 6 February 2014.*

## 9. AUDIT SCOTLAND ANNUAL AUDIT PLAN 2013/14

Submit report by the Executive Director of Corporate Services presenting Audit Scotland's Audit Plan for the audit of financial year 2013/14 to Committee for information.

## 10. AUDIT SCOTLAND – REVIEW OF ADEQUACY OF INTERNAL AUDIT ARRANGEMENTS

Submit report by the Executive Director of Corporate Services advising of the External Auditor's assessment of the adequacy of the Council's Internal Audit arrangements.

## 11. AUDIT SCOTLAND REPORT – *CHARGING FOR SERVICES: ARE YOU GETTING IT RIGHT?*

Submit report by the Executive Director of Corporate Services providing information on a report recently published by Audit Scotland in relation to the above.

For information on the above agenda please contact Craig Stewart, Committee Officer, Legal, Democratic & Regulatory Services, Council Offices, Garshake Road, Dumbarton G82 3PU. Tel: (01389) 737251. E-mail: craig.stewart@west-dunbarton.gov.uk.

## AUDIT & PERFORMANCE REVIEW COMMITTEE

At a Meeting of the Audit & Performance Review Committee held in Committee Room 3, Council Offices, Garshake Road, Dumbarton on Wednesday, 11 December 2013 at 2.00 p.m.

**Present:** Councillors George Black, Jim Brown, Jonathan McColl, Michelle McGinty, Ian Murray, *Tommy Rainey, Gail Robertson, Martin Rooney and Mr Edward Haynes.

* Attended later in the meeting.

**Attending:** Joyce White, Chief Executive; Angela Wilson, Executive Director of Corporate Services; Richard Cairns, Executive Director of Infrastructure and Regeneration; Stephen West, Head of Finance and Resources; Gillian McNeilly, Finance Manager; Colin McDougall, Audit and Risk Manager; Joe Gillespie, Section Head, Internal Audit; Soumen Sengupta, Head of Strategy, Planning and Health Improvement, West Dunbartonshire Community Health & Care Partnership; Craig Stewart, Committee Officer, Legal, Democratic and Regulatory Services.

**Also Attending:** Ms Elaine Boyd, Senior Audit Manager and Mr Laurence Slavin, Senior Auditor, Audit Scotland.

**Apologies:** Apologies for absence were intimated on behalf of Mr Francis McNeill and Mr Stevie J. Doogan.

**Councillor Jonathan McColl in the Chair**

### MINUTES OF PREVIOUS MEETING

The Minutes of Meeting of the Audit & Performance Review Committee held on 25 September 2013 were submitted and approved as a correct record.

## TREASURY MANAGEMENT MID YEAR REPORT 2013/2014

A report was submitted by the Executive Director of Corporate Services providing an update on treasury management and prudential indicators during 2013/14. A similar report to this one was previously considered by Members at the meeting of Council held on 30 October 2013.

After discussion and having heard the Chief Executive in further explanation, the Committee agreed:-

(1) to note the treasury management and prudential stewardship information within the Treasury Management Report attached as appendix 1;

(2) to note that Council approved the 2013/14 revised estimates of treasury and prudential indicators as advised within the report (Tables A, B, C, D, E, F, H and M);

(3) to note the opportunity for the Council to invest in hub schemes as a result of West Dunbartonshire Council's position as a shareholder in hub West Scotland;

(4) to note that on 30 October 2013 Council approved delegation of authority to the Council's Section 95 Officer, the Chief Executive, the Leader of the Council and the Leader of the Opposition to invest in hub West Scotland schemes within the timescales identified in section 4.17 of this report; and

(5) to note that Council approved a new indicator for Principal sums invested > 364 days as advised within the report (Table N).

## AUDIT SCOTLAND – ANNUAL REPORT ON THE 2012/13 AUDIT

A report was submitted by the Executive Director of Corporate Services advising of the findings in relation to the external auditor's final report to Members on the completion of their 2012/13 audit. A similar report to this one was previously considered by Members at the meeting of Council held on 30 October 2013.

After discussion and having heard Ms Boyd, Senior Audit Manager, the Chief Executive and relevant officers in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to thank the Council's external auditors, Audit Scotland, and Council staff for their work and assistance in carrying out their final audit which had resulted in an unqualified audit opinion; and

(2) otherwise to note the contents of the report.

## CODE OF GOOD GOVERNANCE

A report was submitted by the Executive Director of Corporate Services providing an update on the Council's Code of Good Governance.

The Committee agreed to note the contents of the report.

## AUDIT ACTION PLANS

A report was submitted by the Executive Director of Corporate Services advising of:-

(a) recently issued Internal Audit action plans; and

(b) progress made against action plans previously contained within Internal Audit and External Audit reports.

After discussion and having heard the relevant officers in elaboration and in answer to Members' questions, the Committee agreed:-

(1) to note that Members would be sent by email a revised covalent sheet giving updated information on the completeness of certain indicators that fell within the Housing, Environment and Economic Development Department's responsibility, on the basis discussed at the meeting; and

(2) otherwise to note the contents of the report.

## INTERNAL AUDIT PROGRESS REPORT TO 30 SEPTEMBER 2013

A report was submitted by the Executive Director of Corporate Services advising of the work undertaken by the Internal Audit Section against the Action Plan 2013/14.

After discussion and having heard the Chief Executive, Executive Director of Corporate Services and Audit and Risk Manager in further explanation and in answer to Members' questions, the Committee agreed to note the contents of the report.

## NATIONAL FRAUD INITIATIVE 2012/13 – PROGRESS REPORT

A report was submitted by the Executive Director of Corporate Services on the progress being made in investigating matched datasets provided to the Council as a result of the National Fraud Initiative 2012/13.

Having heard the Audit and Risk Manager in answer to a Member's question, the Committee agreed to note the contents of the report.

## SCOTTISH PUBLIC SERVICES OMBUDSMAN COMPLAINTS REPORT 2012/13

A report was submitted by the Executive Director of Corporate Services presenting the Scottish Public Services Ombudsman (SPSO) report for 2012/13 on complaints handling by West Dunbartonshire Council.

After discussion and having heard the Chief Executive, Executive Director of Corporate Services and the Head of Customer and Community Services in further explanation and in answer to Members' questions, the Committee agreed:-

(1) that officers would look at producing a condensed version of the report, complete with trend information which would enable a better comparison to be made on the levels of complaints, for the next time this report would be submitted to the Committee; and

(2) otherwise to note the contents of the report.

The meeting closed at 3.26 p.m.

**WEST DUNBARTONSHIRE COUNCIL**

**Report by Executive Director of Corporate Services**

**Audit & Performance Review Committee: 12th March 2014**

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**Subject: Internal Audit Plan 2014/15**

## 1. Purpose

**1.1** The purpose of this report is to advise members of the planned programme of work for the Internal Audit Section for the year 2014/15.

## 2. Recommendations

**2.1** It is recommended that the Committee approve the Audit Plan for 2014/15.

## 3. Background

**3.1** The plan was compiled using the risk-based approach recommended by the Chartered Institute of Public Finance and Accountancy. The major Corporate systems have been risk assessed and from this exercise the 12 highest risk areas have been included in the plan.

## 4. Main Issues

**4.1** The audit planning process has taken into account the following factors:

- A risk based audit needs assessment identifying all potential audit areas;
- Consultations with Senior Management;
- The plans of External Audit and other inspection agencies;
- The Council's key strategic risks;
- Corporate Objectives;
- Current issues and changes in computer systems; and
- Resources available.

**4.2** Internal Audit monitors delivery of the plan continuously during the year using a number of performance indicators. Progress is reported to members on a quarterly basis.

**4.3** The Annual Report on Internal Audit will compare the work actually undertaken against the work planned and summarise performance against targets. It will also provide an opinion on the adequacy and effectiveness of the Council's control environment. Work done underpins the Statement of Internal Financial Control/Annual Governance Statement which will be published with the Abstract of Accounts.

**5. Personnel Implications**

**5.1** There are no personnel issues with this report.

**6. Financial Implications**

**6.1** There are no financial implications with this report.

**7. Risk Analysis**

**7.1** The Plan has been constructed taking cognisance of the risks associated with major systems. Consultation with Senior Managers was carried out to ensure that risks associated with delivering the Council's objectives have been considered.

**8. Equalities Impact Assessment (EIA)**

**8.1** There are no issues as it does not affect the delivery of a service or the development of a policy.

**9. Consultation**

**9.1** This report has been subject to a check by Finance Services and Legal, Democratic & Regulatory Services with no issues identified.

**10. Strategic Assessment**

**10.1** This report relates to all 5 of the Council's Strategic Priorities.

**Angela Wilson**
**Executive Director of Corporate Services**
**27 February 2014**

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| **Person to contact** | **Stephen West, Head of Finance and Resources, Council Offices, Garshake Road, Dumbarton, G82 3PU**<br>**Telephone (01389) 737191**<br>**Email – Stephen.west@west-dunbarton.gov.uk** |


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| **Appendix:** | **Internal Audit Plan 2014/15** |
| **Background Papers:** | **None** |
| **Wards Affected:** | **All wards** |

# WEST DUNBARTONSHIRE COUNCIL

# INTERNAL AUDIT PLAN 2014-15

# INDEX OF CONTENTS

# 1 Introduction

## 1.1 Definition of Internal Audit

*'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'*

Public Sector Internal Audit Standards

The Standards (applying the Institute of Internal Auditors International Standards to the UK Public Sector) have been agreed to be adopted from the 1st April 2013 by the relevant public sector Internal Audit Standard setters. Elements of the Standards are based on the Chartered Institute of Internal Auditors International Professional Practices Framework. Standard setters are; HM treasury; Scottish Government; Department of Finance and Personnel Northern Ireland; Welsh Government; department of Health; and the Chartered Institute of Public Finance and Accountancy.

In accordance with the Standards an Audit Charter is in place which defines the internal audit activity's purpose, authority and responsibility.

## 1.2 Authority

All Local Authorities in Scotland are subject to Section 95 of the Local Government Act (Scotland) 1973, and should make provision for Internal Audit, in accordance with the Public Sector Internal Audit Standards issued 2013 (The Standards).

## 1.3 Audit Planning

Internal Audit complies with the requirements of The Standards, per Section 2010 (Planning):

*'The chief audit executive* (WDC – Audit and Risk Manager) *must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.'*

## 2 The Audit Planning Process

### 2.1 Risk Assessment - Systems

A risk-based audit needs assessment has been carried out by Internal Audit staff. This assessment of needs identifies all operations, resources, services and responsibilities, and prioritises key systems being operated, and key services provided. Senior Management have been consulted on priority areas for review, while cognisance has been taken of the plans of External Audit and other Statutory Agencies, in order to avoid duplication, and increase potential for cross reliance. The audit needs assessment is based upon a matrix taking account of scores for each potential audit area in respect of:-

- Control risk
- Materiality
- Sensitivity
- Management concerns

The matrix gives an overall “score” for each area that is used to prioritise the audit reviews.

The risk process recognises the materiality of core financial systems by applying a weighting based on transaction value. In addition, the process ensures that major systems will be covered over a rolling programme by applying a weighting factor based on the date of the previous audit.

This process ensures that Internal Audit independence is maintained in the formation of the plan.

### 2.2 Systems Based Auditing

The systems based audit approach developed by the Chartered Institute of Public and Finance and Accountancy (CIPFA) will continue to form the basis for testing controls within each system, in line with good practice.

### 2.3 Strategic Risks

The Strategic Risk Register records the Council’s own assessment of the most potentially damaging risks and their likelihood of occurrence. This document is used to inform the Audit Plan.

### 2.4 Corporate Strategic Plan

As well as considering risk when formulating the plan, considerable attention has been paid to the strategic priorities and success factors contained in the Council’s Strategic Plan 2012/17 in order to ensure there is a spread of audit coverage across these key areas. It is considered that all five Corporate Themes are supported by Audit Work in this plan. This is shown in italics in the appropriate schedules of this document.

## 2.5 Other Issues

Other factors which influence the plan are discussions with Senior Management, consideration of current issues arising, major computer systems being introduced, and recommendations from recently completed audits.

## 2.6 Contingency / Irregularity

Allowance has been made for matters arising requiring investigation, and ad-hoc work, based upon levels experienced in the past.

## 3 Resourcing the Plan

The Audit Section has an establishment of 6.5 FTE including 2 professionally qualified staff. Computer Audit will be carried out alongside systems review, continuous auditing and by the ICT Security Officer. Available Audit Days have been calculated as 1251 days, following the deduction of Administration, Management and Planning, Training and Leave. Within this overall resource, 80 days has been included for the Audit and Risk Manager's time to reflect the contribution he makes to the activities of the Audit Section. The Audit and Risk Manager is professionally qualified to fulfil an audit role.

Through an assessment of the mix of knowledge, skills and experience of the Audit Team it is considered that the available resources are sufficient to achieve the work outlined in the plan.

The Council's External Auditors work in conjunction with Internal Audit so that resources are optimised in providing overall assurance on the financial statements and the adequacy of the internal control environment. Towards the end of 2014/15, External Audit will advise on which areas of Internal Audit work it will place reliance upon for the year as outlined in its annual "Review of Adequacy of Internal Audit Arrangements" letter.

As described in Paragraph 2.1 above, a risk based audit needs assessment was carried out. The available staffing resources, in terms of Available Audit Days are matched to this and in 2014/15 this has resulted in the 12 highest risk areas being included in the Audit Plan.

The allocation of time to audit category is shown in the table below.

Table 1- Allocation of Audit Time

| Audit Category | 2014/15 | |
|---|---|---|
| | Planned Days | % of Operational Time |
| Risk Based Audit | 440 | 35.2% |
| Computer Audit | 90 | 7.2% |
| Development | 87 | 6.9% |
| Investigations | 290 | 23.2% |
| Regularity/CRSA | 95 | 7.6% |
| Corporate Governance | 91 | 7.3% |
| Follow up | 34 | 2.7% |
| Year end procedures | 20 | 1.6% |
| Performance Indicators | 25 | 2.0% |
| Financial Services/Grant Claims | 25 | 2.0% |
| Contingency | 54 | 4.3% |
| **Operational Time** | **1251** | **100%** |
| Secondment | 30 | - |
| Administration | 88 | - |
| Management and Planning | 92 | - |
| Training | 52 | - |
| Leave | 323 | - |
| **Total** | **1836** | **-** |

A chart showing the audit resource allocation of operational time for 2014/15 is attached at Appendix 1.

## 4 Monitoring the Plan

Internal Audit reports performance to the Audit and Performance Review Committee on a quarterly basis:-

- Completion of Risk Based Audits as a percentage of planned
- Action Plans issued during the quarter
- Progress on implementation of audit recommendations

Internal Audit recommendations are now shown in Covalent, the Council's risk and performance management system. This enables both departmental management and Internal Audit to monitor and report on the implementation of recommendations more efficiently and has greatly reduced outstanding audit recommendations.

## 5 Annual Report

Section 2450 of the Standards states that:

*'The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to form its governance statement.'*

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

This work underpins the Statement of Internal Financial Control / Annual Governance Statement, which will be published with the Abstract of Accounts, and subject to the scrutiny of External Audit.

## 6 Quality Assurance and Improvement Programme

Sections 1310 to1312 of the Standards refer to the need for a quality assurance and improvement plan to be developed to include both internal and external assessments.

Internal assessments must include ongoing monitoring of Internal Audit performance and periodic assessments by other persons within the organisation with sufficient knowledge of the work of Internal Audit. It is proposed that Finance Section Accountants will fulfil this role.

External assessments must be conducted at least every five years by a qualified independent assessor. The Scottish Local Government Chief Internal Auditor's Group (SLACIAG) are currently developing a framework for external assessments to be undertaken by member authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review option. The Council's Internal Audit Section propose to participate in this framework.

In the Development Schedule, time has been allocated within the Audit Plan for 2014/15 to participate in these processes and implement the action plan developed from completion of the checklist for assessing conformance with the Standards.

## 7 Delivering the Plan

The plan has been developed in line with the approved Internal Audit Charter and will be delivered in accordance with:

- The Standards;
- Relevant codes of ethics standards and guidelines issued by the professional institutes;
- Relevant corporate governance documents, standards, policies and procedures; and
- The Internal Audit Section's own Audit Manual and other internal standards, which will be adhered to by its entire staff including any contracted external specialists where appropriate.

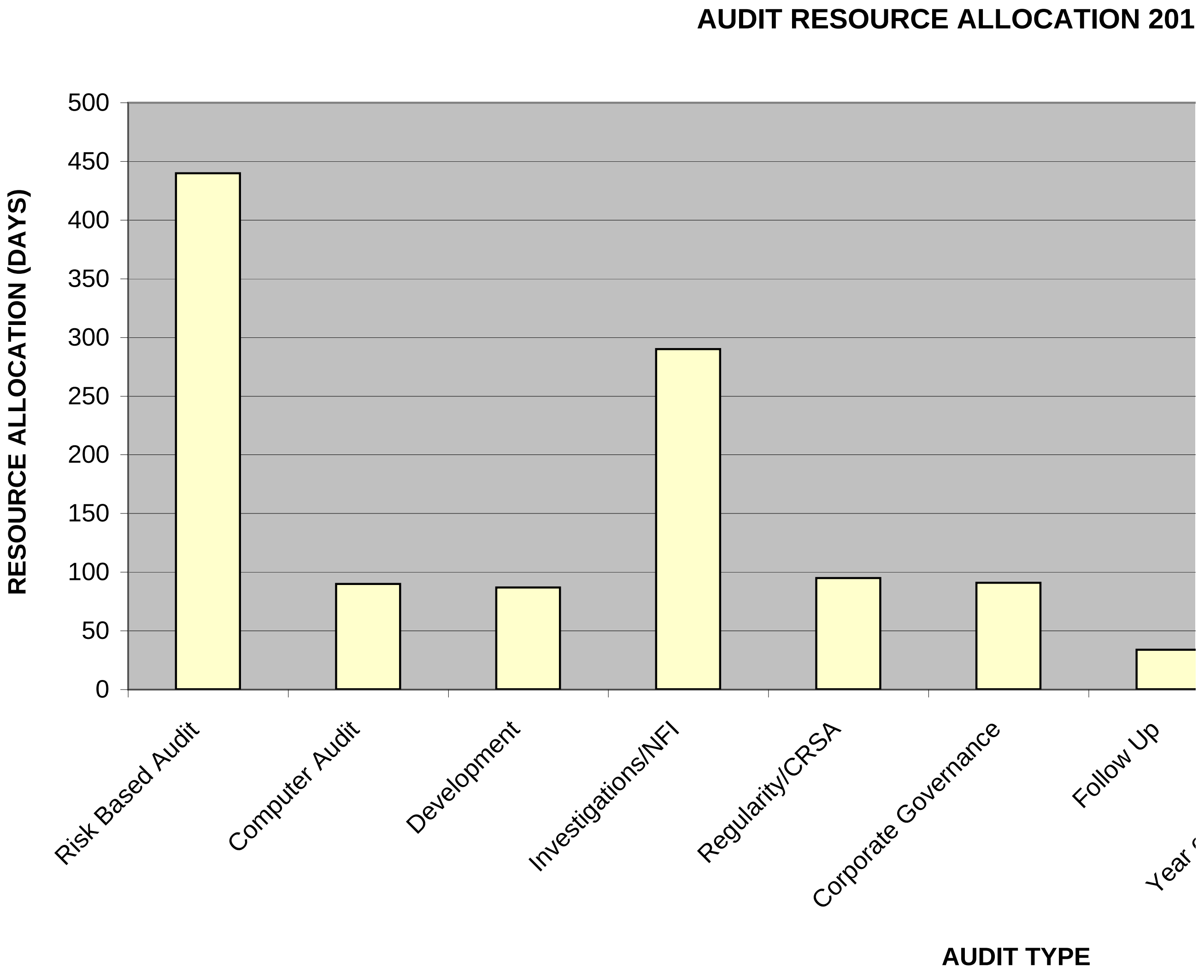
| SCHEDULE OF RISK BASED AUDITS<br>CORPORATE SYSTEMS | | |
|---|---|---|
| Audit | Days | Objectives |
| Enterprise Risk Management<br>*Improve the wellbeing of communities and protect the welfare of vulnerable people* | 40 | • Establish if WDC complies with risk management (RM) standards and best practice.<br>• Ensure risk assessments are documented.<br>• Determine if potential and actual risks are identified, recorded and addressed.<br>• Assess if relevant staff, contractors, etc are aware of their RM duties and responsibilities.<br>• Establish if the Council's risk appetite and level of RM 'maturity' are known. |
| Main Accounting System<br>*Improve economic growth and employability* | 35 | • Ensure final accounts were prepared and presented in a format consistent with relevant accounting recommendations, financial reporting standards and accounting codes of practice.<br>• Review procedures for delivering whole of government accounts.<br>• Review capital accounting policy regarding Capital Charges, Valuations and Depreciation to confirm that they comply with relevant guidance. |
| Creditors<br>*Improve economic growth and employability* | 25 | Review creditor payments in general with particular attention given to controls over the prevention of duplicate payments. |
| Council Tax Collection & Refunds<br>*Improve the wellbeing of communities and protect the welfare of vulnerable people* | 45 | • Review currency of regulations, guidance and procedures available to staff.<br>• Review adequacy and efficiency of the procedures in place for income collection.<br>• Confirm that reports of accounts with credit balances are regularly reviewed and promptly investigated.<br>• Check reconciliations and confirm that they were undertaken on a regular basis by an independent employee.<br>• Review actual performance against targets.<br>• Assess the security of data. |
| Payroll<br>*Improve economic growth and employability* | 10 | • Ensure that there are satisfactory procedures in place to ensure that leaver forms are prepared and processed correctly and timeously.<br>• Test check leavers final pay calculations.<br>• Ensure that official internal transfer forms are completed and the correct procedures are followed timeously for transfers between posts within WDC.<br>• Check details on transfer forms agree with payroll and personnel systems. |
| NDR Recovery & Enforcement<br>*Improve economic growth and employability* | 30 | • Review currency of regulations, guidance and procedures available to staff.<br>• Ensure compliance with timetable for issue of reminders and referral to sheriff officers.<br>• Review controls over sheriff officer collections.<br>• Check system to monitor recovery performance against targets.<br>• Check write-offs comply with financial regulations. |
| Housing & CT Benefit Assessment<br>*Improve the wellbeing of communities and protect the welfare of vulnerable people* | 40 | • Review currency of regulations, guidance and procedures available to staff.<br>• Check supporting documentation in relation to claims; liability, residency and identity; income; households and non-dependents and rents payable.<br>• Check calculations (& start days) for backdated claims |

| SCHEDULE OF RISK BASED AUDITS<br>CORPORATE SYSTEMS | | |
|---|---|---|
| | | and extended payments, etc. |
| Audit | Days | Objectives |
| Tendering and Contracting<br>*Improve economic growth and employability* | 30 | Review of Capital Contracts:<br>• Variations<br>• Interim Payments (including CIS payments to HMRC)<br>• Completion<br>• Final Contracts<br>• Insurance Cover<br>• Contractual claims<br>• Contract Management<br>• Liquidation and Ascertained Damage<br>• Bankruptcy and Liquidation |
| Housing<br>*Improve local housing and environmental sustainable infrastructure* | 40 | • Ensure there is documentary evidence of all acquisitions sales and disposals that supports the existence of all housing stock.<br>• Check there is documentary evidence to support all right to buy applications/transactions.<br>• Ensure that all terminations, transfers and exchange of tenancies are in accordance with legislation and WDC policy and are supported by documentary evidence. |
| CHCP/Leisure Trust Debtors<br>*Improve care for and promote independence with older people* | 40 | • Ensure debtor procedures comply with legislation and WDC policies & procedures.<br>• Check there is documentary evidence to support all transactions.<br>• Determine if all debtor invoices provide sufficient information of debt, all relevant records and accounts are updated and all transactions are processed.<br>• Check that sums due are calculated correctly, transactions are posted to correct financial codes and debts are monitored.<br>• Ensure transactions are initiated and recorded timeously and debt recovery is undertaken promptly.<br>• Ensure that adequate controls and separation of duties are in place for processing and write-off of debt.<br>• Assess if adequate controls are in place to protect information and data from unauthorised access. |
| CT & NDR Valuation – New Properties<br>*Improve local housing and environmental sustainable infrastructure* | 25 | • Review currency of regulations, guidance and procedures available to staff.<br>• Review the procedure for identifying new and amended properties and confirm that they are satisfactory. |
| Health and Safety Units – Repairs and Maintenance<br>*Improve local housing and environmental sustainable infrastructure* | 40 | • To ensure Health & Safety (H & S) legislation is complied with.<br>• Confirm H & S risk assessments are documented.<br>• Assess if staff are aware of their H & S responsibilities.<br>• Confirm potential and actual H & S risks are identified.<br>• Establish if incidents and accidents are promptly recorded and addressed.<br>• Ensure preventative H & S measures are taken. |
| Management Review (of above audits) | 40 | n/a |

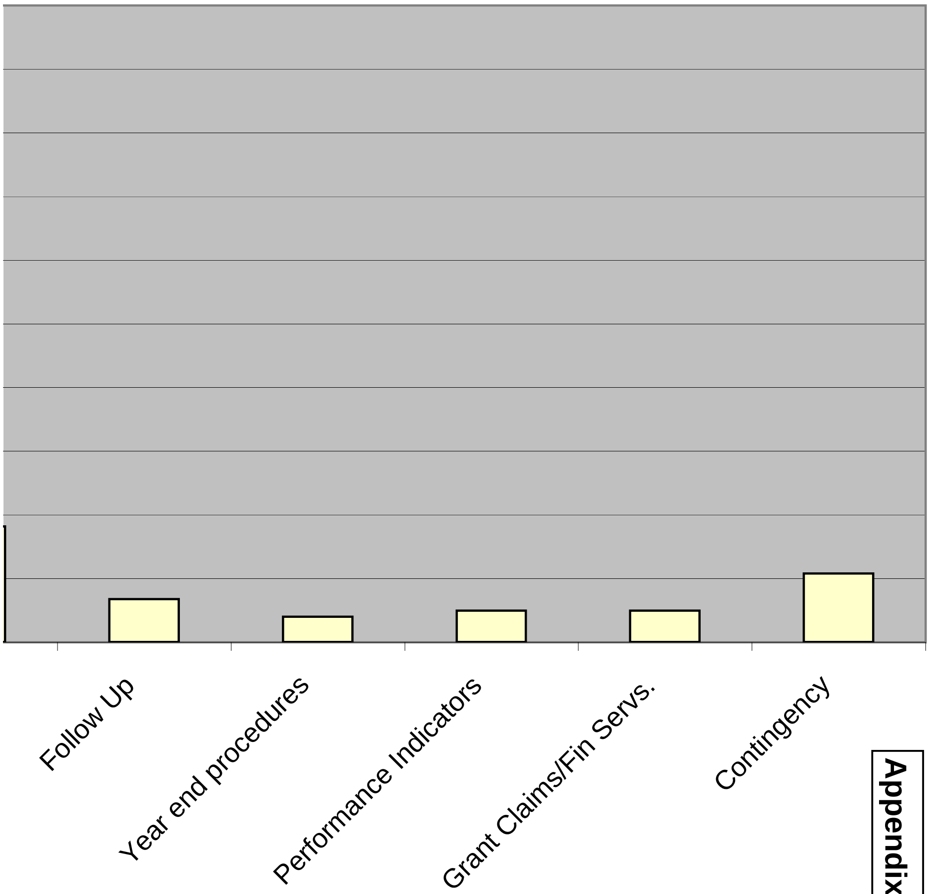
| **SCHEDULE OF RISK BASED AUDITS<br>CORPORATE SYSTEMS** | | |
|---|---|---|
| **Total** | **440** | |

| **SCHEDULE OF COMPUTER AUDITS** | | |
|---|---|---|
| Audit | Days | Objectives |
| Computer Audits relating to Risk Based Audits | 10 | Coverage of computer audit elements of risk based audits, including application controls and compliance with the Corporate Information and Communication Technology Security Policy. |
| Major Financial Systems – Exceptions Reporting | 20 | Review of reports from major financial systems highlighting data outwith normal parameters for the transaction or field concerned. |
| ICT and Security Audit | 50 | This will include I-Text mass text messaging system and electronic signatures.  Other assignments to be determined. |
| Management Review (of above audits) | 10 | n/a |
| **Total** | **90** | |

| **SCHEDULE OF DEVELOPMENT WORK** | | |
|---|---|---|
| Audit | Days | Objectives |
| CRSA (Control Risk Self Assessment)<br>*Improve Life chances for children and young people and*<br>*Improve the wellbeing of communities and protect the welfare of vulnerable people* | 20 | Education Services and CHCP (including residential care and CHCP Area Offices' client accounts) |
| PSIAS | 20 | PSIAS improvement action plan. |
| TeamMate Development | 47 | Upgrade to current version of TeamMate. |
| **Total** | **87** | |


AUDIT RESOURCE ALLOCATION 201
RESOURCE ALLOCATION (DAYS)
500
450
400
350
300
250
200
150
100
50
0
Risk Based Audit
Computer Audit
Development
Investigations/NFI
Regularity/CRSA
Corporate Governance
Follow Up
AUDIT TYPE

**CATION 2014/15**

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**Appendix 1**

**WEST DUNBARTONSHIRE COUNCIL**

**Report by Executive Director of Corporate Services**

**Audit and Performance Review Committee: 12 March 2014**

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**Subject: Internal Audit Plan 2013/14 Progress Report to 31 December 2013**

## 1. Purpose

**1.1** The purpose of this report is to advise Members of the work undertaken by the Internal Audit Section against the Audit Plan 2013/14.

## 2. Recommendation

**2.1** It is recommended that the Committee note the contents of this report.

## 3. Background

**3.1** In accordance with the Annual Audit Plan, Internal Audit report to Members on the work completed by the Section on a quarterly basis. The progress report to 31 December 2013 is attached at Appendix A, and explanations of significant variances are provided below.

## 4. Main Issues

**4.1** There are variances from the planned programme of work reported at this stage but it is anticipated that this will not have an adverse effect on the overall programme of risk based audits for 2013/14.

**4.2** In addition to previous information reported to the Audit and Performance Review Committee in December 2013, further variances of note are:

- Training / Development (10 adverse ) – a member of the audit team has been involved in non-audit work which has provided a development opportunity
- Pub.Int.Disc/Contingency/NFI Admin/FOI (37 Favourable)
- Corporate Governance (38 favourable) – the Audit and Risk Manager’s contribution to audit work is not reflected in the 2013/14 annual plan but will be in the 2014/15 plan.
- Service Development (41 favourable) – this is mainly planned for the last quarter of the year

**4.3** Appendix B shows that 69% of the system plan has been completed as at 31 December 2013.

**5. Personnel Implications**

**5.1** There are no personnel issues.

**6. Financial Implications**

**6.1** There are no financial implications.

**7. Risk Analysis**

**7.1** There is a risk that failure to deliver sufficient of the Internal Audit Plan would result in an inability to provide assurances over the Council's system of internal financial control to those charged with governance. The main basis for providing assurance is coverage of the planned risk based systems audits. Every endeavour is made to ensure that no material slippage occurs in risk based systems audits by concentrating resources on these audits.

**8. Equalities, Health & Human Rights Impact Assessment**

**8.1** EIA is not appropriate to this report.

**9. Consultation**

**9.1** This report has been subject to a check by Legal, Democratic & Regulatory Services.

**10. Strategic Assessment**

**10.1** This report relates to "Assuring Our Success through strong financial governance and sustainable budget management".

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**Angela Wilson**
**Executive Director of Corporate Services**
**Date: 24 February 2014**

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**Person to Contact:** Colin McDougall, Audit and Risk Manager
Telephone 01389 737436
E-mail – colin.mcdougall@west-dunbarton.gov.uk

**Appendices:** A – Internal Audit Quarterly Report to 31 December 2013
B – Percentage of Risk based System Audit Plan complete as at 31 December 2013.

**Background Papers:** Audit & Performance Review Committee – 27th February 2013. Internal Audit Plan 2013/14.

**Wards Affected:** N/A

**Appendix A**

## WEST DUNBARTONSHIRE COUNCIL

## INTERNAL AUDIT SECTION

### PROGRESS REPORT FOR THE PERIOD 1ST APRIL 2013 TO 31 DECEMBER 2013

| CATEGORY | PLANNED TIME (DAYS) | ACTUAL TIME (DAYS) | VARIANCE (DAYS) |
|---|---|---|---|
| Risk Based Audit | 297 | 286 | 11 F |
| Contract / Procurement | 60 | 28 | 32 F |
| Computer Audit | 50 | 18 | 32 F |
| Development | 52 | 11 | 41 F |
| Investigations | 202 | 310 | 108 A |
| CRSA/Regularity | 94 | 76 | 18 F |
| Corporate Governance | 62 | 24 | 38 F |
| Follow Up | 26 | 20 | 6 F |
| Year-End Procedures | 15 | 5 | 10 F |
| Performance Indicators | 30 | 14 | 16 F |
| Financial Services/Grant Claims | 15 | 28 | 13 A |
| Pub.Int.Disc/Contingency/NFI Admin/FOI | 57 | 20 | 37 F |
| Administration / Staffing | 68 | 157 | 89 A |
| Management & Planning | 49 | 39 | 10 F |
| Training / Development | 39 | 49 | 10 A |
| Leave | 257 | 233 | 24 F |
| Staff Turnover | 0 | 55 | 55 A |
| **TOTAL** | **1373** | **1373** | **0** |

A= Adverse = Actual Days more than Planned Days
F= Favourable + Actual Days less than Planned Days

# Appendix B

## Audit Plan 2013/14 (Dec 13)

| | Days | |
|---|---|---|
| PPP Schools | 30 | 100% |
| CHCP Carefirst | 40 | 90% |
| Budgetary Controls | 30 | 10% |
| Council Tax Recovery & Enforcement | 30 | 40% |
| Housing Benefit Performance | 30 | 75% |
| NDR Billing | 40 | 50% |
| Treasury Management | 30 | 95% |
| Housing - Insurance | 20 | 100% |
| Housing - Tenancy Allocations & Lettings | 40 | 90% |
| Protocol-Appointment of Consultants | 20 | 0% |
| Procurement-Controls & countermeasures | 30 | 95% |
| Procurement-Scheme of Delegation | 30 | 0% |
| Registration | 30 | 100% |
| School & CHCP Trips | 35 | 100% |
| **Total** | 435 | |
| **Percentage Complete** | **69%** | |

**WEST DUNBARTONSHIRE COUNCIL**

**Report by Executive Director of Corporate Services**

**Audit and Performance Review Committee: 12 March 2014**

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**Subject: Audit Action Plans**

## 1. Purpose

**1.1** The purpose of this report is to advise the Committee of:

- Recently issued Internal Audit action plans; and
- Progress made against action plans previously issued contained within Internal Audit and External Audit reports.

## 2. Recommendations

**2.1** It is recommended that Members consider and note the contents of this report.

## 3. Background

**3.1** When audit reports are issued by External and Internal Audit departmental management agree an action plan in relation to issues highlighted by the audit report. Progress on implementing the actions is monitored and reported to the Audit and Performance Review Committee.

## 4. Main Issues

**4.1** Appendix A contains Internal Audit action plans recently agreed and issued. Appendix B details the outstanding actions on previously issued Internal Audit reports. Appendix C details the outstanding actions for External Audit reports.

## 5. People Implications

**5.1** There are no personnel issues with this report.

## 6. Financial Implications

**6.1** There are no financial implications with this report.

## 7. Risk Analysis

**7.1** The key areas of work performed by both Internal Audit and External Audit are carried out according to a risk based approach that determines the nature, extent and timing of the required audit assignments.

**7.2** Recommendations have timescales for completion in line with the following categories:

| **Category** | **Expected implementation timescale** |
|---|---|
| High Risk:<br>Material observations requiring immediate action. These require to be added to the department's risk register | Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed |
| Medium risk:<br>Significant observations requiring reasonably urgent action. | Generally, complete implementation of recommendations within six months of action plan being agreed |
| Low risk:<br>Minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management. | Generally, complete implementation of recommendations within twelve months of action plan being agreed |

**8. Equalities Impact Assessment (EIA)**

**8.1** There are no issues identified.

**9. Consultation**

**9.1** This report has been subject to a check by Legal, Democratic & Regulatory Services.

**10. Strategic Assessment**

**10.1** This report relates to Assuring Our Success through strong financial governance and sustainable budget management.

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**Angela Wilson**
**Executive Director of Corporate Services**
**Date: 26 February 2014**

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**Person to Contact:** Colin McDougall, Audit and Risk Manager
Telephone 01389 737436
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**Appendices:** A - Internal Audit Reports (Recently Issued)
B - Internal Audit Reports (Previously Issued)
C - External Audit Reports

**Background Papers:** Internal Audit Reports
External Audit Reports

**Wards Affected:** All Wards

# Appendix A
# Internal Audit Reports (Recently Issued)

**Generated on:** 26 February 2014

| Action Status | |
|---|---|
| | Cancelled |
| | Overdue; Neglected |
| | Unassigned; Check Progress |
| | Not Started; In Progress; Assigned |
| | Completed |

**Project** 60. Procurement Corporate Function 13-14 (Report Issued December 2013)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 1. Procurement Risk Register<br>The action identified to mitigate the risk of suppliers failing to perform to agreed standards should be implemented ie. Implement strategic sourcing toolkit.<br><br>Low Risk | Agreed. This is an action in our 2013/14 Service Plan and development and delivery will continue into 2014/15. | | 50% | 31-Dec-2014 | 31-Dec-2014 | Angela Salmons | The supplier relationship management policy and process was developed last year and approved in March 2013. This is now being rolled out to all departments and key strategic suppliers are being selected to work with. This action will carry into 2014/15. |
| 2. Monitoring of Procurement Spending<br>Procurement should monitor the volumes / quantities of goods procured in order to assess levels of demand and investigate instances of increase. | At the moment this is done as and when a tender is being developed for market. We have an action in our 2013/14 Service Plan to develop reports in this area and this will | | 80% | 31-Dec-2014 | 31-Dec-2014 | Angela Salmons | As noted in the report comments, this is part of the tender process for each area and will be done at the point of each tender. The remaining aspect is to develop a report from the system which shows the demand. This action will |

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| Low Risk | continue into 2014/15. | | | | | | carry into 2014/15. |
| 3. Monitoring of Procurement Spending<br>Procurement should monitor the volumes / quantities of recycled, Fair Trade, etc products in order to check they are increasing.<br><br>Low Risk | We will consider building this into our action plan for 2014/15. | | 0% | 31-Mar-2014 | 31-Mar-2014 | Angela Salmons | At the moment our systems are unable to categorise whether products are fair trade and is something that we are exploring to determine what is possible. This action will carry into 2014/15. |
| 4. Compliance with Sustainability Procurement Policy<br>Procurement should be able to ensure that only items that comply with the Sustainable Procurement Policy can be purchased, and that items that are prohibited (eg. peat, bottled water) cannot be purchased.<br><br>Low Risk | For purchases below £50,000, where CPT is not involved, training will be provided to those who buy goods, services or works directly from suppliers. | | 100% | 31-Mar-2014 | 31-Mar-2014 | Angela Salmons | Our tender strategy approval form, which is completed in advance of tendering, looks at sustainability within contracts being awarded. |

**Project** 61. CHCP Excursions S.014.13 (Report Issued December 2013)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 1. Excursions Policy<br>CHCP should participate in a working group to produce a policy to comply with the framework published by the Scottish Government and record the associated risk. | CHCP will participate in a working group to produce a policy to comply with the framework published by the Scottish Government. | | 0% | 31-Dec-2014 | 31-Dec-2014 | Paula Godfrey | |

**Project** 62. Educational Excursions S.014.13 (Report Issued December 2013)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 1. Excursion Policy to be Updated<br>The Education department should participate in a working group to update the policy to comply with the framework published by the Scottish Government. | The Education department will participate in a working group to update the policy to comply with the framework published by the Scottish Government. | | 0% | 31-Dec-2014 | 31-Dec-2014 | Laura Mason | |
| 2. Parent Consent Forms Not on File<br>Signed Parent Consent Forms should be retained on file for no less than the current recommended retention period. | Head Teachers advised that they will ensure that organisers are reminded of this in future. | | 100% | 30-Sep-2013 | 30-Sep-2013 | Laura Mason | Completed. |
| 3. Health and Safety Not Advised of Excursions<br>The Health and Safety section should be advised of all excursions in order to satisfy themselves of the risk evaluation. | Head Teachers advised that they will ensure that organisers are reminded of this in future. | | 100% | 30-Sep-2013 | 30-Sep-2013 | Laura Mason | Completed. |
| 4. Retention of Records<br>The records for excursions should be retained for 14 months after the trip has taken place in accordance with the procedures. | The Head Teacher concerned advised that this will be done for all future trips. | | 100% | 30-Sep-2013 | 30-Sep-2013 | Laura Mason | Completed. |
| 5. Written Appraisal After Excursion<br>There should be a record on file that shows that a written appraisal report was made by the Trip Leader following the return from the trip. | Head teachers advised that a written appraisal will be produced in future and retained on file. | | 100% | 30-Sep-2013 | 30-Sep-2013 | Laura Mason | Completed. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 6. Cost, Times and General Info. of Excursion<br>There should be a note on file to show that parents and pupils have been advised of the details of the trip including the behaviour expected, costs, emergency procedures, etc. | Head teachers advised that this will in future be retained on file. | | 100% | 30-Sep-2013 | 30-Sep-2013 | Laura Mason | Completed. |
| 7. Risk Not Included in Risk Register<br>Education should record the risk presented to the department by excursions and show that they manage / mitigate the risks. | Education Excursion Risk Register to be implemented. | | 0% | 31-Dec-2014 | 31-Dec-2014 | Laura Mason | |

**Project** 63. Treasury Management Systems Review (Report Issued January 2014)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 1. Treasury Management Risk Assessment<br>The treasury element of the financial operational risk register and the risks/ issues identified within the finance strategy do not assess risk individually in the areas such as liquidity, exchange rates, inflation, credit, refinancing, legal and regulatory, market, fraud/error and corruption. It is recommended that Treasury Management risks are assessed, identified, documented and included in the Corporate Services operational risk register in order that senior management can continue | It has been agreed to formally document the assessments of the Treasury Management risks in these areas. | | 100% | 28-Feb-2014 | 28-Feb-2014 | Gillian McNeilly | Complete. |

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| to monitor and control the adequacy of the management of the risks. Medium | | | | | | | |
| 2. Organisational risk register and Treasury Management business contingency (a) There is no organisational risk register as a whole however there are various risks registers that have been prepared such as the treasury element of the financial operational risk register, the risks/ issues identified within the finance strategy and the risk factors identified as part of the draft long term financial strategy. It is recommended that the Treasury Management risks, some of which are already identified, are elaborated and other risks assessed and documented. The assessments need to be capable of incorporation into a West Dunbartonshire Council risk register by clearly identifying the risks and actions to be taken. Medium | It has been agreed to formally document the assessments of the Treasury Management risks along with developing the contingency/business continuity procedures in these areas. | | 100% | 28-Feb-2014 | 28-Feb-2014 | Gillian McNeilly | Complete. |
| 3. Organisational risk register and TM business contingency (b) The business continuity plan that is being developed for the Treasury Management activities is in relation to People, Premises, ICT and Suppliers. The contingency | The Treasury Management contingency/business continuity plan in the non-financial areas is currently being developed. | | 70% | 31-Mar-2014 | 31-Mar-2014 | Sandy McKenzie; Gillian McNeilly | A Business Continuity Plan has been drafted by the Finance Team manager and Business Continuity Coordinator. It is currently with the Corporate Services Business Partner for comment in order to establish exact ICT requirements. Comments will |

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| /business continuity management procedures are to be developed and put in place in relation to both the financial and non-financial risks. It is recommended that the Treasury Management contingency/business continuity management procedures are developed in terms of both financial, ie liquidity, exchange rates, inflation, credit, refinancing, legal and regulatory, market, fraud/error and corruption, and non-financial risks. Medium | | | | | | | be returned to meet the Audit Scotland deadline of 31 March 2014. |

**Project** 64. Housing Allocations and Homelessness (Report Issued January 2014)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 1. Re-Letting Targets<br>During each of the past three years, almost 70% of tenancy offers have been refused.<br>Staff should continue to explore methods that ensure clients are only offered properties in which they have a genuine interest. (Medium Risk) | Refusal rates are being closely monitored and are reported to the monthly Housing Performance Improvement Board. Civica, the software provider is in the process of expanding the number of letting areas to ensure that the waiting lists more accurately reflect demand. | | 0% | 31-Mar-2014 | 31-Mar-2014 | Janice Lockhart | Refusal rates have reduced - 56% in January 2014. However, they remain unacceptably high and are a major area of concern. Offers are being discussed with applicants ahead of the formal offer being made with a view to reducing refusals. Refusal rates are discussed at the monthly Housing Performance Improvement Board. |
| 2. Use of Bed and Breakfast Accommodation<br>From a sample of clients that were assigned to Bed | This recommendation is noted. The selection of B&B accommodation is most likely to be either a | | 100% | 31-Jan-2014 | 31-Jan-2014 | Janice Lockhart | Complete. |

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| and Breakfast (B&B) accommodation, no reason was given for using this type of accommodation in six of the seven cases.<br>In four of the cases, the client was in B&B for more than 28 days but there was no information on file to explain the length of stay.<br>The reason why B&B was used initially and why there was an extended stay should be recorded. | supply issue in terms of the availability of other temporary accommodation or as a result of the applicant's individual circumstances.<br>The service is no longer using B&B accommodation. | | | | | | |
| 3. Identification Checks<br>Staff insist that a property would not be let unless proof of identity had been confirmed but this was not always apparent on file. It is recommended that a record of the documents seen and the name of the member of staff that checked the information is kept on file. | Staff have been advised to ensure that identification checks are clearly recorded on the system. | | 100% | 24-Jan-2014 | 24-Jan-2014 | Janice Lockhart | Complete. |
| 4. Tenancy Checks<br>Apart from the initial visit within three weeks, there are no other planned visits to confirm that the tenant allocated the property is the person still residing there or if there are any other issues that might affect the tenancy.<br>It is recommended that the Department instigates a programme of annual visits. | Whilst the risk associated with this issue is low, Housing Estates Management Services will undertake at least one visit per tenancy in a 12 month period to establish household composition details and identify any other housing related issues for action. This action has commenced December 2013 and will be monitored through our Housing Performance | | 100% | 24-Jan-2014 | 24-Jan-2014 | Andy Cameron | Complete. |

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| | Improvement Board. | | | | | | |
| 5. Client Information<br>In a sample of 30 Homeless cases, there were 12 instances where minor details were not recorded on file.<br>In a sample of 30 cases where it had been decided that the applicant was intentionally homeless, so did not qualify to be housed, there was nothing on file in eight cases to confirm that the applicants had been informed of their right of appeal.<br>All information should be recorded. | Staff have been advised to ensure that all details are recorded on the system.<br>Benefit payments are closely monitored and outstanding claims / action taken is recorded on the daily sheets.<br>All standard letters advise applicants of their right of appeal. | | 100% | 24-Jan-2014 | 24-Jan-2014 | Janice Lockhart | Complete. |

# Appendix B
# Internal Audit Reports (Previously Issued)

**Generated on:** 26 February 2014

| Action Status | |
|---|---|
| | Cancelled |
| | Overdue; Neglected |
| | Unassigned; Check Progress |
| | Not Started; In Progress; Assigned |
| | Completed |

**Project** 24. Computer Audit - Saffron System (Report Issued August 2011)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 1. Saffron Ownership<br>We recommend that management ensure that ownership of the Saffron system is allocated to HEED. Senior management within the department should be responsible for making key decisions regarding strategic decisions for the development and operation of the system. (Medium Risk) | Agreed – current named HEED Service Manager is Janice Lockhart, Homelessness and Allocations Manager<br>A key element in the ICT Securitisation Project Option Appraisal is the replacement/renewal of Saffron which will be examined as an integral part of that project. | | 25% | 31-Mar-2014 | 31-Mar-2014 | Helen Turley | This has been discussed at the Housing Management team. All Saffron development issues are discussed with the Head of Housing. |
| 2 (b) Procedure Manuals - Housing<br>We recommend that procedural manuals for each module of Saffron are | The Housing and Community Safety Service will develop a comprehensive procedure manual once | | 70% | 31-Mar-2012 | 31-Mar-2012 | Janice Lockhart | Please see previous update. With the emphasis on reducing paper within offices, clarification has been sought as to whether this action |

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| produced in order that the use of each module is standardised within the teams managing the module. This will assist with training new staff. We also recommend that the existing procedures are subject to regular review and update to confirm that they are consistent with current working practices. (Low Risk) | the housing allocations staff are co-located. | | | | | | remains relevant. We are in the process of making changes to the Saffron Allocations system and all staff will have access to new procedures as and when the system changes are implemented. |
| 15 (b) Saffron Continuity Planning - Homelessness We recommend that management ensure business continuity plans are developed for all areas reliant on the Saffron system. The plans should consider all scenarios which could impact on the ability of the department to perform their role. For example, loss of access to offices, loss of system access etc. We also recommend that once the plans are developed, management ensure they are subject to regular testing to confirm that they support the response to a disaster. (High Risk) | A Business Continuity Plan will be developed for the homelessness module. | | 50% | 31-Mar-2012 | 31-Mar-2012 | Janice Lockhart | Please see previous update. The Homelessness service no longer uses Saffron. Continuity planning has been discussed with the software provider - AVD |

| **Project** 48. Housing - Repairs & Maintenance S.020.13 (Report Issued October 2012) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
| 3. b) Contractors Contractors should tender for work where applicable. (Low Risk) | We regularly review the value,volume and type of work where it is necessary to engage sub contractors. Moving forward we will endeavour to have contracts in place for all work where it is necessary to use contractors to complete. | | 16% | 31-Oct-2013 | 31-Mar-2015 | Martin Feeney | Timeframe has required to be extended mainly due to availability of procurement resources. We will continue to work towards having contracts in place for all works undertaken by sub contractors. In the meantime we will limit as far as possible the use of sub contractors, where it is necessary to engage contractors officers will continue to adhere to the Council's standing orders and procedures in place when engaging sub contractors. |

| **Project** 50. NDR Liability 2013 (Report Issued December 2012) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
| 3. Procedures Manual Management should prepare a procedures manual detailing all key tasks to be carried out by NDR staff. (Medium Risk) | A formal procedures manual will be prepared. | | 70% | 30-Sep-2013 | 30-Jun-2014 | Karen Shannon | Other service priorities took precedent on this action and it was reprioritised in line with the requirements of the service. |

| **Project** 54. Estates Section of Asset Management (Report Issued March 2013) |
|---|

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 2. Filing System<br>It is recommended that consideration be given to transferring to a computerised system. (Medium) | The section holds details of the property portfolio on a computerised spreadsheet that is updated on a monthly basis. Consideration is being given to a computerised filing system for all property files and emails in accordance with council policy currently being developed. | | 50% | 31-Mar-2014 | 31-Mar-2014 | Stuart Gibson | All files are now back scanned and held electronically on the X drive and a temporary filing system created. A resource has now been established within ICT to assist in developing a EDMS and we are exploring the options and methodology of creating a bespoke system |
| 3. Commercial Property Policy<br>It is recommended that the Commercial Properties Section complete policy documents for adoption by the Council. (Medium) | Policy and procedural documentation for all functions will be developed. | | 50% | 31-Mar-2014 | 31-Mar-2014 | Stuart Gibson | Procedures are now written for leases; rent reviews; assignation; surrenders and termination of leases |
| 4. Sales by Open Market Tender<br>It is recommended that the disposal procedures be amended to include a section that would address the situation where bids are considered unacceptable. (Medium) | Our sales particulars state that the Council is not obliged to accept the highest or any offer which covers this eventuality. An amendment will be made to the procedures document. | | 40% | 31-Jul-2013 | 31-Mar-2014 | Stuart Gibson | A procedure is planned to be included within the Commercial Property policy to cover this |
| 6. Rent Charges<br>It is recommended that there should be a regular reconciliation between the income from the Debtors system and the anticipated income per the Estates Portfolio, which would highlight any errors. | This has been an error – the policy and procedural document mentioned in 3 above will provide for this eventuality. | | 30% | 31-Mar-2014 | 31-Mar-2014 | Stuart Gibson | A review of our portfolio against bad debt and Agresso system has recently been completed which alerted surveyors to minor changes being required. A procedure is proposed to be included in our Commercial Property Policy |

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| (Medium) | | | | | | | |
| 14. Expiry of Leases<br>It is recommended that the surveyors complete a standard form to confirm that:<br>· the property has been visited<br>· whether or not it has been left in satisfactory condition<br>· utility meter readings have been taken<br>· any repairs required<br>· the property has been vacated and the keys returned.<br>(Medium) | This will be dealt with under the policy and procedural document to be produced under 3 above. | | 65% | 31-Mar-2014 | 31-Mar-2014 | Stuart Gibson | A procedure has been prepared for inclusion in the Commercial Property Policy |

**Project** 56. Council Tax Billing (Report Issued March 2013)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 2. Data Back-Up Tape security<br>It is recommended that back-up is held in fireproof containers. (Low) | Discussions are currently taking place with East Dunbartonshire Council regarding reciprocal arrangements for data storage. Storage will be in properly secure and fireproof containers. | | 60% | 31-Mar-2014 | 31-Mar-2014 | Damien Lynn | Modernisation Project may still impact this (disk to disk storage?). Alternative options have also been passed to Patricia Marshall for her consideration, see http://www.thesafeshop.co.uk/products/phoenix-fire-ranger-1514e.html for example of type of solution being proposed for both Rosebery Place and Bridge Street.<br>Patricia has now asked if we could look into sharing existing safes across the councils if possible too. |

**Project** 57. Main Accounting 12/13 (Report Issued June 2013)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 2(b) Cash Receipting Suspense Account Reconciliation It is essential that the Cash Receipting Suspense Account reconciliation is done for WDC and the Leisure Trust separately, in order that compensating errors between the two are identified and rectified. Medium Risk | Action will be taken to complete the WDC/ Leisure trust reconciliations separately from 31/3/13. | | 45% | 01-Sep-2013 | 31-May-2014 | Gillian McNeilly; Karen Shannon | The backdating of this reconciliation is ongoing and will be completed during the year end processes |
| 7(c) Financial Regulations and Written Procedures Agresso staff should be properly trained regarding their use of Agresso. Medium Risk. | A survey of Agresso users will be undertaken to identify Agresso training needs and appropriate training will be provided. | | 95% | 31-Dec-2013 | 31-May-2014 | Adrian Gray; Gillian McNeilly; Arun Menon | Agresso training around financial regs is complete; Creditors is nearly compete. However Debtors training has not yet commenced on account of a system review by Liberata which has proposed various changes to system. it is advised that the training is done once the changes have been implemented on the new procedures rather than current. |

**Project** 58. Contract Requirements - Schools (Report Issued July 2013)

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 6. Increase to Janitors' Pension Contributions The PPP Schools Monitoring Officer should ensure that pension contribution reconciliations between notional and actual | • PMO will confirm formally with BAM FM that no reconciliation payment had been due to the Authority since 27th June 2011. • Formally request a | | 15% | 31-Aug-2013 | 10-Dec-2014 | Stephen Ross | Reconciliation Statement has been requested from BAM FM, and PMO still awaiting a response. A full scheme valuation is carried out every 3 years and the last was carried out |

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| employer's contributions are obtained from the contractor in respect of the contract years since 27 June 2011 and that the appropriate financial adjustments are made. Medium Risk. | response from BAM FM annually at the end of each Contract Period end, regarding any such reconciliation payment due from each party. | | | | | | November 2011. The next full valuation is March 2014, and details released November 2014. |
| 9. Utilities Reconciliation Statement<br>The PPP Schools Monitoring Officer should remind the contractor of their responsibility to provide a Utilities Reconciliation Statement to the Council within 30 business days of the end of the contract year (31 March) and ensure that it is received as soon as possible. In addition, he should ensure that any monies due to or by the Council in respect of achievement or non achievement of agreed consumption targets are settled in accordance with the Project Agreement. Medium Risk. | • Contractually a reconciliation exercise should have been undertaken April 2013, covering the period from utilities normalisation exercise ending to the end of the Contract Year. Supplied 'benchmarking' figures from the contractor were not submitted to the Authority until April 2013. Confirmation of these figures checked by the Authority's Energy Officers was agreed June 2013. Formal acceptance of the figures to the contractor June 2013.<br>• PMO will formally request a reconciliation statement covering the period November 2012 to March 31st 2013 from BAM PPP. | | 75% | 31-Aug-2013 | 01-Apr-2014 | Stephen Ross | Reconciliation Statement requested from BAM FM. PMO still awaiting a response. Utilities usage/KPI's are set and determined on a full years data/meter readings. The anniversary of this occurs at the end of November 2013. BAM FM will then collate the figures and issue results, with a determination of any reconciliation payment due. Negotiations with BAM FM on-going regarding payment due. |

# Appendix C
# External Audit Reports

**Generated on:** 26 February 2014

| Action Status | |
|---|---|
| | Cancelled |
| | Overdue; Neglected |
| | Unassigned; Check Progress |
| | Not Started; In Progress; Assigned |
| | Completed |

**Project** 11. Review of Governance Arrangements and Main Financial Systems 2011/12

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| 19. NDR Billing & Collection - Documented Procedures<br>There is no comprehensive procedure manual to support the NDR process.<br><br>Risk: Staff, and staff training, are not adequately supported by documented procedures increasing the risk of processing error. | Full documentation of NDR process will be produced and advised to appropriate employees. | | 70% | 31-Dec-2012 | 30-Apr-2014 | Karen Shannon | Other service priorities took precedent on this action and it was reprioritised in line with the requirements of the service. |

**Project** 14. WDC 2012/13 Review of Governance Arrangements and Main Financial Systems Report. Issued June 2013.

| Recommendation | Agreed Action | Status | Progress Bar | Original Due Date of Action | Actual Due Date of Action | Assigned To | Note |
|---|---|---|---|---|---|---|---|
| <u>11. Information Communication Technology - Disaster Recovery Plan</u><br>The ICT department has recently produced a high level disaster recovery plan however further work is required to complete the supporting documentation which underpins the overall plan.<br><br><u>Risk:</u> The Council might not be able to protect and/or recover their ICT infrastructure in the event of a disaster. | ICT will continue to document and test DR plans for each critical system. | | 33% | 31-Mar-2014 | 31-Mar-2014 | Brian Miller | Feb 14. PSN security work has impacted the delivery of Council's DR plan as the same pool of resources are needed for both projects. Due to timescales overlapping with ICT Modernisation project and the upgrades to underlying technologies, External Auditor has been asked to consider a review of this action with timescales to align delivery of a DR plan with completion of ICT Modernisation project. |
| <u>13. Information Communication Technology - Use of unsupported and older software</u><br>The Council is operating many older versions of the common software applications, for example Office 2000 and Windows XP. Support for Office 2000 was withdrawn in 2009 and support for Windows XP is planned to end in 2014.<br><br><u>Risk:</u> Operating older unsupported versions of software may cause incompatibility issues and result in security weaknesses. | This recommendation will be progressed as part of ICT Modernisation project when a standard operating system and version of desktop tools will be agreed and implemented for locations/services within scope of the project and future projects to extend to additional locations/services. | | 66% | 30-Jun-2014 | 30-Jun-2014 | Patricia Kerr | Feb 14. Data gathering and analysis underway supplying information and application usage stats for ICT Modernisation project. This will continue throughout the life of the ICT Modernisation project. Reporting information and procedures contributing to license management audit processes towards FAST (Federation Against Software Theft) accreditation. |

**Project** 13. Annual Report on the 2011/12 Audit

| Risk Identified | Action Status Progress Bar | Original Due Date of Action | Actual Due Date of Action | Sub-Action Code | Planned Management Action | Sub-Action Progress Bar | Sub-Action Status Icon | Sub-Action Due Date | Sub-Action Assigned To | Sub-Action Latest Note |
|---|---|---|---|---|---|---|---|---|---|---|
| **4. Debt Levels:** A comparative review of the draft financial statements of all 32 local authorities highlighted that the Council has some of the highest levels of debt per head of population, as a proportion of fixed assets and as a proportion of net spend.<br><br>***Risk: Servicing the debt may not represent value for money and may have a detrimental impact on service delivery.*** | 83% | 31-Mar-2013 | 30-Nov-2013 | CS/EAAP/092a | The Council's Treasury Policy is reviewed on an annual basis to ensure that the Council operates within Prudential limits and that the debt repayments are affordable. | 100% | | 31-Mar-2013 | Stephen West | Treasury Strategy and Prudential Indicators for 2013/14 agreed by Council on 27 March 2013. |
| | | | | CS/EAAP/092b | A financial plan has been developed identifying required rent increases in order to service the debt. This plan will remain under review in order to consider its ongoing affordability. | 50% | | 30-Sep-2013 | Stephen West | Full review of the plan based on data from the 100% Housing Stock Condition Survey has been delayed - as officers are awaiting final survey outcomes from the surveyors. It is now anticipated that this will be available by 31 March 2014. |
| | | | | CS/EAAP/092c | The General Fund debt includes future payments for PPP schools which a number of other Councils do not have. The cost of servicing these repayments will continue to be planned within the Council's financial strategy. Future options for new capital investment are under consideration in the long term capital plan and means of funding these which minimise effect on | 100% | | 06-Feb-2013 | Stephen West | In setting the Council budget for 2013/14 the appropriate PPP costs were budgeted. |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | the revenue account are under consideration. | | | | | |
| **10. Scottish Housing Quality Standards:** The Council have a duty to ensure 100% of housing stock complies with SHQS by 2015. Retention of the housing stock affords greater control over delivery of SHQS but also creates additional financial pressure on the Council.<br><br>***Risk: The Council may fail to meet the SHQS 2015 deadline.*** | 84% | 31-Mar-2015 | 31-Mar-2015 | CS/EAAP/098a | In agreeing to retain the Council's housing stock, members were presented with details as to the level of investment to fund the achievement of SHQS and the expected levels of rent increases required to pay for the borrowing required to fund the improvements. Progress towards achieving SHQS will be monitored by HEED and the Chief Executive. | 77% | | 31-Mar-2015 | Helen Turley | Reported 77% complete at March 2014 and ahead of target. |
| | | | | CS/EAAP/098b | In addition the HRA capital plan is aligned to the achievement of SHQS on time and linked to the expected performance improvement arising from the use of flexible framework contracts it is expected that SHQS will be attained on time. | 77% | | 31-Mar-2015 | Helen Turley | Stock Condition Survey completed and incorporated into HRA Capital Plan to 6 February 2014 Council. |
| | | | | CS/EAAP/098c | CMT monitors progress in relation to the capital plan on a regular basis and this is also regularly reported to HEED Committee and Council. | 100% | | 31-Mar-2015 | Richard Cairns | Reports to SAMG/SMT and then to CMT. |

**Project** 15. Annual Report on the 2012/13 Audit

| Risk Identified | Action Status Progress Bar | Original Due Date of Action | Actual Due Date of Action | Sub-Action Code | Planned Management Action | Sub-Action Progress Bar | Sub-Action Status Icon | Sub-Action Due Date | Sub-Action Assigned To | Sub-Action Latest Note |
|---|---|---|---|---|---|---|---|---|---|---|
| **4. Financial Pressure**: The Council currently has an assumed cumulative funding gap of £21.68 million over the period 2013/14 - 2016/17 and continues to face an increase in demand for services due to the current economic climate and changes in demography.<br><br>**Risk: The Council may not be able to generate efficiencies and savings to bridge the funding gap.** | 62% | 31-Aug-2016 | 31-Aug-2016 | CS/EAAP/117a | The Long Term Financial Strategy going to Council on 30 October 2013 asks CMT to identify efficiencies for forward planning to meet the anticipated gap. | 100% | | 30-Oct-2013 | Stephen West | Updated Long Term Financial Strategy provided to and agreed by Council on 30 October 2013. |
| | | | | CS/EAAP/117b | Updates of the Long Term Financial Strategy will be presented to Council on at least an annual basis to update the projections as new information becomes available. | 25% | | 31-Aug-2016 | Stephen West | Long Term Financial Strategy provided to Council on 30 October 2013. Further updates will be provided on an ongoing annual basis. |
| **6. Rent Arrears**: The Council have the fifth highest gross housing rent arrears as a proportion of HRA dwelling rents in Scotland. This is likely to be further impacted by welfare reform and the rent increases required to fund | 66% | 04-Feb-2015 | 04-Feb-2015 | CS/EAAP/119a | The position of rent collection will be monitored and reported as part of the regular budgetary control process. | 100% | | 30-Nov-2013 | Stephen West | Rent collection is reported to HEED Committee and Council as part of Budgetary Control report on HRA revenue account on a regular basis. The rent collection performance is considered in relation to the income and bad |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| the capital programme designed to meet the SHQS by 2015.<br><br>**Risk: Escalation of rent arrears may lead to a significant loss of income and jeopardise delivery of the HRA capital programme.** | | | | | | | | | | debt provision position. |
| | | | | CS/EAAP/119b | The expected impact of welfare reform will be provided for within new revenue budgets for the HRA | 33% | | 04-Feb-2015 | Stephen West | Work on producing the HRA budget for 2014/15 and onwards has commenced and is progressing well. This process includes consideration of likely impact of welfare reform on ability to collect rents. This will continue into future years. |

**WEST DUNBARTONSHIRE COUNCIL**

**Report by Executive Director of Corporate Services**

**Audit & Performance Review Committee: 12th March 2014**

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**Subject: Public Interest Disclosures for the period 1st July 2013 to 31st December 2013**

## 1. Purpose

**1.1** The purpose of this report is to advise Committee of public interest disclosures received during the period 1st July 2013 to 31st December 2013.

## 2. Recommendations

**2.1** It is recommended that Members note the content of this report.

## 3. Background

**3.1** A disclosure in the public interest is where a concern is raised about a danger or illegality that has a public interest aspect to it. A confidential reporting facility is managed by Internal Audit as part of the WDC Public Interest Disclosure Policy. Internal Audit maintains a central record of all concerns raised under the Public Interest Disclosure Policy.

## 4. Main Issues

**4.1** A total of 12 disclosures were received during the period July 2013 to December 2013 as summarised below:

| | Date Received | Detail | Date completed | Outcome |
|---|---|---|---|---|
| 1 | 30.07.13 | Allegation of breach of confidentiality. | 17.12.13 | Founded in part resulting in disciplinary action. |
| 2 | 22.08.13 | Allegation of bullying and breach of health & safety. | 03.10.13 | Unfounded |
| 3 | 25.08.13 | Allegation of breach of health and safety. (Nb. Linked to allegation No.2 above). | 03.10.13 | Unfounded |
| 4 | 26.08.13 | Allegation of breach of Code of Conduct for Employees. | 23.11.13 | Unfounded |

| | | | | |
|---|---|---|---|---|
| 5 | 27.08.13 | Allegation of unethical conduct / fraud. | ____ | In progress |
| 6 | 28.08.13 | Allegation of a breach of data protection. | 15.10.13 | Unfounded |
| 7 | 16.09.13 | Allegation of unethical conduct | 19.09.13 | Unfounded |
| 8 | 23.09.13 | Allegation of theft. | 15.01.13 | Unfounded |
| 9 | 01.10.13 | Allegation of breach of working time directive. | ____ | In progress |
| 10 | 12.10.13 | Allegation of a breach of data protection. | 01.11.13 | Unfounded |
| 11 | 04.11.13 | Allegation of breach of working time directive. | ____ | In progress |
| 12 | 08.11.13 | Allegation of breaches of Health & Safety at Work Act and failure to comply with legal obligations. | ____ | In progress |

**5. People Implications**

**5.1** There are no personnel implications with this report.

**6. Financial Implications**

**6.1** There are no financial implications with this report.

**7. Risk Analysis**

**7.1** There are risks to the Council in financial, legal, operational and reputation terms of not providing a service to enable a disclosure in the public interest.

**8. Equalities Impact Assessment (EIA)**

**8.1** An EIA was undertaken at the time the policy was updated and identified no negative impact.

**9. Consultation**

**9.1** This report has been subject to a check by Legal, Democratic and Regulatory Services.

## 10. Strategic Assessment

**10.1** The Public Interest Disclosure Policy contributes to Council's strategic priorities by ensuring that early warnings of malpractice may mitigate the extent of financial losses to the Council, contributes to better asset management by utilising employees to manage risks to the organisation's reputation and supports fit for purpose services through the continuation and promotion of robust employment practice.

Angela Wilson
Executive Director of Corporate Services
Date: 25 February 2014

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| | |
|---|---|
| **Person to Contact:** | Colin McDougall, Audit and Risk Manager, Council Offices, Garshake Road, Dumbarton Telephone (01389-737436). Email: colin.mcdougall@west-dunbarton.gov.uk |
| **Appendices:** | None |
| **Background Papers:** | The Public Interest Disclosure Policy approved by the Corporate Services Committee on 14th November 2012. |
| **Wards Affected:** | All |

**WEST DUNBARTONSHIRE COUNCIL**

**Report by the Executive Director of Corporate Services**

**Audit & Performance Review Committee : 12 March 2014**

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**Subject: Prudential Indicators 2013/14 to 2016/17 and Treasury Management Strategy 2014/15 to 2016/17**

## 1. Purpose

**1.1** The purpose of this report is to provide Members with an update on the following:

(a) Prudential Indicators for 2013/14 to 2016/17; and

(b) Treasury Management Strategy (including the Investment Strategy) for 2014/15 to 2016/17.

## 2. Recommendations

**2.1** Members are requested to note that Council approved the following on 6 February 2014:

(a) The Prudential Indicators and Limits set out within Appendix 1:

- Capital Expenditure and Capital Financing Requirements (Tables A and B);
- Actual and estimates of the ratio of financing costs to Net Revenue Stream (Table C);
- Incremental impact of capital investment decisions on the Band D Council Tax (Table D); and
- Incremental impact of capital investment decisions Housing Rent levels (Table E).

(b) The Treasury Management Strategy for 2014/15 to 2016/17 (including the Investment Strategy) contained within Appendix 2.

(c) The Treasury Prudential Indicators and Limits set out in Appendix 2:

- Operational Boundaries (Table G);
- Authorised Limits (Table H);
- Counterparty Limits (Table K); and
- Treasury Management Limits on Activity (Table M).

(d) The statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement (Appendix 2 - Point 2.2).

## 3. Background

**3.1** With the introduction of the Prudential Code, the Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve, revise and monitor a range of prudential indicators covering the forthcoming three years.

**3.2** The Council's treasury activities are strictly regulated by statutory requirements (*Code on the Investments of Money by Scottish Local Authorities*) and a professional code of practice (*CIPFA Treasury Management Code of Practice*). The code requires an annual strategy to be reported to Council in advance of the forthcoming year outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. Further reports are issued as follows:

(a) Mid-year monitoring report on actual treasury activity during the year including revised indicators where appropriate; and

(b) Year-end report on actual treasury activity for the previous year.

**3.3** Section 56 of the Local Government (Scotland) Act 1973 Act permits local authorities in Scotland to discharge their functions by committees. Exceptions include setting the council tax (s56 (6) (b)) and borrowing money (s56 (6) (d)), which requires the authority, that is full Council, to discharge. The Section 56 provisions were extended to require Council to approve the Annual Investment Strategy via the *Code on the Investments of Money by Scottish Local Authorities* (issued on 1 April 2010) been issued under section 40 of the Local Government in Scotland Act 2003.

**3.4** As a result of Section 56, both the Prudential Indicators and the Treasury Management Strategy (including the Investment Strategy) are required to be approved by full Council before the start of the financial year.

**3.5** The CIPFA Treasury Management Code of Practice requires greater Member scrutiny of the treasury polices, increased Member training and awareness and greater frequency of information.

**3.6** One of the key clauses is that a responsible body is required to ensure effective scrutiny of the treasury management strategy and polices. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit and Performance Review Committee.

**3.7** The Prudential Indicators 2013/14 to 2016/17 and Treasury Management Strategy 2014/15 to 2016/17 are now referred to the Audit and Performance Review Committee for further scrutiny in accordance with recommendation 2.1 (e) approved by Council on 6 February 2014.

**4. Main Issues**

**4.1** The Local Government in Scotland Act 2003 requires Council to adopt the CIPFA Prudential Code and to produce prudential indicators. Appendix 1 of this report details the Council's expected year end indicators for 2013/14, revises the indicators for 2014/15 and 2015/16 and introduces new indicators for 2016/17.

**4.2** Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy (which includes details of both debt and investment) for 2014/15 to 2016/17 is included as Appendix 2 to complement the prudential indicators relating to the treasury activity.

**4.3** Details of the risks, mitigating controls and limits associated with each of the permitted investment categories are shown in Appendix 3. Credit rating type and definitions are attached as Appendix 4 and a list of approved sovereign countries for investments are attached as Appendix 5.

**4.4** Within Appendix 3 (other types of investment) this Strategy introduces 'Local Authority Mortgage Scheme' (LAMS), an initiative introduced by the Government to help potential first-time buyers (including those on council housing lists or those occupying affordable or social housing units) to buy their first home. This allows councils to work in partnership with residential mortgage lenders, to support mortgages for first time buyers by providing a financial indemnity which bridges the gap between the required loan value and the value of the mortgage offered by lenders. As stated within the appendix, any future potential Council investment in this area will require Members approval.

**5. People Implications**

**5.1** There are no people implications arising from this report.

**6. Financial Implications**

**6.1** The prudential indicators detailed in Appendix 1 show the Council's likely capital financing for the period 2013/14 to 2016/17 while the treasury management indicators detailed in Appendix 2 show the likely borrowing requirement for the same period. In each year the gross borrowing requirement is below the capital financing requirement (Appendix 2 – section 2.1 and 2.2).

**6.2** As a key indicator of prudence this illustrates that the Council only undertakes long term borrowing for capital purposes and that over the last few years investment balances have been utilised to fund capital expenditure due to the concerns over the general economic environment and restricted counterparty lists.

## 7. Risk Analysis

**7.1** There are three main risks associated with the formulation of prudential indicators and the treasury management strategy as detailed in Appendix 1 and 2:

(a) Capital receipts which affect the capital financing and borrowing requirement may not materialise and if this occurs then additional borrowing will be required in order to fund the financing requirement;

(b) The risk of Counterparties default (i.e. loss of principal sum invested) must also be taken into account; however the robust controls included within the investment strategy (Appendix 2 – section 6) will assist in mitigating this risk; and

(c) Capital inflation may increase capital expenditure levels, which in turn may affect the capital financing and borrowing requirement leading to an increase in borrowing, assuming no additional capital receipts are available.

## 8. Equalities Impact Assessment

**8.1** No equalities impact assessment was required in relation to this report as the report is for noting.

## 9. Consultation

**9.1** Legal and finance have been consulted in relation to this report and appendices.

## 10. Strategic Assessment

**10.1** Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan. This report forms part of the financial governance of the Council.

**Angela Wilson**
**Executive Director of Corporate Services**
**Date: 12 February 2014**

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**Person to Contact:** Jennifer Ogilvie, Business Partner (Corporate Functions), Garshake Road, Dumbarton, Telephone (01389) 737453
Email: Jennifer.ogilvie@west-dunbarton.gov.uk

**Appendices:**
1 Prudential Indicators 2013/14 to 2016/17
2 Treasury Management Strategy 2014/15 to 2016/17

| | | |
|---|---|---|
| | 3 | West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits |
| | 4 | Counterparty Rating Explanations |
| | 5 | Approved Countries for Investment |

**Background Papers:** Treasury Management Annual Report – Council 27 March 2013

**Wards Affected:** All wards affected.

**Appendix 1**

# Prudential Indicators 2013/14 to 2016/17

## 1. The Capital Expenditure Plans

**1.1** The Council's gross capital expenditure plans are summarised below in Table A and this forms the first of the prudential indicators. Total expenditure is partially funded by resources such as capital receipts, capital grants, etc. Any remaining expenditure which cannot be immediately funded from other resources will form a borrowing need.

**1.2** A certain level of capital expenditure will be grant supported by the Government; anything above this level will be funded from the Council's own resources.

**1.3** There are two main limiting factors which may impact on the Council's ability to undertake unsupported capital expenditure:

- Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs; and

- The Government may use a control to limit either the total of all councils' plans nationally, or in the event of an assessment by central government that local plans are unaffordable at a specific council, it may implement a local control. No such control has been implemented since the inception of the prudential code, however, HM Treasury keep this under review.

**1.4** The summary of capital expenditure as per the capital plan refresh reported to Council on 6 February 2014 for General Services and HRA is shown in the table below:

**Table A**

| **£000** | **2013/14 Revised** | **2014/15 Estimated** | **2015/16 Estimated** | **2016/17 Estimated** |
|---|---|---|---|---|
| **General Services** | **31,656** | **34,099** | **69,164** | **37,375** |
| Financed by: | | | | |
| Capital receipts | 162 | 2,680 | 3,200 | 5,125 |
| Capital grants | 12,224 | 9,653 | 10,333 | 7,598 |
| Revenue | 2,501 | 1,094 | 242 | 242 |
| **Net financing need for the year** | **16,769** | **20,672** | **55,389** | **24,410** |

| **£000** | **2013/14 Revised** | **2014/15 Estimated** | **2015/16 Estimated** | **2016/17 Estimated** |
|---|---|---|---|---|
| **HRA** | **36,361** | **35,966** | **27,024** | **17,711** |
| Financed by: | | | | |
| Capital receipts | 1,037 | 950 | 500 | 452 |
| Capital grants | 4,123 | 1,850 | 0 | 0 |
| Revenue | 2,031 | 1,969 | 0 | 0 |
| **Net financing need for the year** | **29,170** | **31,197** | **26,524** | **17,259** |

| £000 | 2013/14 Revised | 2014/15 Estimated | 2015/16 Estimated | 2016/17 Estimated |
|---|---|---|---|---|
| General Services | 31,656 | 34,099 | 69,164 | 37,375 |
| HRA | 36,361 | 35,966 | 27,024 | 17,711 |
| **Capital Expenditure** | **68,017** | **70,065** | **96,188** | **55,086** |
| Financed by: | | | | |
| Capital receipts | 1,199 | 3,630 | 3,700 | 5,577 |
| Capital grants | 16,347 | 11,503 | 10,333 | 7,598 |
| Revenue | 4,532 | 3,063 | 242 | 242 |
| **Net financing need for the year** | **45,939** | **51,869** | **81,913** | **41,669** |

## 2. The Council's Borrowing Need (the Capital Financing Requirement)

**2.1** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. The net capital financing need (as indicated in Table A) impacts directly on the CFR.

**2.2** Following accounting changes the CFR includes any other long term liabilities (i.e. PPP schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £91.442m of such schemes within the CFR.

**2.3** The CFR projections for both General Services and HRA are shown in table B:

**Table B**

| £000 | 2013/14 Revised | 2014/15 Estimated | 2015/16 Estimated | 2016/17 Estimated |
|---|---|---|---|---|
| **Capital Financing Requirement** | | | | |
| CFR – General Services | 217,773 | 236,793 | 285,970 | 304,033 |
| CFR – HRA | 135,950 | 156,761 | 177,572 | 188,454 |
| **Total CFR** | **353,723** | **393,554** | **463,542** | **492,487** |
| Movement in CFR | 28,352 | 39,831 | 69,988 | 28,945 |

| | | | | |
|---|---|---|---|---|
| **Movement in CFR represented by** | | | | |
| Net financing need for the year (above) | 45,939 | 51,869 | 81,913 | 41,669 |
| Less scheduled debt amortisation and other financing movements | (17,587) | (12,038) | (11,925) | (12,724) |
| **Movement in CFR** | **28,352** | **39,831** | **69,988** | **28,945** |

**2.4** The CFR for both General Services and HRA is projected to increase from 2014/15 onwards.

**2.5** The expected impact of the capital expenditure decisions above on the Council's debt and investment position are shown in the treasury strategy (Appendix 2).

## 3. Affordability Prudential Indicators

**3.1** The previous sections cover the overall capital and control of borrowing, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These indicate the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

### 3.1.1 Actual and Estimates of the ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (loan charges) against the net revenue stream (funding sources e.g. AEF and council tax). The estimates of financing costs include current commitments and the impact of capital expenditure as per Table A.

**Table C**

| | 2013/14 Revised | 2014/15 Estimated | 2015/16 Estimated | 2016/17 Estimated |
|---|---|---|---|---|
| General Services | 6.73% | 4.55% | 5.03% | 5.69% |
| HRA | 36.36% | 36.16% | 35.00% | 36.60% |

### 3.1.2 Estimates of the incremental impact of capital investment decisions on the Council Tax

This indicator identifies the trend in the cost of approved capital expenditure compared to the current expenditure levels. The assumptions are based on the 10 year capital plan, but will invariably include some elements which are estimated over the three year period.

**Table D**

| | Proposed Budget 2014/15 | Forward Projection 2015/16 | Forward Projection 2016/17 |
|---|---|---|---|
| Council Tax - Band D | £12.20 | £26.58 | £8.85 |

### 3.1.3 Estimates of the incremental impact of capital investment decisions on Housing

This indicator identifies the trend in the cost of approved capital expenditure compared to the current expenditure levels, expressed as a discrete impact on weekly rent levels.

**Table E**

| | Proposed Budget 2014/15 | Forward Projection 2015/16 | Forward Projection 2016/17 |
|---|---|---|---|
| Weekly Housing Rent levels | £2.66 | £2.26 | £1.47 |

**Appendix 2**

# Treasury Management Strategy 2014/15 – 2016/17

## 1. Background

**1.1** The treasury management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators in Appendix 1 consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are specific treasury prudential indicators included in this strategy which need approval.

**1.2** The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2011). This Council adopted the revised Code of Practice on Treasury Management on 28 March 2012.

**1.3** As a requirement of the Code the Council adopted revised Treasury Management Policy Statement and four Treasury Management clauses on 28 March 2012. These form part of the Council's financial regulations and are also a requirement of one of the prudential indicators.

**1.4** The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. Further reports are issued as follows:

- Mid year monitoring report on actual activity during the year including revised indicators where appropriate; and
- Year-end report on actual activity for the previous year.

**1.5** This strategy covers:

- The Council's debt and investment projections;
- Limits to the Council's borrowing activity;
- The economic climate and expected movement in interest rates;
- The Council's borrowing, debt and investment strategies;
- Treasury performance indicators; and
- Specific limits on treasury activities.

## 2. The Council's debt and investment projections

**2.1** The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised below. Table F shows the gross debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any under or over borrowing.

**Table F**

| £000 | 2013/14 Revised | 2014/15 Estimated | 2015/16 Estimated | 2016/17 Estimated |
|---|---|---|---|---|
| **External Debt** | | | | |
| Debt at 1 April | 220,308 | 243,866 | 284,989 | 356,504 |
| Maturing Debt | (31,894) | (27,413) | (8,032) | (7,144) |
| New Borrowing : Maturing Debt | 25,900 | 27,397 | 8,025 | 7,144 |
| New Borrowing : CFR | 29,552 | 41,139 | 71,521 | 30,652 |
| **Debt at 31 March** | **243,866** | **284,989** | **356,504** | **387,156** |
| Long Term Liabilities at 1 April | 91,442 | 90,242 | 88,934 | 87,401 |
| Change in Long Term Liabilities | (1,200) | (1,308) | (1,533) | (1,707) |
| **LTL at 31 March** | **90,242** | **88,934** | **87,401** | **85,694** |
| **Gross Debt at 31 March** | **334,108** | **373,923** | **443,905** | **472,850** |
| **CFR** | **353,723** | **393,554** | **463,542** | **492,487** |
| **Under/(Over) Borrowing** | **19,615** | **19,631** | **19,637** | **19,637** |

**2.2** Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. This is illustrated by comparing the estimated gross debt as at 31 March 2014 with the CFR as at 31 March 2017.

**2.3** **The Section 95 Officer (Head of Finance & Resources) reports that the Council has complied with this prudential indicator, and no difficulties are envisaged for the current or future years.** This view takes into account current commitments, existing plans, and the approved 10 year capital plan.

## 3. Limits to Borrowing Activity

**3.1** The Operational Boundary is detailed in Table G below and is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

**Table G**

| £000 | 2013/14 Revised | 2014/15 Estimated | 2015/16 Estimated | 2016/17 Estimated |
|---|---|---|---|---|
| External Debt | 367,519 | 411,316 | 488,295 | 520,134 |

**3.2** The Authorised Limit for External Borrowing – a further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is not allowed to exceed. This needs to be set or revised by Members. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35(1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the authorised limit detailed in Table H below:

**Table H**

| £000 | 2013/14 Revised | 2014/15 Estimated | 2015/16 Estimated | 2016/17 Estimated |
|---|---|---|---|---|
| External Debt | 400,930 | 448,708 | 532,685 | 567,419 |

**3.3 Advance Borrowing -** This Council will not borrow more than or earlier than required purely in order to profit from the investment return of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

**3.3.1** Advance borrowing will only be taken for risk management purposes subject to sound justification. The Section 95 Officer (Head of Finance & Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected and so borrowing early at fixed interest rates will be economically beneficial. A cautious approach to any such borrowing will be adopted, however where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

**3.3.2** Full consideration will be given to balancing investment risks, such as the credit and interest risk resulting from the temporary investment of the sums, against the risk of adverse interest rate movements in addition to the existing debt maturity profile over the medium term.

**3.3.3** As required by The Investment Regulations (Code on the Investments of Money by Scottish Local Authorities) which came into force on 1 April 2010 the Council will appraise all risks associated with advance borrowing activity. The Council will fully document the justification for the decision prior to the activity being undertaken, with subsequent reporting either within the mid year or annual reporting mechanism.

## 4. Prospect for Interest Rates

**4.1** The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table I gives the Sector central view.

**Table I**

| Annual Average % | Bank Rate % | PWLB Borrowing Rates % (including certainty rate adjustment) | | |
|---|---|---|---|---|
| | | 5 year | 25 year | 50 year |
| Mar 2014 | 0.50 | 2.50 | 4.40 | 4.40 |
| Jun 2014 | 0.50 | 2.60 | 4.50 | 4.50 |
| Sep 2014 | 0.50 | 2.70 | 4.50 | 4.50 |
| Dec 2014 | 0.50 | 2.70 | 4.60 | 4.60 |
| Mar 2015 | 0.50 | 2.80 | 4.60 | 4.70 |
| Jun 2015 | 0.50 | 2.80 | 4.70 | 4.80 |
| Sep 2015 | 0.50 | 2.90 | 4.80 | 4.90 |
| Dec 2015 | 0.50 | 3.00 | 4.90 | 5.00 |
| Mar 2016 | 0.50 | 3.10 | 5.00 | 5.10 |
| Jun 2016 | 0.75 | 3.20 | 5.10 | 5.20 |
| Sep 2016 | 1.00 | 3.30 | 5.10 | 5.20 |
| Dec 2016 | 1.00 | 3.40 | 5.10 | 5.20 |
| Mar 2017 | 1.25 | 3.40 | 5.10 | 5.20 |

**4.2** Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

**4.3** The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2014/15 and beyond;

- Borrowing interest rates have risen during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

## 5. Borrowing and Debt Strategy 2014/15 – 2016/17

**5.1** The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

**5.2** Against this background and the risk within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Section 95 Officer (Head of Finance & Resources) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

**5.3** If it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

**5.4** If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

**5.5** The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

**5.6** Any decisions will be reported to Members via the Members Bulletin at the next available opportunity.

## 6. Investment Strategy

**6.1** The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular). The Council has also adopted both the 2011 revised Treasury Management Code of Practice and the 2013 revised Prudential Code. The day to day investment policies and practices are contained in the Council's Treasury Management Practices, which reflect the requirements of these codes. These practices are regularly reviewed.

**6.2** **Key Objectives** – Following the economic background above, the current investment climate has one over-riding risk consideration - counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy. The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

**6.2.1** In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, outlooks and watches published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency.

Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

**6.2.2** Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Sector in producing its colour codings which show the varying degrees of creditworthiness.

**6.2.3** Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

**6.2.4** The aim of the strategy is to generate a list of highly creditworthy counterparties which will enable diversification, and thus avoidance of concentration, with the prime intention of providing security of investment and minimisation of risk.

**6.3** **Investment Strategy** – The process for investment strategy under the regulations covers a wide range of Council investments and will be broadly managed in the following way:

- Short Term Cash – Cash relating to day to day cash flow will be maintained on a shorter term basis in cash type products with consideration to the liquidity requirements outlined above.

- Longer Term Cash – Cash relating to reserves, provisions and balances on the balance sheet may be held for longer periods of time in cash type products or in longer term bonds or funds depending on:

    - Cash flow requirements:
    - The underlying expectation for interest rates; and
    - The economic background of these investments may be held longer term.

- Service Type Investments – These types of investments will predominately be policy driven and approved by Members. Shareholdings, development opportunities, loans to third parties, equity instruments and investment properties held for rental returns) will be regularly reviewed to judge the investment performance.

- Non Service Type Investments – Investments such as Joint venture delivery companies such as Hub West Scotland and investments in regeneration partnerships and development opportunities

**6.4** **Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service**
A development for Member reporting is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are additional new requirements to the Member reporting.

**6.4.1** These benchmarks are targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

**6.4.2** In the context of benchmarking, assessing security is a very subjective area to assess. Security is currently evidenced by the application of minimum quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. Table J shows average defaults for differing periods of investment grade products for each Fitch/Moody's Standard and Poors long term rating category.

**Table J**

| Long term rating | 1 year | 2 years | 3 years | 4 years | 5 years |
|---|---|---|---|---|---|
| AAA | 0.00% | 0.02% | 0.06% | 0.10% | 0.13% |
| AA | 0.02% | 0.04% | 0.14% | 0.28% | 0.40% |
| A (including A-) | 0.09% | 0.25% | 0.44% | 0.62% | 0.83% |
| BBB | 0.21% | 0.61% | 1.07% | 1.61% | 2.13% |

**6.4.3** The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.09% of the total investment (e.g. for a £1m investment the average loss would be £900). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

**6.4.4** As required by the CIPFA Treasury Management Code of Practice The Council will "ensure that it has adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives". In respect to liquidity as defined above the Council seeks to maintain:

- Bank overdraft - £1.000m; and
- Liquid short term deposits of at least £5m available on an overnight basis.

**6.4.5** Local measures of yield investment benchmarks that will be used to assess returns are:

- Internal returns above the 7 day LIBID rate;
- Internal returns above the 1 month LIBID rate for fixed investments; and
- Internal returns above the Council's instant access account.

**6.5** **Council Permitted Investments** – The Investments Regulations (Code on the Investment of Money by Scottish Local Authorities) requires Council approval of all the types of investment to be used and set appropriate limits for the amount that can be held for each investment type. These types of investment are termed permitted investments and any investments used which have not been approved as a permitted investment will be considered ultra vires.

**6.5.1** The permitted investments which may be used in the forthcoming year are noted below. Details of the risks, mitigating controls and limits associated with each of these permitted categories are shown in Appendix 3.

- **Cash Type Instruments**
  - Deposits with the Debt Management Account Facility (UK Government);

- Deposits with other local authorities or public bodies;
- Money Market Funds;
- Call accounts, deposit accounts with financial institutions (banks and building societies;
- Term deposits with financial institutions (banks and building societies);
- UK Government Gilts and Treasury Bills;
- Certificates of deposits will financial institutions (banks and building societies); and
- Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates, etc).

- **Other Investments**

  - Investment properties;
  - Loans to third parties, including soft loans;
  - Loans to a local authority company;
  - Shareholding in a local authority company;
  - Non-local authority shareholdings;
  - Joint venture delivery companies such as hub West Scotland;
  - Regeneration partnerships and development opportunities; and
  - Local Authority Mortgage Scheme (LAMS).

**6.5.2** Permitted investments related to the Common Good are also shown in Appendix 3, and where applicable the same counterparty selection criteria as noted in 6.6 below will be applied.

**6.6 Investment Counterparty Selection Criteria**

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

**6.6.1** The Section 95 Officer (Head of Finance & Resources) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criterion selects which counterparties the Council will choose from, rather than defining what its investments are.

**6.6.2** The minimum rating criteria to be used uses the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating type and definitions are attached as Appendix 4.

**6.6.3** Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to any counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

**6.6.4** The criteria for providing a pool of high quality cash type investment counterparties are:

- **Category 1 - Good Credit Quality** – the Council will only use financial institutions (including certificates of deposit and corporate bonds) which:

    - Are UK banks; and/or
    - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA; The UK will be excluded from any Sovereign rating criteria.
    - And have, as a minimum, the following Fitch, Moody's and Standard and Poors (S&P) credit ratings (where rated):
        - Short Term – F1 (or equivalent from Fitch, Moody's and S&P)
        - Long Term – A- (or equivalent from Fitch, Moody's and S&P)
        - Viability / Financial Strength – bb+ (Fitch) / C (Moody's)
        - Support – 3 (Fitch only)

    The difference between the ratings will be reflected in the money limits as noted in Table L

- **Category 2** – **Part nationalised UK banks** – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Category 1 above.

- **Category 3**- **The Council's own banker** for transactional purposes if the bank falls below the above criteria specified in category 1, although in this case balances will be minimised in both monetary size and time.

- **Category 4 - Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined in category 1.

- **Category 5 - Building Societies** – the Council will use all Societies which meet the ratings for banks outlined in category 1.

- **Category 6 - Money Market Funds** – the Council will use money market funds that are AAA rated (by at least one of the 3 rating agencies).

- **Category 7 - UK Government** (including gilts, treasury bills and the DMADF)

- **Category 8 - Local Authorities, etc**

**6.6.5** Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved which will provide officers with the flexibility to deal with any unexpected occurrences. Officers can restrict the pool of available counterparties from these criteria to safer instruments and institutions.

**6.6.6** The time limits for institutions on the Council's cash type counterparty list are as noted in Table K:

**Table K**

| Investment Category | Fitch (or equivalent) | Money Limit | Time Limit |
|---|---|---|---|
| 1 | F1+ / AA- | £10million | 364 days |
| | F1 / A- | £5 million | |
| 2 | F1/A- | £10 million (per group) | 364 days |
| 3 | | £5 million | Overnight |
| 4 | | £5 million | 364 days |
| 5 | As in 1 above | £10 m and £5m | 364 days |
| 6 | Sector Limit | £20 million | Very liquid no time limit applies |
| | Fund Limit | £5 million | |
| 7 | | No limit | 6 months |
| 8 | Sector Limit<br>Fund Limit | £20 million<br>£5 million | 364 days |

**6.6.7** The Council's bankers are currently the Clydesdale Bank Plc which falls within Category 3. It is recognised that the money limit of £5million may be breached for purely operational purposes on a temporary overnight basis only. The Head of Finance & Resources will endeavour to avoid this scenario but this allows for circumstances that are outwith the Council's control where funds may be deposited unexpectedly or at short notice into the Council's accounts after the dealing deadline for the day has passed. In such a circumstance the funds will require to be kept on an overnight basis in the Council's bank account until appropriate arrangements can be made for investment.

**6.6.8** Table K does not include a monetary limit for category 7 which are funds deposited with the UK Government namely the Debt Management Account Deposit Facility (DMADF). This facility allows local authorities to deposit surplus cash on flexible terms and receive a market related rate of interest. Funds are held by the Bank of England and the scheme carried the Government's own sovereign credit rating offering the highest available security and therefore no maximum monetary limit has been set.

**6.6.9 Country and sector considerations -** Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above and the list of approved countries for investments are detailed in Appendix 5. In addition:

- No more than 25% will be placed with any country outside of the UK at any time;
- Limits in place above will apply to Group companies; and
- Sector limits will be monitored regularly for appropriateness.

**6.6.10Use of additional information other than credit ratings** – Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

**6.6.11 Economic Investment Considerations** - Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in March 2015. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

**6.6.12** There is an operational difficulty arising from the current banking crisis. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

**6.6.13** The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Section 95 Officer (Head of Finance & Resources) may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

**6.6.14** Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds and strongly rated. The credit criteria have been amended to reflect these facilities.

**6.7 Sensitivity to Interest Rate Movements** - Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. Table L highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

**Table L**

| Loan Type | 2014/15 Estimate | 2014/15 Estimated + 1% | 2014/15 Estimated - 1% |
|---|---|---|---|
| **Revenue Budgets** | | | |
| Variable Rate Debt Payments | £0.004m | +£0.005m | -£0.004m |
| Variable Rate Investment income | -£0.040m | -£0.080m | £0.040m |

## 7. Treasury Management Limits on Activity

**7.1** There are four further treasury activity limits, which were previously prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs.

- *Upper limits on variable interest rate exposure* – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments

- *Upper limits on fixed interest rate exposure* – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

- *Maturity structures of borrowing* – These limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

- *Total principal funds invested for greater than 364 days* - These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The proposed indicators are shown within Table M:

**Table M**

| | **2014/15 Upper** | | **2015/16 Upper** | | **2016/17 Upper** | |
|---|---|---|---|---|---|---|
| **Limits on fixed interest Rates** | 100% | | 100% | | 100% | |
| **Limits on variable interest rates** | 50% | | 50% | | 50% | |
| | | | | | | |
| **Maturity Structure of fixed interest rate borrowing** | | | | | | |
| | **Lower** | **Upper** | **Lower** | **Upper** | **Lower** | **Upper** |
| Under 12 months | 0% | 50% | 0% | 50% | 0% | 50% |
| 12 months to 2 years | 0% | 50% | 0% | 50% | 0% | 50% |
| 2 years to 5 years | 0% | 50% | 0% | 50% | 0% | 50% |
| 5 years to 10 years | 0% | 50% | 0% | 50% | 0% | 50% |
| 10 years to 20 years | 0% | 50% | 0% | 50% | 0% | 50% |
| 20 years to 30 years | 0% | 50% | 0% | 50% | 0% | 50% |
| 30 years to 40 years | 0% | 50% | 0% | 50% | 0% | 50% |
| 40 years to 50 years | 0% | 100% | 0% | 100% | 0% | 100% |
| 50 years to 60 years | 0% | 100% | 0% | 100% | 0% | 100% |
| 60 years to 70 years | 0% | 100% | 0% | 100% | 0% | 100% |
| **Principal sums invested > 364 days** | £nil | £1m | £nil | £1m | £nil | £1m |

**7.2** The upper limit applies to the maturity structure of fixed interest rate borrowing in the table above. The level has been set to take account of the way that local authorities have to record certain market loans where the maturity date is deemed to be the next call date rather than the eventual repayment date.

## 8. Performance Indicators

**8.1** The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available;
- Debt – Average rate movement year on year; and
- Investments – Internal returns above the 7 day LIBID rate.

**8.2** The results of these indicators will be reported in the Treasury Annual Report for 2013/14.

## 9. Treasury Management Advisers

**9.1** The Council uses Sector as its treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

**9.2** The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not place upon external service providers.

**9.3** The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

**9.4** Whilst the advisers provide support to the internal treasury function the final decision on treasury matters remains with the Council.

## 10. The Monitoring of Investment Counterparties

**10.1** The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Corporate Services and, if required, new counterparties which meet the criteria will be added to the list.

## 11. Impact of the Independence Referendum

**11.1** The potential impact of the Independence Referendum has been discussed with the Treasury Management Advisors and members will be advised of any impact as appropriate.

**Appendix 3**

**West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits**

| Type of Investment | Treasury Risks | Mitigating Controls | Council and Common Good Limits |
|---|---|---|---|
| **Cash Type Instruments** | | | |
| Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)** | This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months. | Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. | As shown in the counterparty section criteria 6.6.6 above. |
| Deposits with other local authorities or public bodies **(Very low risk)** | These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply.<br><br>Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria. | Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment.<br><br>Non- local authority deposits will follow the approved credit rating criteria. | As shown in the counterparty section criteria 6.6.6 above. |
| Money Market Funds (MMFs) **(Very low risk)** | Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments. | Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors. | As shown in the counterparty section criteria 6.6.6 above |
| Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)** | These tend to be low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures.<br><br>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | As shown in the counterparty section criteria 6.6.6 above |

| Type of Investment | Treasury Risks | Mitigating Controls | Council and Common Good Limits |
|---|---|---|---|
| Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)** | These tend to be low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply. | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures.<br><br>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | As shown in the counterparty section criteria 6.6.6 above. |
| Government Gilts and Treasury Bills **(Very low risk)** | These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity. | Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures. | As shown in the counterparty section criteria 6.6.6 above. |
| Certificates of deposits with financial institutions **(Low risk)** | These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than the first three categories above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low. | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures.<br><br>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | As shown in the counterparty section criteria 6.6.6 above. |
| Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)** | These tend to be medium to low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply). | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | As shown in the counterparty section criteria 6.6.6 above. |

| Type of Investment | Treasury Risks | Mitigating Controls | Council and Common Good Limits |
|---|---|---|---|
| Corporate Bonds **(Medium to high risk depending on period & credit rating)** | These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. Corporate bonds will be restricted to those meeting the base criteria.<br>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | As shown in the counterparty section criteria 6.6.6 above. |
| **Other Types of Investments** | | | |
| Investment properties | These are properties that are not used to facilitate service delivery but are held solely to earn rentals or for capital appreciation or both. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids). | In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio.<br>Property holding will be re-valued regularly and reported annually with gross and net rental streams. | Services will determine monetary and time limits managing risk accordingly. |
| Loans to third parties, including soft loans | These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid. | Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. | Services will determine monetary and time limits managing risk accordingly. |
| Loans to a local authority company | These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid. | Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. | Services will determine monetary and time limits managing risk accordingly. |
| Shareholdings in a local authority company | These are service investments which may exhibit market risk and are likely to be highly illiquid. | Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss. | Services will determine monetary and time limits managing risk accordingly. |

| Type of Investment | Treasury Risks | Mitigating Controls | Council and Common Good Limits |
|---|---|---|---|
| Non-local authority shareholdings | These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid. | Any non-service equity investment will require separate Member approval and each application will be supported by rational behind the service the investment and the likelihood of loss. | Services will determine monetary and time limits managing risk accordingly. |
| Joint venture delivery companies such as hub West Scotland | Public sector organisations across a hub territory will work in partnership with each other, and a private sector delivery partner, in a joint venture delivery company called hub West Scotland.<br>The hub company will take a strategic, long-term planning approach of its infrastructure requirements to support the delivery of community services. Hub will provide a mechanism for delivering and managing assets more effectively, with continuous improvement leading to better value for money, which will be measured through detailed key performance indicators. | Any investment in hub West Scotland requires approval from the Section 95 Officer (Head of Finance & Resources) and the Chief Executive in consultation with the Leader of the Council and the Leader of the Opposition and each application will be supported by the service rational behind the investment and the likelihood of loss. | The Section 95 Officer (Head of Finance & Resources) will determine monetary and time limits managing risk accordingly. |
| Regeneration partnerships and development opportunities | Investments undertaken with the prime intention of local area regeneration. | Any investment in a regeneration partnership / development opportunity requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss. | Services will determine monetary and time limits managing risk accordingly. |
| Local Authority Mortgage Scheme (LAMS) | These are service investments at market rates of interest. Under this scheme the Council is required to place funds for a number of years with the bank which is participating in this scheme | Any investment in the LAMS requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss. | Services will determine monetary and time limits managing risk accordingly. |

**The Monitoring of Investment Counterparties** - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Sector, including rating changes, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the

Executive Director of Corporate Services, and if required new counterparties which meet the criteria will be added to the list.

**Appendix 4**

| Type of Rating | Rating | Explanation |
|---|---|---|
| Fitch<br>-Short Term | F1+ | Indicates exceptionally strong capacity for timely payment of financial commitments |
| | F1 | Indicates strong capacity for timely payment of financial commitments |
| Fitch<br>- Long Term | AA- | Indicates very strong capacity for timely payment of financial commitments and this capacity is not significantly vulnerable to foreseeable events |
| | A- | Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings |
| Moody's<br>- Short Term | P-1 | Banks based Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short term deposit obligations |
| Moody's<br>- Long Term | Aa | Offer excellent credit quality, with susceptibility to long term risks with a vulnerability to greater fluctuations within protective elements |
| | A | Offer excellent credit quality, but elements suggest a Susceptibility to impairment over the long term |
| Standard & Poors<br>- Short Term | A-1 | Indicates a strong capacity to meet institutions financial commitments. Within this category, certain obligors are design with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is EXTREMELY STRONG |
| Standard & Poors<br>- Long Term | AA- | Indicates strong capacity for timely payment of financial commitments |
| | A- | Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more susceptible to the adverse effects of changes in circumstances or in economic conditions than is the case for higher rated category |

**Appendix 5**

**West Dunbartonshire Council and Common Good Funds Permitted Investments, Approved Countries for Investments**

*Based on lowest available rating*

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- United Kingdom
- Hong Kong
- Netherlands
- U.S.A.

AA

- Abu Dhabi
- France
- Qatar

AA-

- Belgium
- Saudi Arabia

**WEST DUNBARTONSHIRE COUNCIL**

**Report by the Executive Director of Corporate Services**

**Audit and Performance Review Committee: 12 March 2014**

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**Subject: Audit Scotland Annual Audit Plan 2013/14**

## 1. Purpose

**1.1** The purpose of this report is to present Audit Scotland's Annual Audit Plan for the audit of financial year 2013/14 to Committee for information.

## 2. Recommendations

**2.1** Members are asked to note Audit Scotland's audit plan for the audit of financial year 2013/14.

## 3. Background

**3.1** Audit Scotland have produced their Annual Audit Plan which provides an overview of the audit approach to be adopted and describes the outputs the Council can expect to receive. The plan is appended to this report for noting.

## 4. Main Issues

**4.1** The appended Annual Audit plan identifies the main areas of activity in the Summary of Planned activity on page 4 of the attachment.

**4.2** Paragraphs 36 to 37 of the Plan identifies the resources that will be deployed to undertake the audit work. The plan advises that the auditors plan to place reliance on our own Internal Audit team to support the work of the plan (paragraphs 11 and 12).

**4.3** A summary of the proposed audit timetable is provided on page 14 of the appended plan.

**4.4** The fee for the local audit is £274,281. This is a standstill fee and remains as was charged for the 2012/13 audit.

**4.5** The Audit Scotland Team have developed excellent working relationships with staff across the Council and are providing a valuable source of information and guidance on a variety of best practice matters.

## 5. Personnel Implications

**5.1** There are no people implications.

**6. Financial Implications**

**6.1** The total fee quoted in paragraph 4.4 of £271,281 is higher than had been anticipated within the budget for 2014/15 agreed on 6 February 2014 – which was £260,670. This additional cost will require to be met from within existing resources.

**7. Risk Analysis**

**7.1** Audit Scotland's assessment of the risks facing the Council is detailed in their plan. An additional internal risk assessment was not required.

**8. Equalities, Health & Human Rights Impact Assessment (EIA)**

**8.1** An Equalities Impact Screening was carried out which revealed no relevant issues.

**9. Consultation**

**9.1** This report has been subject to a check by Finance & Resources and Legal, Democratic & Regulatory Services.

**10. Strategic Assessment**

**10.1** This report relates to all five of the Council's Strategic Priorities.

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**Angela Wilson**
**Executive Director of Corporate Services**
**Date: 28 February 2014**

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| | |
|---|---|
| **Person to Contact:** | Stephen West, Head of Finance & Resources<br>Council Offices, Garshake Road, Dumbarton<br>Telephone (01389) 737191<br>E-mail: stephen.west@west-dunbarton.gov.uk |
| **Appendix:** | Audit Scotland Annual Audit Plan 2013/14 |
| **Background Papers:** | None |
| **Wards Affected:** | All |

# West Dunbartonshire Council

## Annual Audit Plan 2013/14

AUDIT SCOTLAND

Prepared for West Dunbartonshire Council
February 2014

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

# Contents

# Summary

## Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in West Dunbartonshire Council's (the Council) financial statements. This report summarises our assessment of the key challenges and risks facing the Council and sets out the audit work that we propose to undertake in 2013/14. Our plan reflects:
   - the risks and priorities facing the Council
   - current national risks relevant to local circumstances
   - the impact of changing international auditing and accounting standards
   - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
   - issues brought forward from previous audit reports.
2. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee. The Council has eight trusts having charitable status with total assets of £336,000. The Assistant Auditor General wrote to local government directors of finance (or equivalents) in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charitable trusts. Accordingly, we will perform the audit of the council's charitable trusts in parallel with the audit of the council's financial statements and provide audit opinions as necessary.

## Summary of planned audit activity

3. Our planned work in 2013/14 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of the Council as at 31 March 2014 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2013 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will included updated scrutiny plans for the period 2014/15 to 2016/17 for the Council
- a review and assessment of Council's governance and performance arrangements in a number of key areas including the review of: internal controls; the adequacy of internal audit; Statutory Performance Indicators; national study follow-up work; and ICT computer service reviews
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements
- review of local impact of national studies.

# Responsibilities

4. The audit of the financial statements does not relieve management or the Audit & Performance Review Committee, as the body charged with governance, of their responsibilities.

## Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

## Responsibility of the Head of Finance and Resources

7. It is the responsibility of the Head of Finance and Resources, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

   - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
   - maintaining proper accounting records
   - preparing financial statements timeously which give a true and fair view of the financial position of the Council as at 31 March 2014 and its expenditure and income for the year then ended.

## Format of the accounts

8. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. The Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

# Audit Approach

## Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of the Council and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Council will include these in the financial statements
- assessing and addressing the risk of material misstatement in the financial statements
- determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2013/14 includes:

- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
- clear responsibilities for preparation of financial statements and the provision of supporting working papers
- delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
- completion of the internal audit programme for 2013/14.

11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the Council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

12. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:

- General ledger
- Council tax recovery and enforcement
- Treasury management
- NDR billing

13. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
    - Statutory performance indicators

## Materiality

14. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

15. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement and experience and internal guidelines from peers. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, or an item contrary to law). Such matters would normally be covered in an explanatory paragraph in the independent auditor's report.

## Reporting arrangements

16. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the Council and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements and planned Audit & Performance Review Committee dates. A more detailed timetable will be agreed with the Head of Finance and Resources in due course.

17. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Executive Director of Corporate Services, Head of Finance and Resources and Audit Scotland's Performance Audit and Best Value Group.

18. We will provide an independent auditor’s report to the Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit. All annual reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).

19. Planned outputs for 2013/14 are summarised at Exhibit 1.

**Exhibit 1: Planned outputs**

| Planned outputs | Final report issued by |
|---|---|
| **Governance** | |
| Review of adequacy of internal audit | 28 February 2014 |
| Assurance and Improvement Plan Update (jointly prepared with other local government scrutiny bodies) | 30 April 2014 |
| Internal controls management letter | 30 June 2014 |
| **Performance** | |
| Arms length organisations: are you getting it right - follow up | 30 May 2014 |
| Major capital investment in councils - follow up | 30 June 2014 |
| **Financial statements** | |
| Report to Audit & Performance Review Committee in terms of ISA 260 (Communication of audit matters to those charged with governance) | 30 September 2014 |
| Independent auditor's report on the financial statements | 30 September 2014 |
| Audit opinions on charitable trusts | 30 September 2014 |
| Annual report to Members and the Controller of Audit | 31 October 2014 |
| Audit opinion on Whole of Government Accounts | 3 October 2014 (TBC) |
| **Grants** | |
| Education maintenance allowance | 31 July 2014 |
| Criminal justice social work services | 30 September 2014 |
| Housing benefit subsidy | 30 November 2014 |
| Non domestic rates income return | 3 February 2015 |

## Quality control

20. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.

21. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, David McConnell.

## Independence and objectivity

22. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

23. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Council.

# Audit issues and risks

## Audit issues and risks

24. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.

25. **Managing financial pressures:** The refreshed long term financial strategy presented to the Council in October 2013 reported a cumulative budget gap for the period 2014/15 - 2016/17 of £21.69 million. In February 2014 the Council provided an updated financial position projection which took account of the Scottish Government's settlement for 2014/15 and a package of savings options prepared by the Corporate Management Team. This reduced the cumulative budget gap by 2016/17 to £16.73 million. We will continue to monitor and report on the Council's financial position and progress made delivering against agreed saving options.

26. **Clydebank Rebuilt / Clydebank Property Company**: In February 2014 the Council agreed to earmark £0.8 million of the Council's general reserves to acquire the assets of Clydebank Rebuilt. This would occur through a purchase of all the shares of its subsidiary group, the Clydebank Property Company. This is a complex transaction and, if completed by 31 March 2014, the Council need to ensure it is accounted for appropriately in the 2013/14 financial statements. The Council also need to consider their approach to the operations previously managed by Clydebank Rebuilt to ensure resource invested in them delivers value for money. We will consider these developments and their financial disclosures as part of our Financial Statements audit.

27. **Welfare reform:** The Council has arrangements in place to mitigate the impact of the Welfare Reform Act 2012. Rent arrears are not yet considered to have increased as a consequence of its implementation however not all the Welfare Reform changes have yet been implemented. Therefore there is still uncertainty over the impact of Welfare Reform on tenants' ability to pay and the wider impact of the introduction of Welfare Reform on the delivery of council services. We will continue to monitor the Council's progress in managing the impact of welfare reform.

28. **Scottish housing quality standards:** The Council have a duty to meet the Scottish Housing Quality Standards (SHQS) for all its housing stock by March 2015. A 100% stock condition survey has recently been completed. This will inform the creation of an accelerated programme of capital works which could increase the financial pressure on the housing revenue account. Delivery of these capital works requires annual rent increases of RPI plus 4.5% until 2016/17 however it is noted that the conclusions of the stock condition survey may impact on the required rent increases. We will continur to monitor the Council's progress toward achieving the SHQS by March 2015.

29. **Net debt:** In previous annual audit reports we have highlighted concerns about the Council's debt levels. We are satisfied that the Council are operating within prudential limits however net debt levels will increase as the Council look to deliver their ten year capital plan. The plan,

which requires a total of £338 million of capital investment, is to be funded principally by prudential borrowing, government grants and capital receipts. The projected prudential borrowing requirement over the ten year period is £191 million. Servicing of this additonal debt will be funded from a combination of the revenue budget (£116 million) and projected revenue savings delivered by the capital projects (£75 million). There is a risk that high levels of debt servicing may have an adverse impact on the delivery of other Council initiatives. We will provide an update on the Council's debt position in the Annual Audit Report to be published in October 2014.

30. **Capital slippage:** Capital slippage in 2012/13 totalled £36.8 million against a budgeted capital programme of £81.2 million (45.3% slippage). Capital slippage has been an area of concern for a number of years. We recognise the Council have introduced a ten year capital plan and implemented new procedures for monitoring capital programmes. It is too early assess whether these measures have improved the delivery of capital projects. We will provide an update on the Council's capital programme in the Annual Audit Report to be published in October 2014.

## Summary assurance plan

31. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix B. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix B. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

## National performance audit studies - impact and follow up

32. Audit Scotland’s Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland’s strategy to support improvement through the audit process and to maximise the impact of national performance audits we will review the impact of the following studies:

- Health inequalities - impact report
- Major capital investment in councils - follow up report
- Arms length organisations: are you getting it right - follow up report

# Fees and resources

## Audit fee

33. In determining the audit fee we have taken account of the risk exposure of the Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2014.

34. The agreed audit fee for the 2013/14 audit of the Council is as summarised in Exhibit 2. This includes the audit of the charitable trusts. Our fee covers:

- all of the work and outputs described in this plan
- a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
- attendance at Audit & Performance Review Committee meetings
- access to advice and information on relevant audit issues
- access to workshops/seminars on topical issues
- travel and subsistence costs.

**Exhibit 2: Audit fee**

| Description | Audit fee 2010/11 | Audit fee 2011/12 | Audit fee 2012/13 | Audit fee 2013/14 |
|---|---|---|---|---|
| Total audit fee | £308,470 | £288,275 | £274,281 | £274,281 |
| % cash reduction on prior year | - | 6.5% | 4.9% | 0% |

35. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Audit team

36. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors; for West Dunbartonshire Council this is David McConnell.

37. The local audit team will be led by Elaine Boyd who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

# Appendix A - Financial statements audit timetable

| Key stage | Date |
|---|---|
| Meetings with officers to clarify expectations of detailed working papers and financial system reports | 31 March 2014 |
| Testing and review of internal control systems and transactions | 30 May 2014 |
| Provision of closedown procedures to audit | 30 May 2014 |
| Planned committee approval of unaudited financial statements | 25 June 2014 |
| Latest submission of unaudited Council financial statements with working papers package | 30 June 2014 |
| Submission of unaudited charitable trust financial statements with working papers package | 15 May 2014 |
| Progress meetings with lead officers on emerging issues | Ongoing during audit process |
| Latest date for final clearance meeting with the Head of Finance & Resources or other senior officers | 16 September 2014 |
| Agreement of unsigned financial statements for Audit & Performance Review Committee agenda, and issue of report to the Audit & Performance Review Committee on the audit of financial statements (ISA 260) | 19 September 2014 |
| Audit & Performance Review Committee date | 24 September 2014 |
| Independent auditors report signed | 30 September 2014 |
| Latest date for submission of unaudited whole of government accounts to external audit | 30 July 2014 |
| Latest date for signing of WGA return | TBC |
| Annual report to Members and the Controller of Audit | 31 October 2014 |
| Certified accounts and annual report to Members and the Controller of Audit presented to the Council | 29 October 2014 |

# Appendix B - Summary assurance plan

**In this section we identify a range of risks facing the Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.**

| Risk | Source of assurance | Planned audit action |
|---|---|---|
| **Managing financial pressures**<br>The Council may fail to deliver their agreed savings options and close their cumulative budget gap. | • Robust budget setting and monitoring processes including regular reporting to Department Management Teams, CMT, service Committees and Council for revenue and capital budgets for General Services and Housing Revenue Account.<br>• Monitor and report on progress in achieving agreed savings options within ongoing budgetary control processes.<br>• Year-end review to compare with new year budget to identify options for removal of recurring cost reductions.<br>• Produce revised Long term Financial Strategy by 30 September 2014 and on an ongoing basis.<br>• Revenue budgets to be set in February 2015 taking account of all pressures and priorities linking to capital planning decisions.<br>• CMT to deliver options to close the cumulative | • Monitor the Council's financial position via revenue budget reports presented to full Council and meetings with officers.<br>• Ongoing review of Council's progress delivering savings options.<br>• Review of Council's revised long term Financial Strategy.<br>• Report in the 2012/13 Annual Audit Report. |

| Risk | Source of assurance | Planned audit action |
|---|---|---|
| | gaps. | |
| **Clydebank Rebuilt / Clydebank Property Company**<br>The Council may not achieve best value for the resource invested. The acquisition of the assets might not be appropriately disclosed in the financial statements. | • Develop appropriate investment analysis to allow appropriate decision to be made around the investment option.<br>• Take appropriate advice as to treatment of investment in financial statements. | • Monitor developments in this area.<br>• Assess disclosure during audit of 2013/14 financial statements. |
| **Welfare reform**<br>The Council may not effectively mitigate the impact of Welfare Reform Act 2012 on individuals directly affected and the wider delivery of council services. | • Cross Council project board well established to lead the strategic response to the Welfare Reform changes.<br>• Ongoing projection of impact of anticipated reforms on Council budgets.<br>• Develop appropriate Local Support Services to provide appropriate support and advice to those impacted by Welfare Reform.<br>• Ongoing review of position as welfare reform changes are implemented and consideration of impact on demand for services.<br>• Provide appropriate Housing options support for Council tenants affected by Welfare Reform.<br>• Monitor wider impacts of Welfare Reform and advise Members of options to support affected residents. | • Monitor impact of welfare reform and maintain a watching brief over developments through minute review and meetings with relevant Council officers.<br>• Report in the 2013/14 Annual Audit Report. |

| Risk | Source of assurance | Planned audit action |
|---|---|---|
| | • HRA capital investment plans will consider the mix of council housing provision.<br>• Pressures on homeless services will be monitored. Council has agreed a plan to provide appropriate types of accommodation. | |
| **Scottish housing quality standards**<br>The Council may fail to meet the SHQS by 2015 and rent increases may lead to a rise in rent arrears. | • Current rate of compliance is 77% and compliance progress reported in annual.<br>• The ongoing focused investment programme will ensure that the SHQS is met by 31st March 2015 within all viable Council housing stock.<br>• 100% Stock Condition Survey outcomes will be used to refine the investment programme to ensure compliance.<br>• Appropriate financial planning and modelling work will be undertaken on an ongoing basis to reflect on variables that impact on rent levels and affordability, including outcome of stock condition survey. | • Monitor progress toward meeting the SHQS and the impact on rent arrears in conjunction with the Scottish Housing Regulator.<br>• Report in the 2013/14 Annual Audit Report. |
| **Net debt**<br>High levels of debt servicing may have an adverse impact on the delivery of Council initiatives. | • An annual update of the Capital Plan will be presented to Council in February 2015 for consideration of the cost of funding and priorities in relation to any revenue implications – with direct | • Review the Council's net debt as at 31 March 2014 and the impact of servicing the debt on the revenue account.<br>• Report in the 2013/14 Annual Audit Report. |

| Risk | Source of assurance | Planned audit action |
|---|---|---|
| | linkage to the planning and setting of revenue budgets also considered by Council in February 2015 and annually. | |
| **Capital slippage**<br>Future capital programmes and associated service improvements may not be delivered in a timely manner. | • Capital monitoring information is provided to CMT and Members on a regular basis.<br>• Options for re-profiling spend to reduce slippage will be generated and considered for implementation as appropriate.<br>• Additional resources are in place with named dedicated project managers for major capital projects and strengthened the legal and procurement teams to avoid delays during pre construction.<br>• Capital spend is monitored on a monthly basis and the Strategic Asset Monitoring Group meets bi monthly to scrutinise the capital programme. | • Monitor capital expenditure through capital monitoring reports provided to CMT and Members.<br>• Report in the 2013/14 Annual Audit Report. |

# Appendix C - Audit team

A summarised curriculum vitae for each core team member is set out below:

**David McConnell MA CPFA**
**Assistant Director of Audit Services (certifying auditor)**

David has worked in public sector audit since 1981, firstly with the National Audit Office and, since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in Central Government, Local Government and the NHS. David is currently Audit Scotland's lead on workforce planning and resource management issues.

**Elaine Boyd FCCA**
**Senior Audit Manager**

Elaine has twelve years experience of public sector audit with Audit Scotland, covering local government, health and central government. Prior to this, Elaine spent seven years in a financial management and audit role within the public sector and seven years in private practice.

**Laurence Slavin CPFA**
**Senior Auditor**

Laurence has ten years experience of public sector audit with Audit Scotland, covering local government, health and education. Prior to this Laurence spent seven years in an IT audit role within the private practice and gained experience both in an audit capacity and as a consultant on large scale IT projects.

**Ian Docherty**
**Professional Trainee**

Ian joined Audit Scotland in 2011 as a professional trainee and commenced studying for the Institute of Chartered Accountant of Scotland qualification in September 2012.

**Jim Cumming**
**Senior Auditor (ICT)**

Jim has thirteen years experience of public sector ICT audit with Audit Scotland, covering local government, health and the central government sectors. Prior to working for Audit Scotland, Jim spent fifteen years in various IT development, quality, security, and system administration and project management roles in engineering.

**WEST DUNBARTONSHIRE COUNCIL**

**Report by Executive Director of Corporate Services**

**Audit and Performance Review Committee: 12 March 2014**

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**Subject: Audit Scotland - Review of Adequacy of Internal Audit Arrangements**

## 1. Purpose

**1.1** The purpose of this report is to advise the Committee of the External Auditor's assessment of the adequacy of the Council's Internal Audit arrangements.

## 2. Recommendations

**2.1** It is recommended that Members note the contents of this report.

## 3. Background

**3.1** Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit and requires the external auditor to undertake an annual assessment of the adequacy, strengths and weaknesses of the internal audit function. In addition, based on this assessment, areas are outlined where Audit Scotland, in their capacity as the Council's External Auditors, plan to place formal reliance on the work of Internal Audit.

## 4. Main Issues

**4.1** Audit Scotland has issued a letter (see Appendix A) which sets out the nature of the review and raises a number of points. The Council's response to these points is included at Appendix B.

**4.2** As is noted in Appendix A, External Audit intends to place reliance on the work of Internal Audit in the following areas:

- General ledger
- Council tax recovery and enforcement
- Treasury management
- NDR billing

**5. People Implications**

**5.1** There are no personnel issues.

**6. Financial Implications**

**6.1** There are no financial implications.

**7. Risk Analysis**

**7.1** Failure to ensure that adequate Internal Audit arrangements are in place may result in External Audit being unable to place reliance on the work performed within individual Internal Audit assignments.

**8. Equalities Impact Assessment (EIA)**

**8.1** There are no issues identified.

**9. Consultation**

**9.1** This report has been subject to a check by Legal, Democratic & Regulatory Services.

**10. Strategic Assessment**

**10.1** This report relates to all five of the Council's Strategic Priorities.

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**Angela Wilson**
**Executive Director of Corporate Services**
**Date: 25 February 2014**

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**Person to Contact:** Colin McDougall, Audit and Risk Manager
Telephone 01389 737436
Email: colin.mcdougall@west-dunbarton.gov.uk

**Appendices:** A – Audit Scotland Letter - Review of Adequacy of Internal Audit Arrangements

B – Council response to Audit Scotland's letter

**Background Papers:** Public Sector Internal Audit Standards

**Wards Affected:** All Wards

**Address:**
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

**Telephone:**
0845 146 1010

**Website:**
www.audit-scotland.gov.uk

**Email:**
info@audit-scotland.gov.uk

APPENDIX A

AUDIT SCOTLAND

Angela Wilson
Executive Director of Corporate Services
West Dunbartonshire Council
Garshake Road
Dumbarton
G82 3PU

19 February 2014

Dear Angela

**West Dunbartonshire Council**
**Review of Adequacy of Internal Audit Arrangements**

Audit Scotland's Code of Audit Practice (the 'Code') sets out the wider dimension of public sector audit and requires the external auditor to undertake an annual assessment of the adequacy, strengths and weaknesses of the internal audit function. In addition, based on this assessment, we outline the areas where we plan to place formal reliance on the work of internal audit.

Our review covered the following:

- Organisational status – the specific status of internal audit within the Council and the effect this has on the degree to which it can be objective.
- Technical competency – whether internal audit is performed by persons with adequate technical training and proficiency as internal auditors.
- Nature of assignments – the scope and coverage of the internal audit function.
- Standard of audit work – whether internal audit's work is properly planned, supervised, reviewed and documented.

Evidence to support findings was drawn from discussions with relevant Council officers.

We will perform a review of the internal audit files for the areas on which we are proposing to place reliance once those areas of work have been completed.

**Annual Review of Arrangements**

We have completed a preliminary assessment of the adequacy of internal audit for 2013/14 in conjunction with our overall risk assessment process for the Council and concluded that internal audit have adequate documentation, standards and reporting procedures. This evaluation should allow us to place reliance on a number of aspects of their work during 2013/14 therefore avoiding duplication of audit coverage.

We would, however, wish to raise the following points:

## Independence

Section I of the Council's financial regulations state that *'A continuous internal audit, under the independent control and direction of the Chief Executive shall be undertaken*.' The Council's Audit & Risk Manager reports to the Head of Finance & Resources who, in turn, reports to the Executive Director of Corporate Services. As the Head of Finance & Resources has responsibility for a number of operational areas which will be routinely subject to audit there may be a concern that internal audit is not sufficiently independent of line management. We discussed this with the Council in 2012/13 and we note that appropriate measures had been implemented to ensure the independence of Internal Audit is maintained. We further note that the Audit & Risk Manager has scheduled meetings with the Chief Executive which facilitates a direct reporting line where this is deemed necessary.

Section I of the Council's financial regulations previously stated that the approval of the Chief Executive was required before any investigatory work was undertaken by any Officer of the Council. This was amended in October 2013 to state that investigatory work would only be undertaken with the approval of either the Head of Finance and Resources or Head of People and Transformation depending on whether the allegation relates to financial or human relations issues. We have been given assurances that this will not impact upon the independence of internal audit. The Council has agreed that the financial regulations could be reviewed if it is considered that appropriate independence is not being maintained.

We will monitor this through our review of internal audit files, discussion with relevant officers and attendance at the Audit & Performance & Review Committee.

## Risk based methodology

Internal Audit has adopted a risk based methodology which informs their annual plan. The results of this assessment allocates an overall 'score' to each area and this score is used to identify which areas should be subject to audit scrutiny in year. In our 2012/13 'Review of the Adequacy of Internal Audit Arrangements' letter we highlighted that familiarity with the detailed mechanisms that support the risk based methodology was limited and not formally documented. Whilst we recognise that appendix 1 to the Audit Manual sets out the methodology for the annual update of the risk matrix we note that there could be further clarity over the allocation of scores to systems. For example systems are given a score of between 1 and 10 for 'Materiality', 1 and 5 for 'Sensitivity' and 1 and 5 for 'Management Concerns' but it is unclear how these scores are ascertained.

## Internal Audit involvement in system changes

Although managers are free to contact internal audit to consult them on system changes there is no formal process in place and limited use has been made of this opportunity. The Audit and Risk Manager has contacted the relevant officers within the Council regarding Internal Audit's availability in assisting with system changes. However, to date, officers have not yet taken up this offer. Involving Internal Audit early in system design can help reduce the risk of new, or changed, systems being implemented without appropriate key controls in place.

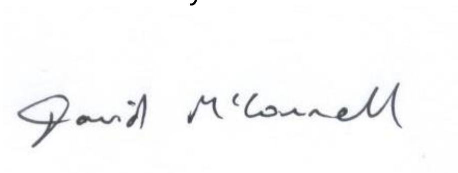
**Reliance on Internal Audit**

We plan to place formal reliance on internal audit’s work, in terms of International Statement of Auditing 610 (Considering the Work of Internal Audit), for our financial statements audit work, in the following areas:

- General ledger
- Council tax recovery and enforcement
- Treasury management
- NDR billing

If you have any queries regarding any of the points raised here, or would like to discuss these in more detail you can contact either myself or Laurence Slavin at the above telephone number.

Yours sincerely



**David McConnell**
**Assistant Director**

cc Colin McDougall, Audit & Risk Manager

**Angela Wilson**
Executive Director of Corporate Services

APPENDIX B

West Dunbartonshire COUNCIL

Our Ref: AW/CM
Date: 25 February 2014

Council Offices
Garshake Road
Dumbarton
G82 3PU

Laurence Slavin
Audit Scotland

Dear Laurence

Subject: Review of Adequacy of Internal Audit Arrangements

I refer to previous discussions and your letter of 19 February 2014 regarding the above subject. I am pleased to be advised that your team once again can place reliance on the internal audit team and as you state this avoids duplication of effort while positively supporting the overall planning and risk assessment process. I note the points you make and would offer the following in response:

**Independence**

As the council strives to deliver the strategic priorities, the internal audit team are very much part of supporting the transformation agenda. Designing and implementing the appropriate structures, providing leadership and direction and supporting the development to achieve the most skilled and competent workforce, has been and continues to be, part of that change for the internal audit function also. In doing so, the independence of the function is paramount and as you state, specific arrangements have been introduced to protect that independence.

In addition, as part of good governance, we are reviewing key policies, codes of practice and procedures on a regular basis to ensure they are fit for purpose. The financial regulations were amended as part of this ongoing process taking specific cognisance of the statutory / advisory roles of the Head of Finance and Head of People.

At paragraph 1130 of the Public Sector Internal Audit Standards (Impairment to Independence or Objectivity) it is stated:

> *If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties.*

I would like to take this opportunity to re affirm the assurance given that this will not impact upon the independence of internal audit. In order to comply with the PSIAS, the Chief Audit Executive is required to disclose any impairment to independence and objectivity, should this arise.

**Risk based methodology**

The documentation describing the methodology will be reviewed to provide clarity as appropriate and additional content may be included. This will be undertaken in conjunction with information gathered as part of a training event on risk based auditing which the Section Head (Internal Audit) is attending during March 2014.

**Internal Audit involvement in system changes**

Mechanisms to enhance the ability for Internal Audit to be made aware of system changes across the Council will continue to be explored. The Audit and Risk Manager will explicitly discuss this with Department Management Teams as part of his annual development and review of the Internal Audit Plan. In addition, through the ICT project board, there will be a requirement to include Internal Audit (the ICT Security Officer) as part of the project planning process.

Yours sincerely

Angela Wilson

Executive Director Corporate Services

**WEST DUNBARTONSHIRE COUNCIL**

**Report by the Executive Director of Corporate Services**

**Audit and Performance Review Committee: 12 March 2014**

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**Subject:** **Audit Scotland Report:** ***Charging for Services: are you getting it right?***

## 1. Purpose

**1.1** The report is to provide Members with information regarding a report recently published by Audit Scotland.

**1.2** The Audit Scotland report provides set of key messages for councils to consider.

## 2. Recommendations

**2.1** Members are asked to note the report, the set of key messages detailed in the report as described at 4.2 below and that a review of sales, fees and charges has recently commenced within West Dunbartonshire and a report will be provided to a future meeting of the Council for consideration.

## 3. Background

**3.1** The Accounts Commission and Audit Scotland are interested in the development of best value and how councils manage resources. The attached report from Audit Scotland is the latest in a series of reports under the “how councils work” series and provides councils with information which may be helpful in considering whether best value is being achieved.

**3.2** Charging is an important aspect of funding of Council services and has become more important in recent years as Council Tax levels have been frozen.

## 4. Main Issues

**4.1** The report identifies a number of key messages for councils when considering setting charges:

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

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

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

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

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

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

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

**4.3** The Council last undertook a full review of charges in 2009 and since then charges have generally been uprated by an agreed inflationary factor each financial year.

**4.4** Officers have recently commenced a full review of charges and this review will seek to follow the best practice guidance which this report provides.

**5. People Implications**

**5.1** There are no personnel issues.

**6. Financial Implications**

**6.1** There are no direct financial implications arising from this report.

**7. Risk Analysis**

**7.1** The report from the Audit Scotland allows members to consider the issues and recommendations which are identified above. The risk is that current and future charges are set without having considered the range of issues highlighted in the Audit Scotland report and may produce unexpected outcomes, for example a reduction of overall income if charges are set at a level that is higher than people are willing to pay (where residents have a choice of where to access services). The recently started review will seek to mitigate against such risks.

**8. Equalities Impact Assessment (EIA)**

**8.1** There are no issues.

**9. Consultation**

**9.1** This report has been subject to a check by Legal, Democratic & Regulatory Services.

**10. Strategic Assessment**

**10.1** This report relates to delivering Fit for Purpose Services as the main thrust of the report considers how best to prepare and support Elected Members to undertake their role in the decision making of the Council.

______________________________

**Angela Wilson**
**Executive Director of Corporate Services**
**Date: 20/02/2014**

| | |
|---|---|
| **Person to Contact:** | Stephen West, Head of Finance and Resources, Council Offices, Garshake Road, Dumbarton. Telephone 01389 737191, Email: stephen.west@west-dunbarton.gov.uk |
| **Appendix:** | Audit Scotland Report: *Charging for Services: are you getting it right?* |
| **Background Papers:** | None |
| **Wards Affected:** | All wards affected. |

How councils work:
an improvement series for councillors and officers

# Charging for services: are you getting it right?

ACCOUNTS COMMISSION

**Prepared by Audit Scotland**
October 2013

# The Accounts Commission

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

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

Our work includes:

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

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

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

# Contents



**Exhibit data**

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

# Summary

## Key facts

**75 per cent**

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

**£1.3 billion**

Raised from charges and fees by councils each year

**£££**

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

**7 per cent**

Total funding councils receive from charges and fees

**54 per cent**

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

**57 per cent**

Income from charges relative to council tax take

# Background

## About our report

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

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

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

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

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

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

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

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

# Key messages

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

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

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

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

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

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

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

# Part 1

## Why charges are important

### Key messages

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

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

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

### Councils use charges to help them meet their policy aims

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

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

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

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

charges should be made clear to the public

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

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

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

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

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

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

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

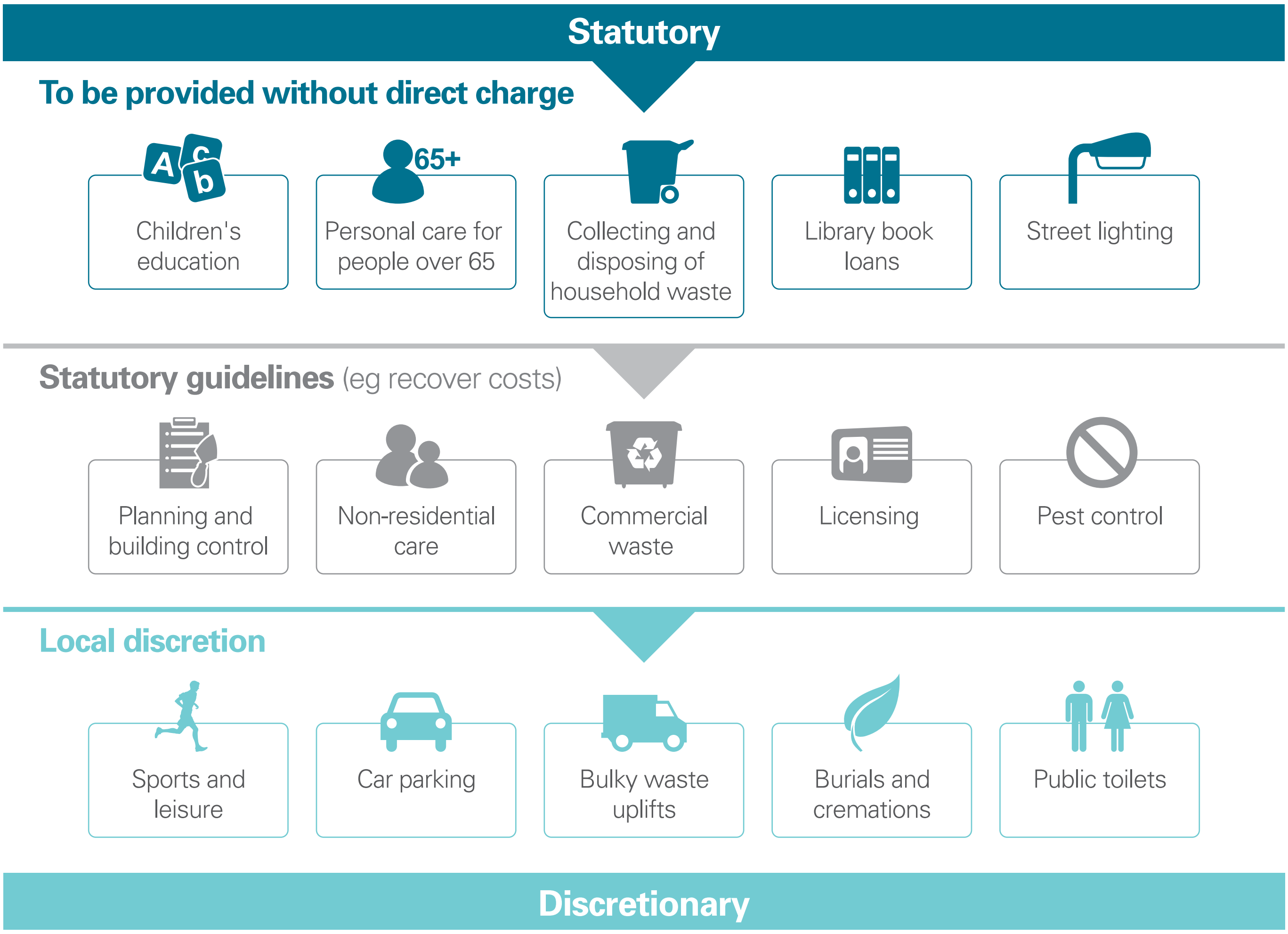
**16.** Councils do not have complete freedom to charge for services. Many council services are provided with no direct charge to the service user. Examples include children's education and street cleaning. Services such as these are funded mainly through taxes.

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

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

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

**Exhibit 1**
**Examples of charging regimes for services**
Charging requirements and legislation vary for different services.




Source: Audit Scotland

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

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

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

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

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

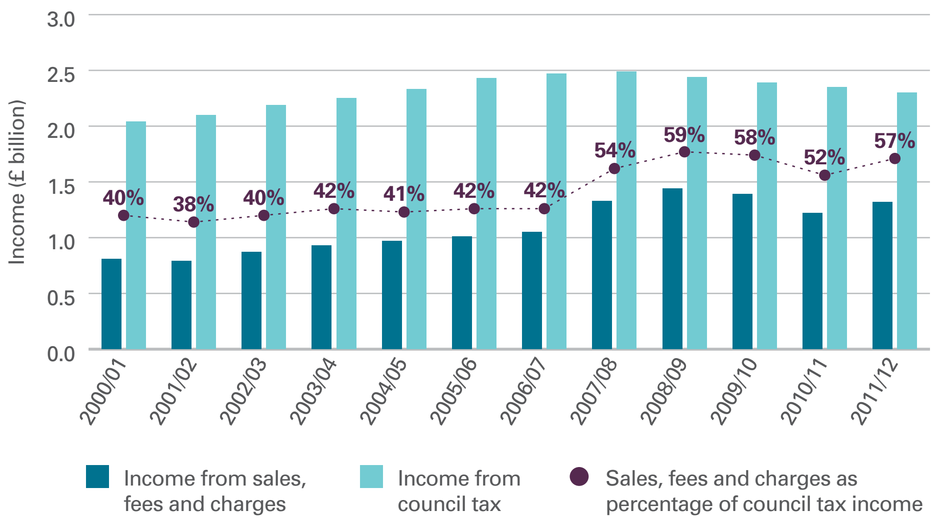
**24.** Information reported by councils in their annual Scottish Government financial returns indicates that they raise over £1.3 billion a year through charges, accounting for 7.4 per cent of councils' total revenue. The proportion of income from charges rose from 5.6 per cent in 2003/04[3] to 7.4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

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

## Exhibit 2

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

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




Note: Figures adjusted in real terms to 2012.

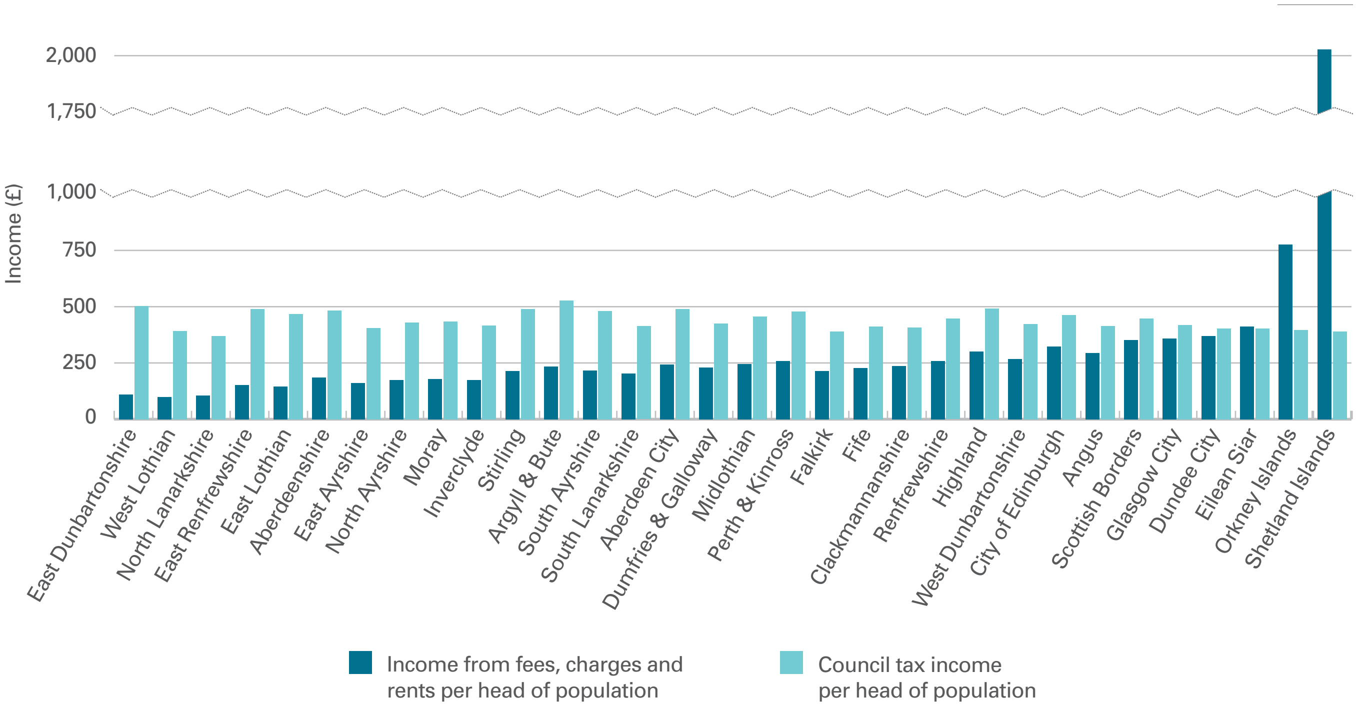
Source: Audit Scotland and Scottish Government Local Financial Returns

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

## Exhibit 3

### Councils' per capita income from sales, fees and charges, compared to income from council tax

The amount councils raise through charges varies significantly.




Source: Audit Scotland and Scottish Government Local Financial Returns

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

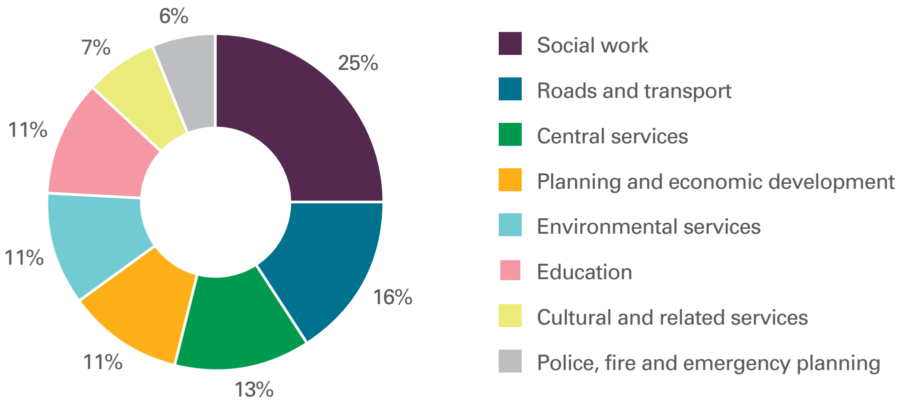
**28.** As part of good financial management and planning, councils should understand the contribution that charges make to their overall financial position. They should also be aware of how this compares with other councils.

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

## Exhibit 4

### Income from sales, fees and charges by service area

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




Source: Audit Scotland

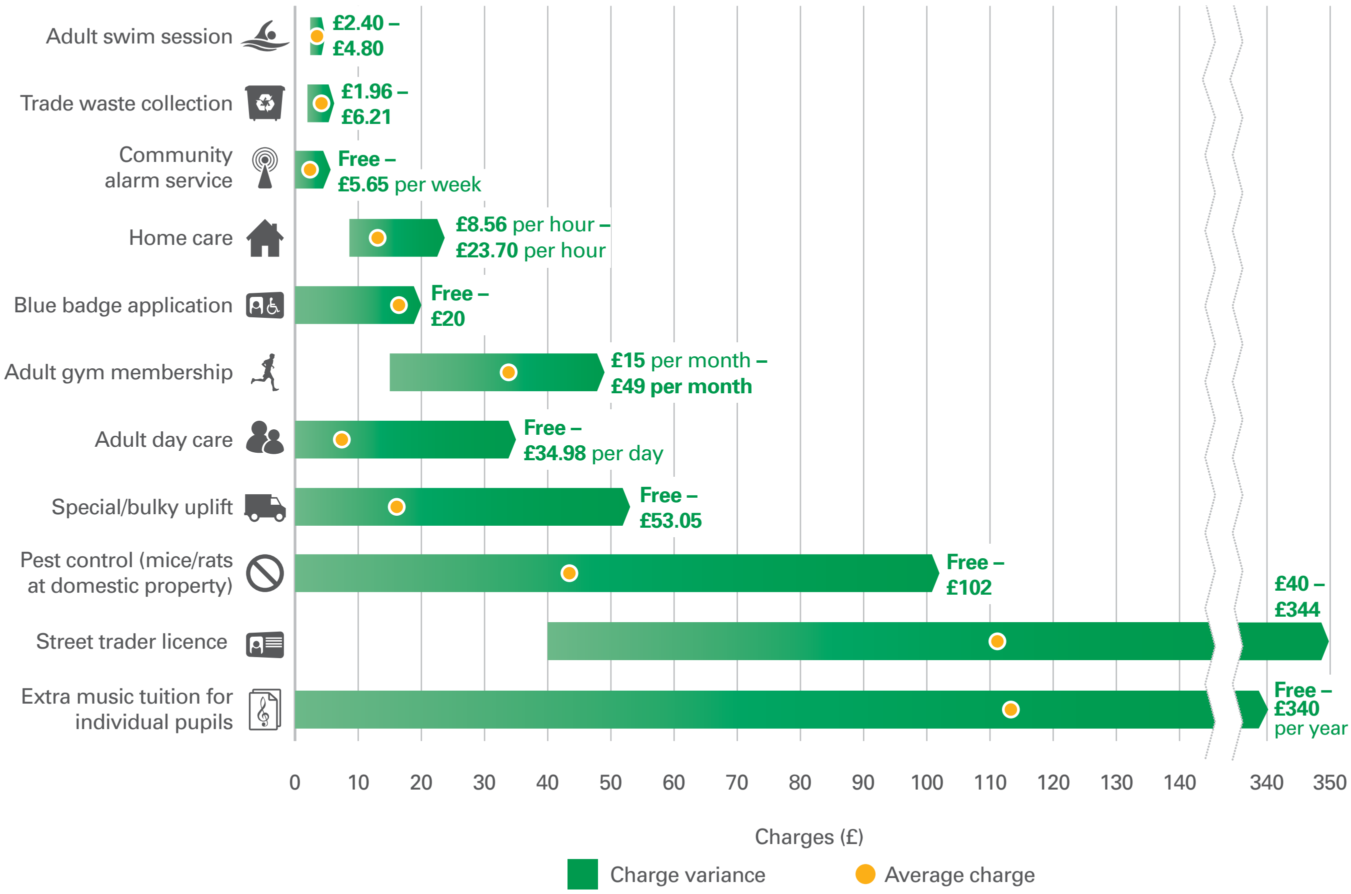
## Charges vary between councils

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

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

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

## Exhibit 5
### Variation in charges for a sample of services provided by councils
Charges vary significantly across councils.




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

Source: Audit Scotland

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

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

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

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

## Exhibit 6
Community care charging policy

Charges fall into one of three categories.

### Free services

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

### Services charged according to ability to pay

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

### Fixed charge services

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

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

## Councils should have a clear basis for their charges

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

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

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

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

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

# Part 2

## Managing charges

### Key messages

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

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

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

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

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

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

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

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

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

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

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

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

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

## Councillors should take a lead role in setting charges

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

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

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

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

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

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

## Charges should be set within a clear corporate policy framework

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

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

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

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

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

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

## What we found – 1

**Highland Council – corporate charging policy excerpt**

The policy sets out fundamental principles for charging:

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

Source: The Highland Council

### Most councils only have charging policies for individual services

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

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

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

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

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

## What we found – 2

**Sandwell Council – guiding principles for setting fees and charges**

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

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

Source: Sandwell Council

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

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

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

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

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

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

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

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

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

## What we found – 3

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

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

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

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

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

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

Source: Audit Scotland and Stirling Council

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

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

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

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

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

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

## Councils are reviewing how they use charges

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

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

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

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

## Many factors must be taken into account when setting charges

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

## What we found – 4

**Progress in corporate reviews of charging**

Our survey of Scottish councils found the following:

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

Source: Audit Scotland

## Case study 1

The service charge review programme in East Renfrewshire

Example of a structured approach to reviews.

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

Source: East Renfrewshire Council

## What we found – 5

**Councils' reviews of charges and their objectives**

The objectives of reviews depends on the services in question.

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

Source: Audit Scotland survey of Scottish councils 2013

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

## Exhibit 7

Issues to consider when designing charges

### Collect and analyse service information including:

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

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

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

Source: Audit Scotland

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

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

### Councils are making greater use of charges to offset financial pressures

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

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

## Case study 2

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

Reducing charges can increase service uptake and generate more income.

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

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

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

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

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

Source: Audit Scotland and Comhairle nan Eilean Siar

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

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

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

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

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

## Concessions are an important part of charging

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

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

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

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

**Exhibit 8**

Reviewing charges for non-residential social care

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

Councils have identified that:

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

Examples of review activity we have found include:

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

Source: Audit Scotland

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

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

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

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

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

Source: North Lanarkshire Council

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

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

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

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

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

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

## The costs of collecting charges should not be overlooked

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

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

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

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

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

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

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

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

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

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

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

## Want to know more?

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

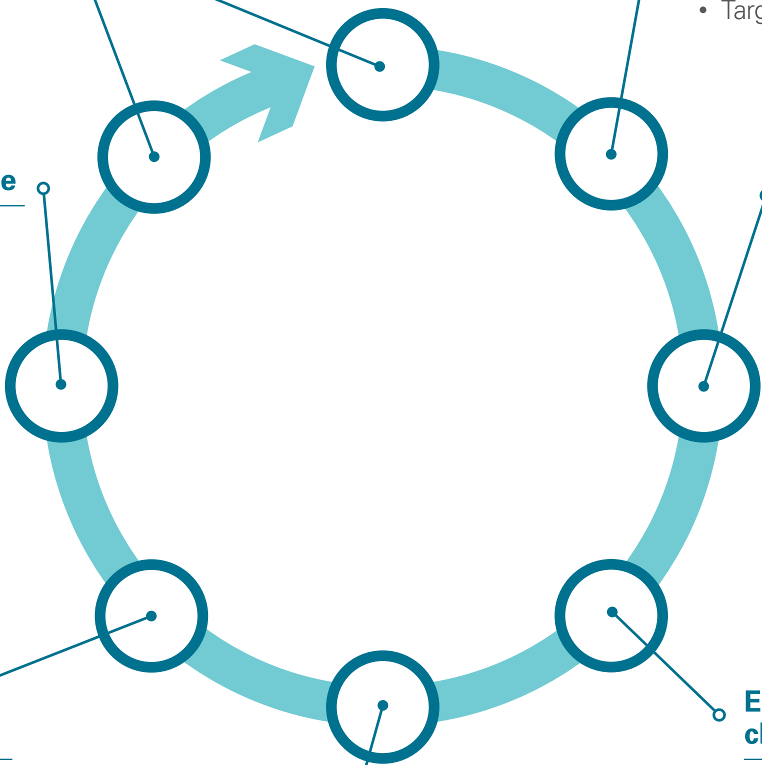
- *How councils work: an improvement series for councillors and officers – Using cost information to improve performance: are you getting it right?*, Accounts Commission, May 2012
- *How councils work: an improvement series for councillors and officers – Arm's-length external organisations (ALEOs): are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

Legislation – examples of Acts that contain charging legislation:

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

# Part 3

## Cycle for managing charges



### Identify which charges should be reviewed

Things to consider:
- Service user feedback
- Financial pressures and opportunities
- Alignment with corporate objectives

### Assess constraints and understand the legislation

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

### Collect and analyse information

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

### Examine options for charges and concessions

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

### Consult on proposals

Things to consider:
- Workshops with service users
- Residents' surveys
- Sessions with councillors
- Staff feedback

### Revisit options as appropriate

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

### Implement the new charge

Things to consider:
- Timing and phasing
- Communication of changes
- Monitoring arrangements (eg setting targets)

### Monitor and review the impact

Things to consider:
- Were the intended aims met?
- Impact on uptake and income
- Unintended consequences

# Endnotes

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

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

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

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

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

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

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

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

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

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

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

# Appendix 1

## Questions for councillors

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

# Appendix 2

## Questions for officers

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

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

# Charging for services: are you getting it right?

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