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

10 May 2013

MEETING: **AUDIT & PERFORMANCE REVIEW COMMITTEE**

WEDNESDAY, 22 MAY 2013
COMMITTEE ROOM 3
COUNCIL OFFICES
GARSHAKE ROAD
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, 22 May 2013** at **10.00 a.m.**

The business is as shown on the enclosed agenda.

Yours faithfully

JOYCE WHITE

Chief Executive

Distribution:

Councillor J McColl (Chair)
Councillor G Black
Councillor J Brown
Councillor I Murray (Vice Chair)
Councillor T Rainey
Councillor G Robertson
Councillor M Rooney
Councillor M Stewart
Mr SJ Doogan
Mr E Haynes
Mr F McNeil
Ms M Ward

All other Councillors for information

Chief Executive
Executive Director of Corporate Services
Executive Director of Educational Services
Executive Director of Housing, Environmental & Economic Development
Director of West Dunbartonshire Community Health and Care Partnership

For information on the 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

WEDNESDAY, 22 MAY 2013

<u>AGENDA</u>

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 27 February 2013.

4. REMIT FROM COUNCIL MEETING ON 27 MARCH 2013 – PRUDENTIAL INDICATORS 2012/13 TO 2015/16 AND TREASURY MANAGEMENT STRATEGY 2013/14 TO 2015/16

Submit report by the Executive Director of Corporate Services which has been remitted to this Committee from the March Council meeting in order to ensure further scrutiny takes place.

In this respect, a short overview on this subject will be given by Gillian McNeilly, Finance Manager.

5. CODE OF GOOD GOVERNANCE

<u>Appendix to follow</u>)

Submit report by the Executive Director of Corporate Services advising of progress made in developing and maintaining a local code of governance as recommended in the CIPFA/SOLACE document '*Delivering Good Governance in Local Government*'.

6. 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.

7. INTERNAL AUDIT CHARTER

Submit report by the Executive Director of Corporate Services providing an update to the Internal Audit Charter.

8. INTERNAL AUDIT ANNUAL REPORT TO 31 MARCH 2013

Submit report by the Executive Director of Corporate Services:-

(a) advising of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2012/13; and

(b) advising of the contents of the Assurance Statement given to the Section 95 Officer (the Head of Finance and Resources) in support of the Statement of Internal Financial Control/Governance Statement.

9. RISK AND BUSINESS CONTINUITY UPDATE

Submit report by the Executive Director of Corporate Services providing an update on work being done in relation to Risk and Business Continuity.

10. THE ACCOUNTS COMMISSION'S OVERVIEW OF LOCAL GOVERNMENT IN 2013: *RESPONDING TO CHALLENGES AND CHANGE*

Submit report by the Executive Director of Corporate Services providing information on a report recently published by the Accounts Commission entitled *'Responding to challenges and change'*.

11. AUDIT SCOTLAND REPORT: *MAJOR CAPITAL INVESTMENT IN COUNCILS*

Submit report by the Executive Director of Corporate Services providing information on a report recently published by Audit Scotland entitled '*Major capital investment in councils'.*

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, 27 February 2013 at 10.02 a.m.

Present: Councillors George Black, Jonathan McColl, Ian Murray, Gail Robertson, Martin Rooney and Michelle Stewart and Mr Stevie J. Doogan, Mr Edward Haynes, Mr Francis McNeill and Ms Margaret Ward.

Attending: Joyce White, Chief Executive; Angela Wilson, Executive Director of Corporate Services; Terry Lanagan, Executive Director of Educational Services; *Elaine Melrose, Executive Director of Housing, Environmental & Economic Development; Peter Barry, Head of Customer and Community Services; Patricia Marshall, Manager of ICT; Colin McDougall, Audit and Risk Manager; Soumen Sengupta, Head of Strategy, Planning and Health Improvement, West Dunbartonshire Community Health & Care Partnership; Craig Stewart, Committee Officer, Legal, Democratic and Regulatory Services.

* Attended later in the meeting.

Also Attending: Mr David McConnell, Assistant Director, Ms Elaine Boyd, Senior Audit Manager, and Mr Laurence Slavin, Senior Auditor, Audit Scotland.

Apologies: Apologies for absence were intimated on behalf of Councillors Jim Brown and Tommy Rainey

Councillor Jonathan McColl in the Chair

DECLARATION OF INTEREST

It was noted that there were no declarations of interest in any of the items of business on the agenda at this point in the meeting.

MINUTES OF PREVIOUS MEETINGS

The Minutes of Meetings of the Audit & Performance Review Committee held on 28 November 2012 were submitted and approved as a correct record.

PUBLIC INTEREST DISCLOSURES FOR THE PERIOD 1 OCTOBER 2012 TO 31 DECEMBER 2012

A report was submitted by the Executive Director of Corporate Services advising on the level of public interest disclosures received during the period 1 October to 31 December 2012.

After discussion and having heard the Executive Director of Corporate Services and the Audit and Risk Manager in further explanation and in answer to Members' questions, the Committee agreed:-

(1) that the frequency of reporting Public Interest Disclosures to Committee should be on a 6 monthly cycle; and

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

STATUTORY PERFORMANCE INDICATORS 2011/12 – BENCHMARKING PERFORMANCE WITH OTHER SCOTTISH COUNCILS

A report was submitted by the Executive Director of Corporate Services setting out the Council's comparative performance in 2011/12 in relation to the Statutory Performance Indicators (SPIs).

After discussion and having heard the Chief Executive, Executive Director of Corporate Services and relevant officers in elaboration and in answer to Members' questions, it was agreed:-

(1) to note that a Briefing Note would be issued to all Members of the Audit & Performance Review Committee giving information on new performance indicators, developed in conjunction with the Improvement Service;

(2) to note that this report would be reformatted in future and this would include specific actions which had been already put in place by the relevant department; and

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

AUDIT SCOTLAND AUDIT PLAN OVERVIEW 2012/13

A report was submitted by the Executive Director of Corporate Services presenting Audit Scotland's Annual Audit Plan for 2012/13.

Following discussion and having heard Mr McConnell, Ms Boyd and the Chief Executive in further explanation and in answer to Members' questions, the Committee agreed to note Audit Scotland's audit plan for the audit of 2012/13.

Note: The Executive Director of Housing, Environmental and Economic Development, who had been attending a meeting with the Housing Regulator, entered the meeting at this point in the proceedings.

VARIATION IN ORDER OF BUSINESS

After hearing Councillor McColl, Chair, the Committee agreed to vary the Order of Business as hereinafter minuted.

INTERNAL AUDIT PLAN 2013/14

A report was submitted by the Executive Director of Corporate Services advising on the planned programme of work for the Internal Audit Section for the year 2013/14.

After discussion and having heard the Executive Director of Corporate Services, the Chief Executive, Audit and Risk Manager and Mr Slavin in elaboration and in answer to Members' questions, the Committee agreed:-

(1) that a briefing note, providing more background information and detail on the Internal Audit Plan process, would be prepared and sent to Members of the Committee for their interest;

(2) that the briefing note, referred to at (1) above, would also incorporate the opinion of the Council's External Auditors, Audit Scotland; and

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

INTERNAL AUDIT PROGRESS REPORT TO 31 DECEMBER 2012

A report was submitted by the Executive Director of Corporate Services advising on the work undertaken by the Internal Audit Section against the Audit Plan 2012/13.

Having heard the Executive Director of Corporate Services in answer to a Member's question, the Committee agreed to note the contents of the report.

INTERNAL AUDIT ACTION PLANS ISSUED DURING THE PERIOD FROM 15 OCTOBER 2012 TO 15 JANUARY 2013 AND PROGRESS OF INTERNAL AUDIT AND EXTERNAL AUDIT REPORTS

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

(a) presenting the Internal Audit Section action plans issued to directorates during the period from 15 October 2012 to 14 January 2013; and

(b) advising of the progress being made in actioning recommendations contained within Internal Audit and External Audit reports which management have committed to implementing.

After discussion and having heard the Chief Executive, Executive Director of Housing, Environmental and Economic Development and relevant officers in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to note that the Chief Executive would ensure via CMT that the actions detailed in the appendices to the report were checked against and were on track; and

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

Note: Councillors Rooney and Stewart left the meeting during consideration of this item, as they both had to attend another meeting. Mr Francis McNeill also left the meeting at this point.

The meeting closed at 12.35 p.m.

Draft Excerpt of Minutes of Meeting of West Dunbartonshire Council held on 27 March 2013

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PRUDENTIAL INDICATORS 2012/13 TO 2015/16 AND TREASURY MANAGEMENT STRATEGY 2013/14 TO 2015/16

A report was submitted by the Executive Director of Corporate Services seeking approval of the proposed Prudential Indicators for 2012/13 to 2015/16 and the Treasury Management Strategy (including the Investment Strategy) for 2013/14 to 2015/16.

Having heard the Head of Finance & Resources and the Finance Manager in further explanation of the report, the Council agreed:-

(1) the Prudential Indicators and Limits set out within Appendix 1 of the report:-

- 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);

(2) to approve the Treasury Management Strategy for 2013/14 to 2015/16 (including the Investment Strategy) contained within Appendix 2 of the report;

(3) the Treasury Prudential Indicators and Limits set out in Appendix 2 of the report:-

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

(4) to approve the statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement, as detailed in Appendix 2 - para 2.2 of the report; and

(5) to refer the report to the Audit & Performance Review Committee to ensure further scrutiny took place.

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WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Council: 27 March 2013

(REISSUED FOR MEETING OF AUDIT & PERFORMANCE REVIEW COMMITTEE ON 22 MAY 2013)

Subject: Prudential Indicators 2012/13 to 2015/16 and Treasury Management Strategy 2013/14 to 2015/16

1. Purpose

1.1 The purpose of this report is to seek Members' approval of the proposed:

(a) Prudential Indicators for 2012/13 to 2015/16; and

(b) Treasury Management Strategy (including the Investment Strategy) for 2013/14 to 2015/16.

2. Recommendations

2.1 Council is requested to:

(a) Agree 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) Approve the Treasury Management Strategy for 2013/14 to 2015/16 (including the Investment Strategy) contained within Appendix 2.

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

(e) Refer this report to the Audit and Performance Review Committee to ensure further scrutiny takes place.

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 are 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 2003 Act.

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 2012/13 to 2015/16 and Treasury Management Strategy 2013/14 to 2015/16 should be referred to the Audit and Performance Review Committee once approved by Council to ensure further scrutiny takes place.

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 2012/13, revises the indicators for 2013/14 and 2014/15 and introduces new indicators for 2015/16.

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 2013/14 to 2015/16 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 The proposals around the Securitisation of the income from the Council's non-operational property portfolio is mentioned as a local issue that may impact on the Council during 2013/14 and in future years (Appendix 2 – section 12). This proposal is on hold until December 2013 and due to the uncertainty surrounding the final outcome of this project the prudential and treasury indicators does not take account of this initiative at this time but will be updated and reported to Members within the mid-year report (as appropriate).

5. People Implications

4.1 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 2012/13 to 2015/16 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.

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.

10.2 Treasury management contributes to all categories via the interdependency that exists between pro-active treasury management and the formulation of long term financial plans which assist in helping the Council achieve and develop these priorities.

Angela Wilson
Executive Director of Corporate Services
Date: 22 February 2013

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 2012/13 to 2015/16
2 Treasury Management Strategy 2013/14 to 2015/16
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 28 March 2012

Wards Affected: All wards affected.

Appendix 1

Prudential Indicators 2012/13 to 2015/16

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 approved by Council on 6 February 2013 for General Services and HRA is shown in the table below:

Table A

£000	**2012/13 Revised**	**2013/14 Estimated**	**2014/15 Estimated**	**2015/16 Estimated**
General Services	**33,065**	**25,942**	**45,827**	**55,241**
Financed by:				
Capital receipts	1,789	2,356	3,043	1,000
Capital grants	18,189	12,756	18,977	16,278
Revenue	1,393	3,370	242	242
Net financing need for the year	**11,694**	**7,460**	**23,565**	**37,721**

£000	**2012/13 Revised**	**2013/14 Estimated**	**2014/15 Estimated**	**2015/16 Estimated**
HRA	**24,053**	**39,413**	**27,166**	**27,025**
Financed by:				
Capital receipts	738	1,313	500	500
Capital grants	260	4,042	846	0
Revenue	101	3,767	0	0
Net financing need for the year	**22,954**	**30,291**	**25,820**	**26,525**

£000	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
General Services	33,065	25,942	45,827	55,241
HRA	24,053	39,413	27,166	27,025
Capital Expenditure	**57,118**	**65,355**	**72,993**	**82,266**
Financed by:				
Capital receipts	2,527	3,669	3,543	1,500
Capital grants	18,449	16,798	19,823	16,278
Revenue	1,494	7,137	242	242
Net financing need for the year	**34,648**	**37,751**	**49,385**	**64,246**

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 £93.105m 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	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
Capital Financing Requirement				
CFR – General Services	216,347	216,374	233,601	264,907
CFR – HRA	120,244	140,214	160,184	181,056
Total CFR	**336,591**	**356,588**	**393,785**	**445,963**
Movement in CFR	17,329	19,997	37,197	52,178

Movement in CFR represented by				
Net financing need for the year (above)	34,648	37,751	49,385	64,246
Less scheduled debt amortisation and other financing movements	(17,319)	(17,754)	(12,188)	(12,068)
Movement in CFR	**17,329**	**19,997**	**37,197**	**52,178**

2.4 The CFR for both General Services and HRA is projected to increase from 2013/14 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

	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
General Services	5.98%	6.84%	4.79%	4.99%
HRA	38.17%	38.22%	37.40%	36.94%

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 2013/14	Forward Projection 2014/15	Forward Projection 2015/16
Council Tax - Band D	£9.12	£27.86	£44.54

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 2013/14	Forward Projection 2014/15	Forward Projection 2015/16
Weekly Housing Rent levels	£2.58	£2.19	£2.25

Appendix 2

Treasury Management Strategy 2013/14 – 2015/16

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 2012, 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	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
External Debt				
Debt at 1 April	219,765	236,751	257,935	296,440
Maturing Debt	(26,036)	(7,980)	(13,016)	(12,442)
New Borrowing : Maturing Debt	24,500	7,950	12,999	12,437
New Borrowing : CFR	18,522	21,214	38,522	53,729
Debt at 31 March	**236,751**	**257,935**	**296,440**	**350,164**
Long Term Liabilities at 1 April	93,105	91,912	90,695	89,370
Change in Long Term Liabilities	(1,193)	(1,217)	(1,325)	(1,551)
LTL at 31 March	**91,912**	**90,695**	**89,370**	**87,819**
Gross Debt at 31 March	**328,663**	**348,630**	**385,810**	**437,983**
CFR	**336,591**	**356,588**	**393,785**	**445,963**
Under/(Over) Borrowing	**7,928**	**7,958**	**7,975**	**7,980**

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 2013/14 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 2013 with the CFR as at 31 March 2016.

2.3 **The Section 95 Officer 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	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
External Debt	361,529	383,493	424,391	481,781

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	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
External Debt	394,396	418,356	462,972	525,580

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 Executive Director of Corporate Services 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 give 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 of England Base Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

4.2 The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

4.3 The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way

4.4 This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2013/14 and beyond;

- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully; and

- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

5. Borrowing and Debt Strategy 2013/14 – 2015/16

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 2013/14 treasury operations. The Section 95 Officer 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 2011 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 agengy. 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 contiunally 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 intergrated 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 over the period 1990 to 2010.

Table J

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.02%	0.06%	0.09%	0.13%
AA	0.02%	0.04%	0.14%	0.28%	0.36%
A	0.09%	0.25%	0.43%	0.60%	0.79%
BBB	0.23%	0.65%	1.13%	1.70%	2.22%

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; and
  - Regeneration partnerships and development opportunities.

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 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 criteria 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 investment counterparties is:

- **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 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 Fund Limit	£20 million £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 treasury section 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.

6.6.10 Use 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 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	2013/14 Estimate	2013/14 Estimated + 1%	2013/14 Estimated - 1%
Revenue Budgets			
Variable Rate Debt Payments	£0.075m	+£0.049m	-£0.048m
Variable Rate Investment income	£0.110m	+£0.138m	-£0.110m

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

	2013/14 Upper		2014/15 Upper		2015/16 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%
Currently principal sums invested > 364 days	£nil		£nil		£nil	

7.2 The upper limit applied to the maturity structure of fixed interest rate borrowing for periods up to 5 years in the table above. The level has been set to take account of the change in the 2011 Code regarding the way that local authorities have to record certain market loans where the maturity date is now 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 2012/13.

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. Member and Officer Training

11.1 The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Member training took place on 12 September 2012.

12. Local Issues

12.1 An option to consider the Securitisation of the Council Non Operational Property Portfolio is on hold until December 2013 and the final outcome is uncertain (due to consultation requirements) therefore the debt indicators that are detailed in Table F do not include the anticipated impact of this initiative at this time.

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. 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. 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. 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. 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. 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. 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. 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. 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 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.
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.

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 -Short Term	F1+	Indicates exceptionally strong capacity for timely payment of financial commitments
	F1	Indicates strong capacity for timely payment of financial commitments
Fitch - 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 - 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 - 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 - 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 - 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
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

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

AA

- Abu Dhabi
- Qatar

AA-

- Belgium
- Japan
- Saudi Arabia

WEST DUNBARTONSHIRE COUNCIL

Report by Executive Director of Corporate Services

Audit and Performance Review Committee: 22 May 2013

Subject: Code of Good Governance

1. Purpose

1.1 The purpose of this report is to advise Committee of the outcome of a self-evaluation undertaken of the Council's compliance with its Code of Good Governance.

2. Recommendations

2.1 The Committee is asked to note:

- the outcome of the recent self-evaluation process in considering how the Council currently meets the agreed Code of Good Governance;
- the issues identified and improvement actions; and
- that a revision of the Code will be undertaken and reported to a future Audit and Performance Review Committee.

3. Background

3.1 In 2004, the Independent Commission on Good Governance in Public Services published a set of common principles that it wanted all public sector organisations to adopt. The Commission, set up by CIPFA in conjunction with the office for Public Management, advised that there should be a common governance standard for public services similar to the private sector's Combined Code.

3.2 The Good Governance Standard for Public Services builds on the Nolan principles for the conduct of individuals in public life by setting out six core principles that it says should underpin the governance arrangements of all bodies:

- a clear definition of the body's purpose and desired outcomes;
- well-defined functions and responsibilities;
- an appropriate corporate culture;
- transparent decision making;
- a strong governance team; and
- real accountability to stakeholders.

3.3 For the purposes of developing *Delivering Good Governance in Local Government*, the six core principles from the good *Governance*

Standard for Public Services have been adapted for the local authority context.

3.4 In order to demonstrate a commitment to sound governance, local authorities are encouraged to publish a governance statement.

3.5 The annual governance statement is the formal statement that recognises, records and publishes a Council's governance arrangements as defined in the CIPFA/SOLACE Framework. The statement requires to be signed off by the most senior officer [Chief Executive] and the most senior member [Council Leader]. Clearly the signatories must be satisfied that the document is supported by reliable evidence.

4. Main Issues

4.1 A local code was developed for West Dunbartonshire Council and agreed at the Audit and Performance Review Committee on 10 November 2010. This described the expectations as to what good governance is and how it can be evidenced.

4.2 For the first time, it is intended that a Governance Report will be produced and provided within the Council's annual accounts for 2012/13. In order to prepare such a report, it is necessary to undertake a self-evaluation of compliance against the Council's Code of Good Governance.

4.3 A self-evaluation review has recently been carried out by a group of Officers. This has identified that current practice is mainly compliant against our Code of Governance, while identifying some areas for improvement. These areas for improvement are detailed on the attached Appendix.

4.4 The local code is due to be revised will be submitted to a subsequent committee meeting.

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 There is a risk that a failure to maintain a local code and develop a framework to support the gathering and updating of the necessary evidence will leave West Dunbartonshire Council unable to produce a Governance Statement.

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.

....
Angela Wilson
Executive Director of Corporate Services
Date: 10 May 2013

Person to Contact: `	Stephen West, Head of Finance and Resources Telephone (01389) 737191 E-mail: stephen.west@west-dunbarton.gov.uk
Appendix:	Improvement action plan
Background Papers:	Report to Audit and Performance Review Committee (10 November 2010) - Local Code of Good Governance
Wards Affected:	All Wards

WEST DUNBARTONSHIRE COUNCIL

Report by Executive Director of Corporate Services

Audit and Performance Review Committee: 22 May 2013

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:

- Payroll;
- General ledger;
- Non-domestic rates liability;
- Housing rents arrears and collection;
- Council tax billing; and
- Treasury management.

A review of the Internal Audit files for these areas has been carried out by External Audit.

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.

....

Angela Wilson
Executive Director of Corporate Services
Date: 1 May 2013

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:
7th Floor, Plaza Tower
East Kilbride G74 1LW
Website:
www.audit-scotland.gov.uk

Telephone:
0845 146 1010

Email:
info@audit-scotland.gov.uk

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

27 March 2013

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 – specific status of internal auditing 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 which we are proposing to place reliance on once those areas of work have been completed.

Annual Review of Arrangements
We earlier completed a preliminary assessment of the adequacy of internal audit for 2012/13, in conjunction with our risk assessment process and concluded that internal audit have adequate documentation, standards and reporting procedures. This evaluation allows us to review and place reliance on a number of aspects of their work during 2012/13, this will therefore avoid 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 do however acknowledge that the Audit & Risk Manager has the ability to directly access the Executive Director of Corporate Services or Chief Executive independently of direct line management reporting.

In addition to Internal Audit, the Audit & Risk Manager has operational responsibility for ICT security, risk management, health & safety, insurance, business continuity and civil contingencies.

In order to ensure appropriate independence and objectivity is maintained, consideration needs to be given to how internal audit is structured including management reporting channels, personal performance assessment and the approach to audit planning, performance and review. This should be formally documented to support transparency of decision making.

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 inform which areas should be subject to audit scrutiny in year. Familiarity with the detailed mechanisms that support the risk based methodology is limited to the Section Head of Internal Audit and the methodology is not formally documented.

Internal Audit progress reporting

In our 2011/12 'Review of the Adequacy of Internal Audit Arrangements' letter we highlighted that, whilst the internal audit progress reports submitted to the Audit &Performance Review Committee report the planned days, actual days and variance against audit categories (i.e. risk based audit, regularity etc.), they do not report on the progress made against the specific audits detailed in the annual audit plan. Action was taken by Internal Audit to address this and they now report on the percentage complete for each assignment however actual time versus budgeted time for the reviews is not reported.

Follow up of action plan points

Internal Audit report on progress made by the Council in implementing agreed actions to address issues raised in previous audit reports. A number of action plan points classified as 'High Risk' have missed the agreed deadlines by a considerable period of time. Reporting of progress could be more effective through:

- ensuring agreed timescales are realistic
- providing greater clarity about what 'high', 'medium' and 'low' risk means
- inviting responsible operational officers to report to the A&PRC on why timescales have been missed for recommended actions.

Computer audit

The Council have purchased the CIPFA Matrix on Computer Audit which provides 18 different computer audit programmes. These have been referred to when building some computer audit practices in to the risk based system audits, however none of the programmes have been considered in their entirety. Consideration should be given to the value which could be obtained from developing in house computer audit skills within the Internal Audit section.

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. 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:

- Payroll
- General ledger
- Non-domestic rates liability
- Housing rents arrears and collection
- Council tax billing
- Treasury management

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

Elaine Boyd

Elaine Boyd
Senior Audit Manager

cc Colin McDougall, Audit & Risk Manager

Appendix B

Council response to Audit Scotland's Letter

Independence

As is mentioned in Audit Scotland's letter, the Audit and Risk Manager does have direct access as deemed appropriate / necessary to the Executive Director of Corporate Services and the Chief Executive. It is also the case that the Audit and Risk Manager has access to all other Executive Directors and also Elected Members.

So that a reporting line is maintained between Internal Audit and the Chief Executive, the Audit and Risk Manager has arranged regular bi monthly meetings with the Chief Executive over and above any additional ad hoc meetings required.

It should be noted a recent survey, carried out by WDC's Audit and Risk Manager, shows that 15 out of 32 Scottish Councils have an Officer in the role of Chief Internal Auditor which involves non-audit activities.

To resolve the issue of any lack of independence for the Audit and Risk Manager post, the recently revised Internal Audit Charter, submitted to this committee in a separate report, proposes the following arrangements at paragraph 4.6:

> *"The Internal Audit Section uses a risk based methodology to determine the key elements of the annual audit plan. In recognition of the responsibility of the Chief Executive and Executive Directors (the CMT) in ensuring that there is an adequate and effective system of internal financial control in their department, the Internal Audit annual plan is also prepared in consultation with the CMT."*

and at paragraph 4.7

> *"In order to ensure that internal audit independence and objectivity is maintained and demonstrated, any internal audit work on these areas will be carried out by Internal Audit staff with the Chief Internal Auditor as the client and therefore with no involvement in determining the scope of such work or in the delivery and reporting of the internal audit review and the report will submitted in the name of the Section Head (Internal Audit)."*

Risk based methodology

This methodology is explained within the 2013/14 Audit Plan at paragraph 2.1. However, further documentation will be prepared and a Briefing Note is also to be provided for Elected Members.

Internal Audit budgeting and progress reporting

Further information on actual v budgeted time will be included for time spent on audit assignments from 1 April 2013 onwards.

Follow up of action plan points

It is anticipated that the continuing use of Covalent for audit action follow up will help to reduce the number of actions that do not meet their agreed implementation date. Meetings of the Audit and Performance Review Committee are now regularly attended by all Executive Directors who will provide comments as to why the completion of specific recommendations has been delayed. In addition, where deemed appropriate, Officers with responsibility for implementing recommendations that have passed their due date will be invited to attend committee to provide further explanations.

The revised Internal Audit Charter provides further information on the implementation timescales for completion of agreed actions (paragraph 8.5).

Computer Audit

The Council's Internal Audit Section has had regular representation at the Computer Audit Sub-Group of the Scottish Local Authorities Chief Internal Auditors (SLACIAG) over many years and this practice will continue. Following on from a recent meeting of this group, an understanding of the current key issues within computer audit work is being assessed. In keeping with normal planning procedures discussions, will be held with Audit Scotland to avoid unnecessary duplication of all audit work, including computer audit. Thereafter, a work plan of computer audit work will be prepared to be carried out by Internal Audit staff which will include the use of the Cipfa Control Matrices for IT Governance where considered appropriate.

It should be noted that within its wider team, the Audit and Risk Section has the post of ICT Security Officer, a post which itself is now independent from direct ICT management. Although not a member of the Internal Audit Section, audit staff will be able to liaise directly with this Officer on a "reliance on an expert" basis. Additionally, the ICT Security Officer's knowledge of the Council's core ICT function can be used in order to highlight specific concerns which audit staff can then consider further.

Internal Audit involvement in system changes

The Audit and Risk Manager has recently emailed Executive Directors requesting that Internal Audit is contacted in relation to system changes and he will ensure that appropriate audit resources are allocated to work on systems under development or revisions to existing systems.

Colin McDougall
Audit and Risk Manager
1 May 2013

WEST DUNBARTONSHIRE COUNCIL

Report by Executive Director of Corporate Services

Audit and Performance Review Committee: 22 May 2013

Subject: Internal Audit Charter

1. Purpose

1.1 The purpose of this report is to advise the Committee of an update to the Internal Audit Charter.

2. Recommendations

2.1 It is recommended that Members approve the revised Internal Audit Charter.

3. Background

3.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), effective from 1 April 2013, the Council should formally define the terms of reference for the purpose, authority and responsibility of the internal audit activity in an Internal Audit Charter.

3.2 The previous Internal Audit Charter was submitted for noting to the Audit and Performance Review Committee on 26 November 2003.

4. Main Issues

4.1 The authority for the operation of the Internal Audit Section is contained within the Council's Financial Regulations. The Internal Audit Charter provides further information on the detailed arrangements on how Internal Audit effectively discharges its role and provides the necessary annual assurance assessment to Council.

4.2 The existing Internal Audit Charter has been updated to reflect the requirements of the PSIAS.

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 The aim of the Internal Audit Section is to help the Council discharge its responsibilities and achieve its objectives by systematically reviewing how well it manages its risks and operates good internal control and governance procedures. The existence of an Internal Audit Charter, updated to reflect the requirements of the PSIAS, reduces the risk that Internal Audit may be diverted from its key purposes as the charter clearly identifies the role and objectives, authority, scope, responsibility, resources and reporting function of Internal Audit.

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.

....
Angela Wilson
Executive Director of Corporate Services
Date: 1 May 2013

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

Appendices: A – Internal Audit Charter

Background Papers: Public Sector Internal Audit Standards

Wards Affected: All Wards

Appendix A

West
Dunbartonshire
Council

INTERNAL AUDIT CHARTER

1. INTRODUCTION

1.1 This Charter identifies the role and objectives, authority, scope, responsibility, resources and reporting function of Internal Audit. The main determinant of the effectiveness of the Internal Audit function within the Council is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- Unrestricted access to senior management and elected members;
- Reporting in its own name; and
- Segregation from line operations.

1.2 In terms of the Public Sector Internal Audit Standards (PSIAS) effective from 1 April 2013, "*the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter"*.

1.3 The authority for Internal Audit to operate in West Dunbartonshire Council is contained in the Council's Financial Regulations. This Internal Audit Charter expands upon that framework by defining the detailed arrangements and sets out the Audit and Risk Manager's (hereinafter in this document referred to as the Chief Internal Auditor) strategy for discharging his role and providing the necessary annual assurance opinions.

1.4 The PSIAS defines Internal Auditing as follows:

"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."

2. ROLE AND OBJECTIVES OF INTERNAL AUDIT

2.1 As an independent appraisal function within the Council, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources and the management of risk. In addition, the other objectives of the function are to:

- Support the Head of Finance and Resources to discharge his duties as Proper Officer (Section 95, Local Government Scotland Act 1973);
- Contribute to and support the Finance and Resources Service's objective of ensuring the provision of, and promoting the need for, sound financial systems;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets; and
- Conduct special assignment and investigations into any matter or activity affecting the probity, interest and operating efficiency of the Council.

2.2 Internal Audit will have regard to the possibility of malpractice, fraud and other illegal acts, and will seek to identify serious defects in the internal control system which may permit such irregularities. The Council's Business Irregularity Procedures will be used to deal with any irregularities identified.

3. AUTHORITY OF INTERNAL AUDIT

3.1 All Internal Audit activity is carried out in accordance with the Council's Financial Regulations to the effect that a continuous internal audit, under the independent control and direction of the Head of Finance and Resources, shall be undertaken (per Financial Regulations, paragraph I1).

3.2 In accordance with paragraph I2 of the Financial Regulations, the Head of Finance and Resources (Section 95 Officer) or his authorised representatives shall have authority to:

(i) Enter at all reasonable times any Council premises or land;
(ii) Have access to all records, documents and correspondence relating to financial and other transactions of the Council;
(iii) Require and receive such explanations as are necessary concerning any matter under examination;
(iv) Require any employee of the Council to produce cash, stores, or any other Council property under his/her control.

3.3. Internal Audit staff will as necessary be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other devices being used for Council business purposes.

4. POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

4.1 Internal Audit is an independent review activity. It is not an extension of, or a substitute for, the functions of line management and must remain free from any undue influence or other pressure affecting its actions and reporting.

4.2 In accordance with paragraphs A5, A6 and A7 of the Financial Regulations, at all times, management's responsibilities include:

- Maintaining proper internal controls in all processes for which they have responsibility to ensure probity in systems and operations;
- The prevention, detection and resolution of fraud and irregularities;
- Co-operating fully with Internal Audit and ensuring that Internal Audit can properly fulfill their role; and
- Considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so.

4.3 The status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Internal Auditor should have sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation.

4.4 Within West Dunbartonshire Council, the Chief Internal Auditor reports on an administrative basis to the Head of Finance and Resources who is the Council's nominated Section 95 Officer. However the Chief Internal Auditor also has unrestricted access to those charged with governance, specifically: Elected Members; the Chief Executive; Executive Directors; and to the Head of Legal, Democratic and Regulatory Services who is the Council's Monitoring Officer.

The Chief Internal Auditor has direct access to the Chair of the Audit and Performance Review Committee to discuss any matters the committee or auditors believe should be raised privately. One of the functions of the Audit and Performance Review Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Officers of the Council is afforded to all members of the Internal Audit service.

4.5 In terms of accountability and independence, the Chief Internal Auditor reports functionally to an Audit Committee (for West Dunbartonshire

Council, this is the Audit and Performance Review Committee). In this context functional reporting means the Audit and Performance Review Committee will be asked to:

- Approve the preparation of the Internal Audit Charter;
- Approve the preparation of the Annual Audit Plan;
- Receive regular reports from the Chief Internal Auditor on Internal Audit activity, including action plans on work carried out; and
- Make appropriate enquiries of management to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.

4.6 *The Internal Audit Section uses a risk based methodology to determine the key elements of the annual audit plan. In recognition of the responsibility of the Chief Executive and Executive Directors (the CMT) in ensuring that there is an adequate and effective system of internal financial control in their department, the Internal Audit annual plan is also prepared in consultation with the CMT.*

4.7 In addition to managing the work of the Internal Audit function, the Chief Internal Auditor also has management responsibility for:

- Health & Safety;
- Risk Management;
- Insurance;
- Business Continuity;
- Civil Contingencies; and
- ICT Security.

In order to ensure the independence and objectivity of Internal Audit is maintained and demonstrated, any internal audit work on these areas will be carried out by Internal Audit staff with the Chief Internal Auditor as the client and therefore with no involvement in determining the scope of such work or in the delivery and reporting of the internal audit review and the report will submitted in the name of the Section Head (Internal Audit).

4.8 A structure chart showing access available for Internal Audit to those charged with governance is included at Appendix 1.

5. SCOPE OF INTERNAL AUDIT

5.1 The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records and assets deemed necessary in the course of the audit.

5.2 The overall remit of Internal Audit covers the activities of West Dunbartonshire Council, WD Leisure (West Dunbartonshire's Leisure Trust), Clydebank Municipal Bank Ltd., Dunbartonshire and Argyll & Bute Valuation Joint Board, Argyll, Bute and Dunbartonshire Criminal Justice Social Work Partnership and such other related bodies as the Head of Finance and Resources may from time to time determine.

5.3 Internal Audit will seek to foster good working relationships with Elected Members, Council management, External Audit and other agencies as appropriate.

5.4 In liaising with External Audit the main objectives will be to:

- Minimise the incidence of duplication of effort;
- Ensure appropriate sharing of information; and
- Ensure co-ordination of the overall audit effort.

6. INTERNAL AUDIT RESPONSIBILITY

6.1 The main areas of Internal Audit responsibility within the Council are to:

1. Review, appraise and report on:
   - The extent to which the assets and interests are accounted for and safeguarded from loss;
   - The soundness, adequacy and application of internal controls;
   - The suitability and reliability of financial and other management data, including aspects of performance measurement.
2. Investigate all frauds and irregularities; and
3. Advise on internal control implications of new systems.
4. Conduct VFM studies.

6.2 The Chief Internal Auditor will prepare and maintain an annual audit plan in consultation with departmental senior management and with reference to the Council's risk register. The annual audit plan will be ratified by the Head of Finance and Resources and presented to the Audit and Performance Review Committee for noting.

6.3 The Chief Internal Auditor will establish a framework to assess the Council's system of internal control. An annual assurance statement will be provided to the Head of Finance and Resources and Elected Members

6.4 Internal Audit will fulfill its responsibilities in accordance with:

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

6.5 Internal Audit adheres to the Public Sector Internal Audit Standards issued by the Internal Audit Standards Advisory Board in 2013 which as from 1 April 2013 have superseded the previously issued CIPFA Code of Practice for Internal Audit in Local Government (2006) and will sit alongside the CIPFA Role of the Head of Internal Audit document.

7. AUDIT RESOURCES

7.1 The staffing structure of the Internal Audit Section will comprise a mix of qualified and technician posts with a mix of professional specialists to reflect the varied functions of the Section.

7.2 As far as is practicable, Internal Audit staff will not participate in the day-to-day operation of any systems of internal financial control. However, there are occasions when internal audit staff may have to contribute to a Departmental or Corporate initiative. In these circumstances audit personnel may be called upon to carry out non-audit work on a short life basis only.

7.3 Members of the Internal Audit Section may be expected to contribute to the general management and conduct of Council business through membership of working groups and participation in ad hoc exercises.

7.4 The Chief Internal Auditor may request, from the Corporate Management Team, that appropriate specialists should be made available to Internal Audit to assist in any audit work which requires specialist knowledge and expertise.

7.5 The Chief Internal Auditor will carry out an annual review of the development and training needs of all audit personnel and will arrange appropriate training, as allocated budgets will permit.

8. AUDIT REPORTING

8.1 Internal Audit has a protocol for reporting findings. This protocol covers both formal written reports and verbal communications, as appropriate.

8.2 Audit reports will explain the scope and objectives of the audit and give an assessment of the risks identified. The report will present findings and conclusions in an objective manner and make appropriate recommendations.

8.3 Internal Audit will provide management with a draft report to provide an opportunity to agree the factual accuracy of the content before the final report is issued with an action plan.

8.4 In accordance with the reporting protocol, management will be required to provide a formal response to the action plan contained in the final audit report.

8.5 Findings and recommendations are categorised and have expected implementation timescales for completion as follows:

Category	**Expected implementation timescale**
High Risk: 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: Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed
Low risk: 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

9. CONSULTANCY WORK

9.1 Internal Audit, using its systematic and disciplined approach, plays an important role for the Council within its business transformation programme and performance improvement framework through the provision of advice and consultancy services to:

- advise on cost effective controls for new systems and activities to balance risk and control;
- highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews;
- provide quality assurance on projects involving major change and systems development; and
- provide an independent and objective assessment of the evidence on progress with implementing action plans to demonstrate continuous improvement.

9.2 Increasingly management have engaged Internal Audit at an early stage in new developments and business transformation programmes and projects to conduct consultancy work. Acceptance of the assignment will be dependant on available resources, the nature of the assignment and any potential impact on assurances.

9.3 The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review.

10. STANDARDS

10.1 Internal Audit standards will be consistent with the Public Sector Internal Audit Standards (PSIAS).

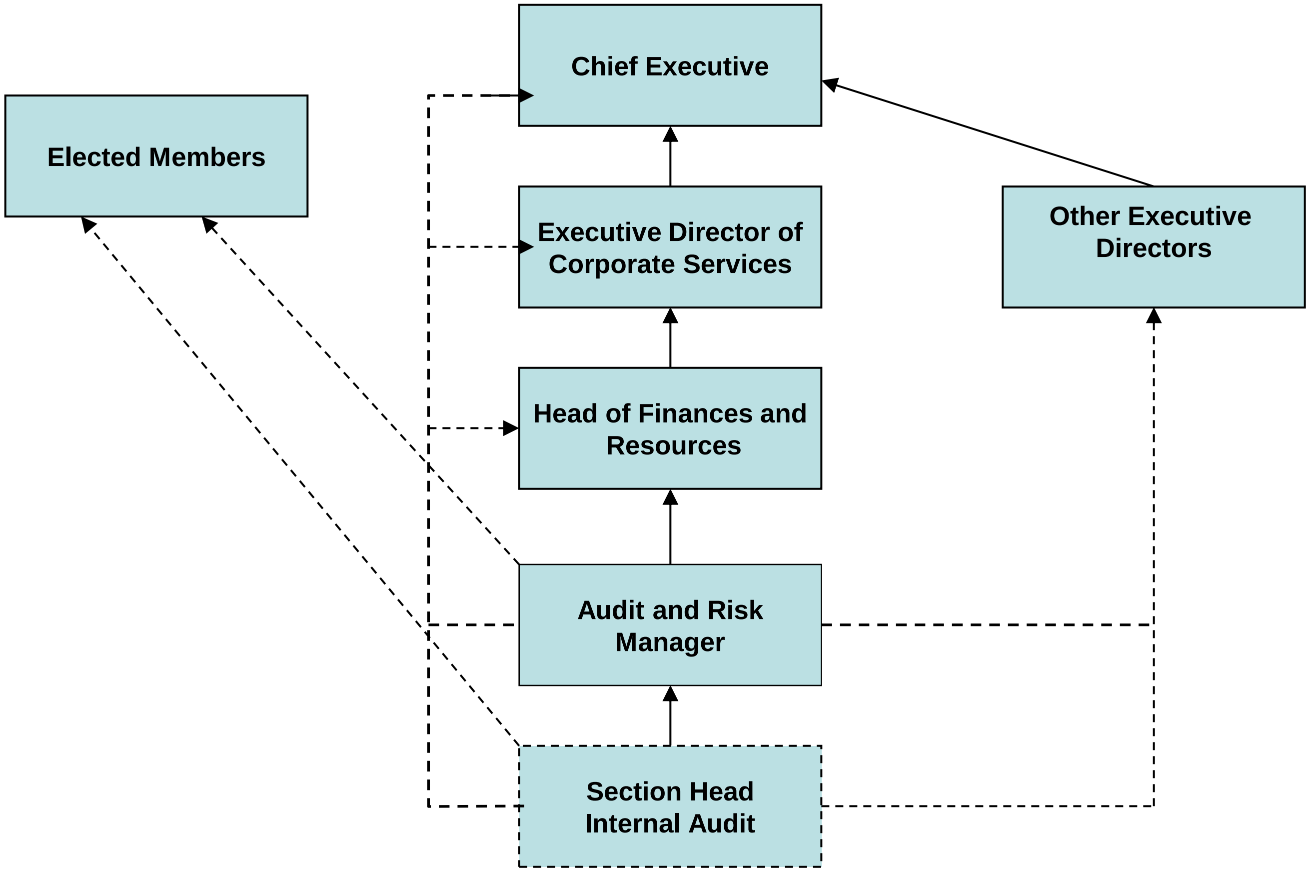
11. FINANCIAL ADVICE

11.1 Internal Audit is often asked to provide financial advice. Wherever possible assistance will be provided to clients, however the Chief Internal Auditor is alert to the potential for conflicts of interest to arise and considers each request on its merit.

May 2013

Appendix 1

Internal Audit Access to those charged with Governance



WEST DUNBARTONSHIRE COUNCIL

Report by Executive Director of Corporate Services

Audit and Performance Review Committee: 22 May 2013

Subject: Internal Audit Annual Report to 31 March 2013

1. Purpose

1.1 The purpose of this report is to advise Members of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2012/13 and to advise Members of the contents of the Assurance Statement given to the Section 95 Officer (the Head of Finance and Resources) in support of the Statement of Internal Financial Control / Governance Statement. This report aims to outline how audit assurances are gained. The report of progress against the Plan is attached at Appendix A and the Assurance Statement is at Appendix B.

2. Recommendations

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

3. Background

3.1 Quarterly progress reports were provided to the Audit and Performance Review Committee during the course of 2012/13. These reports had highlighted some slippage against the Audit Plan, mainly CRSA / Regularity. However there was only minor slippage in Risk Based Audit despite major investigations being undertaken and all assignments necessary to form an opinion on the system of internal control were undertaken.

4. Main Issues

4.1 The work of Internal Audit, External Audit and any external inspection agencies who reported on the Council's work has been reviewed. Assurances were sought from Executive Directors on the implementation of action plans and recommendations and Executive Directors have been asked to provide assurance statements to the Audit and Risk Manager, including their opinion of the control environment operating within their own service areas.

4.2 The Audit and Risk Manager is pleased to report good progress across the Council on audit recommendations and is of the opinion that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's internal control system in the year to 31 March 2013.

4.3 Turnover and secondment resulted in a loss of 172 operational days. During the year there was a vacancy for a 0.5 Computer Internal Auditor post which was not filled.

4.4 By the year end 85% of the Systems Audit Plan had been completed (Appendix C).

4.5 There was a reduction on the time required for irregularities and whistleblowing.

4.6 A restricted amount of Computer Audit was done in house – it is intended to spend more time on this area of work during 2013/14.

4.7 The adverse variance in Contract / Procurement was previously reported to the Committee on the 28th November 2012 and related to work carried out in 2012/13 to complete the 2011/12 Audit plan.

5. People Implications

5.1 There are no people implications.

6. Financial Implications

6.1 There are no financial implications.

7. Risk Analysis

7.1 There is a risk that failure to deliver 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.

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 Assuring Our Success through strong financial governance and sustainable budget management.

....
Angela Wilson
Executive Director of Corporate Services
Date: 29 April 2013

Person to Contact:	Colin McDougall, Audit and Risk Manager Telephone (01389) 737436 E-mail: colin.mcdougall@west-dunbarton.gov.uk
Appendix A:	Internal Audit Progress Report: 31 March 2013
Appendix B:	Assurance Statement to 31 March 2013 from the Audit and Risk Manager
Appendix C:	Percentage of 2012/13 Audit Plan complete at 31st March 2013
Background Papers:	None
Wards Affected:	All wards

WEST DUNBARTONSHIRE COUNCIL — APPENDIX A

INTERNAL AUDIT SECTION

PROGRESS REPORT FOR THE PERIOD 1ST APRIL 2012 TO 31ST MARCH 2013

CATEGORY	PLANNED TIME (DAYS)	ACTUAL TIME (DAYS)	VARIANCE (DAYS)	
Risk Based Audit	440	467	27	A
Contract / Procurement	20	55	35	A
Computer Audit	106	16	90	F
Development	24	31	7	A
Investigations	296	263	33	F
Control Risk Self Assessment/Regularity	70	42	28	F
Corporate Governance	44	63	19	A
Follow Up	20	15	5	F
Year-End Procedures	14	12	2	F
Performance Indicators	20	40	20	A
Financial Services/Grant Claims	20	8	12	F
Whistleblowing/NFI Admin/FOI	118	46	72	F
Administration / Staffing	58	68	10	A
Management & Planning	62	51	11	F
Training	38	12	26	F
Leave	314	303	11	F
Secondment	0	14	14	A
Staff Turnover	0	158	158	A
TOTAL	**1664**	**1664**	**0**	

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

APPENDIX B

To the Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Head of Finance and Resources)

As Audit and Risk Manager of West Dunbartonshire Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Group Accounts prepared by the Council for the year ended 31 March 2013.

Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal financial control and to monitor the continuing effectiveness of that system. It is the responsibility of the Audit and Risk Manager to provide an annual overall assessment of the robustness of the internal financial control system.

Sound internal controls

The main objectives of the Council's internal control systems are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

The work of internal audit

Internal Audit is an independent assurance function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

The Internal Audit Section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The Section undertakes an annual programme of work based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council. All Internal Audit reports identifying system weaknesses and / or non-compliance with expected controls are brought to the attention of management and the Audit and Performance Review Committee together with appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by Internal Audit during the year to 31 March 2013, including risk based systems audits, investigations, follow-up reviews and one-off exercises;
- The assessment of risk completed during reviews of the strategic audit plan;
- The assurance statements signed by Executive Directors on the operation of the internal financial controls for the services for which they were responsible during the year to 31 March 2013.
- Reports issued by the Council's External Auditors, Audit Scotland, and other review agencies; and
- My knowledge of the Council's governance, risk management and performance monitoring arrangements.

Opinion

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's internal control system in the year to 31 March 2013**.**

Signature: ***Colin McDougall***

Title: Audit and Risk Manager

Date: 23 April 2013

Appendix C

Percentage of 2012/13 Audit Plan complete at 31st March 2013

	Days	
Payroll	30	100%
Main Accounting System	40	85%
Commercial Properties	50	100%
Treasury Management	30	100%
Housing Repairs & Maintenance	30	100%
Housing Rent Arrs Man & Coll.	30	100%
Electoral Registration	30	10%
Council Tax Billing	40	100%
Housing Benefit Fraud	20	100%
NDR Liability	30	100%
Cheque Control	20	100%
Procurement	20	100%
CHCP & Educational Excur.	40	25%
Total	410	
Percentage Complete	**84.63%**	

WEST DUNBARTONSHIRE COUNCIL

Report by Executive Director of Corporate Services

Audit & Performance Review Committee: 22nd May 2013

Subject: Risk and Business Continuity Update

1. Purpose

1.1 To provide an update to the Committee on work being done in relation to Risk and Business Continuity.

2. Recommendations

2.1 It is recommended that members:

- Note the content of the Strategic Risk Register as detailed at Appendix 1;
- Note the next steps required for department / service risks to be developed; and
- Note the requirement to ensure that Business Continuity Plans are brought up to date across the Council.

3. Background

3.1 Various stages of development have taken place in the establishment of a Strategic Risk Register for the Council over the last three years. With the approval of the Strategic Plan 2012/17, new strategic risks have now been developed.

4. Main Issues

Strategic Risk

4.1 At the Council meeting on 26 September 2012, Elected Members approved the Council's Strategic Plan 2012/17. The strategic risks have been derived from this in terms of the six enabling factors associated with the five priorities (Assuring Our Success Through), i.e. the strategic risks are:

- Failure to deliver strong financial governance and sustainable budget management;
- Council estate and facilities are not fit for purpose;
- Failure to develop or implement innovative use of Information Technology;
- Lack of strategy / plans / vision to ensure a committed and dynamic workforce;

- Failure to embrace opportunities which can be derived from constructive partnership working and joined-up service delivery; and
- Failure to ensure positive dialogue with local citizens and communities.

4.2 Each of these strategic risks is documented in detail at Appendix 1.

Covalent Content, Maintenance and Reporting

4.3 Each strategic risk has been populated in Covalent in terms of the following template:

- Risk title and code;
- Description;
- Ownership;
- Potential effect;
- Measures of impact;
- Risk factors;
- Internal controls;
- Risk opportunity;
- Linked actions; and
- Linked PIs.

4.4 Each risk has been scored using a "4 x 4" matrix for likelihood and impact in relation to:

- Current risk (with review dates set at pre-determined intervals); and
- Target risk (i.e. 31 March 2017 - the duration of the Strategic Plan).

The risk descriptors used in the "4 x 4" matrix are as follows:

Likelihood

Score	Descriptor
1	Unlikely
2	Likely
3	Very likely
4	Certain

Impact

Score	Descriptor
1	Minor
2	Moderate
3	Significant
4	Critical

4.5 For roles or ownership, each strategic risk is “Managed By” a member of the CMT and “Assigned To” a Head of Service or a Manager.

Department / Service Risk

4.6 The next stage in embedding risk management across the Council is for Department / Service risk to be linked to the development of plans for 2013/14.

4.7 The corporate Risk Management team will provide guidance to departmental management and assist them in taking ownership of the risk management process in populating Covalent with the content described at paragraph 4.3 to 4.5 above for Department / Service risk and operational risk. It is for departmental management to take ownership of this process as it will not succeed unless there is clear evidence that risk management has become fully embedded across the Council, a feature that can be well demonstrated by pro-active ownership of each risk.

Business Continuity Plans

4.8 Appendix 2 details the position as at April 2013 of Business Continuity Plans for departments.

4.9 The Council’s Business Continuity / Civil Contingencies Group recently agreed as part of their action plan to determine the position as regards business continuity plans within departments, i.e.:

- What is currently in place and what gaps are there;
- Refresh and update plans;
- Determine linkages to other plans (i.e. Disaster recovery); and
- Agree to ensure all plans are shared on network (new shared drive created).

Shared Risk Assessment

4.10 For the 2012 Shared Risk Assessment process, risk management was considered to present “Significant concerns” (red status). This has improved in the Shared Risk Assessment for 2013 to “Further information required” (amber status) and so there is still some work to do to achieve a “green” status (no scrutiny required). Audit Scotland will monitor this through the routine audit process, specifically:

- Progress meetings with the Audit and Risk Manager; and
- Review of Council's Strategic Risk Register.

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 Failure to progress on risk management is likely to result in the Council being criticised by Audit Scotland for not having an integrated approach to embedding risk management within the authority with the result that a “no scrutiny required” status will not be achieved.

7.2 Progressing with risk management will demonstrate that the Council is taking ownership of risk management so that effective measures will be put in place for the management of risk. The ability to demonstrate risk ownership should benefit the Council in terms of:

- Understanding risk and its potential impact on the Council’s priorities and objectives;
- Developing a risk appetite;
- Reducing insurance premiums going forward by recognising that a mature approach to risk management will contribute to a reduction in the number and value of claims across a range of insurance classifications;
- Assisting with establishing priorities;
- Contributing towards incident prevention based upon post-incident investigation;
- Meeting statutory / regulatory requirements;
- Contributing to a better understanding and assessment of major project activity; and
- Ensuring better partnership working.

7.3 The Council is not fully complying with the Civil Contingencies Act by operating with out-of-date business continuity plans. If an incident were to occur, the lack of planning and associated documentation may impact on the ability to deal with any incident effectively and efficiently, and any potential punitive action on the Council by relevant authorities.

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 Finance Services and Legal, Democratic & Regulatory Services with no issues identified.

10. Strategic Assessment

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

Angela Wilson
Executive Director of Corporate Services
3 May 2013

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

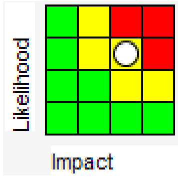
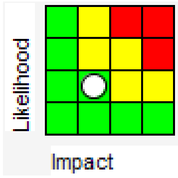
Appendices: Appendix 1: Strategic Risk Register
Appendix 2: Business Continuity Plans – Departments (as at April 2013)

Background Papers: Report to Council on 26 September 2012 - West Dunbartonshire Council Strategic Plan 2012-17

Wards Affected: All Wards

Appendix 1
Strategic Risk Register 2012-13

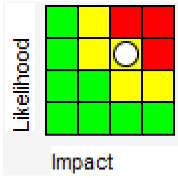
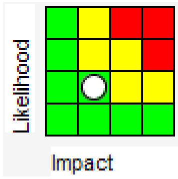
Generated on: 03 May 2013

<table>
<tr><td></td><td>SR105 Failure to deliver strong financial governance and sustainable budget management</td><td>Current Risk Matrix</td><td>Current Rating</td><td>Last Review Date</td></tr>
<tr><td rowspan="2">Description</td><td rowspan="2">The Council fails to deliver strong financial governance through either its budgetary preparation and management processes or maintaining adequate reserves.</td><td></td><td>9</td><td>04-Dec-2012</td></tr>
<tr><td>Target Risk Matrix</td><td>Target Rating</td><td>Target Date</td></tr>
<tr><td>Potential Effect</td><td>Shortfall in finances and therefore the Council is unable to provide all services as intended or fund improvements to services through "spend to save" schemes.</td><td></td><td>4</td><td>31-Mar-2017</td></tr>
<tr><td>Measures of Impact</td><td>- Additional burdens (e.g. general inflation, tax increases, fuel cost increases, superannuation, high level care costs)
- Actual level of Savings achieved in comparison to level of savings agreed by Council
- Reduction in government grant
- Demographic shifts
- Significant overspends
- Savings required
- Debt collection statistics
- Adverse level of capital receipts (planned v actual)
- Underutilised assets / occupancy levels
- Does the Council have a 10 year Financial Strategy? Yes / No
- Procurement Capability Assessment (PCA)</td><td rowspan="2">Latest Note</td><td rowspan="2" colspan="2">The range of risks have been considered and on balance the external risks to funding remain high. Significant mitigation controls are in place and planning processes seek to ensure appropriate action is taken at the right time to reduce levels of financial risk to WDC.</td></tr>
<tr><td>Risk Factors</td><td>- Level of government grant
- General inflationary factors
- Significant additional burdens (see further under "Measures of Impact")
- Poor budgetary control arrangements
- Ineffective debt collection (e.g. Council Tax, Housing Rents, sundry debtors)
- Capital receipts
- Welfare Reform</td></tr>
<tr><td>Internal Controls</td><td>- 10 year Financial Strategy subject to regular review
- Financial planning
- Budgetary control process
- Regular budgetary control reports provided to CMT and Council / committees
- Rigorous debt collection processes
- Annual Internal Audit Plan
- Work of External Auditors (external control)
- Annual Governance Statement
- Procurement Improvement Plan</td><td>Managed By

Assigned To</td><td colspan="2">Angela Wilson

Gillian McNeilly; Stephen West</td></tr>
<tr><td>Risk Opportunity</td><td>- Annual exercise to identify efficiencies
- Major projects such as those within the Income Securitisation process, e.g. windfarm
- Enhance the reputation of the Council as an organisation which manages its finances soundly</td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Linked Actions</td><td>CA/WDC/0602/001 Update Long Term Financial Strategy</td><td>Corporate Services</td><td></td><td></td></tr>
<tr><td>CA/WDC/0602/002 10 Year Capital Plan</td><td>Corporate Services</td><td></td><td></td></tr>
</table>

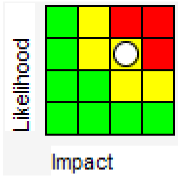
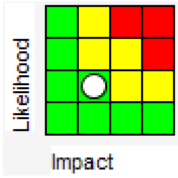
	CA/WDC/0602/003 Capital Plan	Corporate Services
	CS/12-13/FAR/004 Seek out and develop innovation in ways in which we work to ensure value for money to our users	Corporate Services
	CS/12-13/PR/01 Develop procurement leadership and governance across Council	Corporate Services
	CS/12-13/PR/02 Implement Procurement Strategy and Objectives	Corporate Services
	CS/1217/FAR/002 Ensure compliance with all applicable legislation and Codes of Practice	Corporate Services
	CS/1217/FAR/003 Improve procurement leadership and governance across the Council	Corporate Services
	CS/1217/FAR/004 Implement procurement strategy and objectives	Corporate Services
	CS/1217/FAR/009 Provide comprehensive advice & delivery services to our customers and increase in the number of customer requests resolved at 1st point of contact by staff skilled to take on new tasks and responsibilities from service processes	Corporate Services
	CS/1217/FAR/020 Produce budgets which reflect the councils corporate aims and objectives	Corporate Services
	CS/12-17/WR/001 Implement legislative requirements for Housing benefit, Council tax benefit replacement scheme & Universal Credit	Corporate Services
Linked PIs	CS/FICT/SPI1/002 Amount of free reserves - HRA	Corporate Services
	CS/FICT/SPI1/003 Amount of free reserves - General Services	Corporate Services
	CS/PRO/001 Procurement capability assessment score	Corporate Services
	SCM6b CM6bi: Percentage of income due from Council Tax for the year, net of reliefs and rebates that was received during the year	Corporate Services
	SHS4ai HS5aiii: Current tenant arrears as a percentage of the net amount of rent due in the year	Corporate Services; Housing, Environmental and Economic Development

<table>
<tr><td></td><td>SR106 Council estate and facilities are not fit for purpose</td><td>Current Risk Matrix</td><td>Current Rating</td><td>Last Review Date</td></tr>
<tr><td rowspan="2">Description</td><td rowspan="2">The Council's assets and facilities are not fully fit for purpose with consequent adverse impact on our ability to deliver efficient and effective services. Included in this assessment is Council's property portfolio, housing stock, roads and lighting, fleet and open space</td><td>
</td><td>9</td><td>09-Nov-2012</td></tr>
<tr><td>Target Risk Matrix</td><td>Target Rating</td><td>Target Date</td></tr>
<tr><td>Potential Effect</td><td>- Assets are not utilised in the most effective and efficient manner
- Service cannot be properly delivered to the satisfaction of service users
- Service users seek alternative service provision, either locally or by moving to another Council area
- Roads network in poor condition</td><td>
</td><td>4</td><td>31-Mar-2017</td></tr>
<tr><td>Measures of Impact</td><td>- Condition surveys
- Suitability surveys
- Road Condition SPI
- Customer perceptions of service delivery
- Investment levels in upkeep and improvement of asset base and facilities</td><td rowspan="2">Latest Note</td><td rowspan="2" colspan="2">The Council has recently taken the decision to implement a 10 year investment plan designed to direct investment toward asset management priorities as they support strategic objectives. Plans for recurring spend lines and year 1-3 projects which are fully funded are being developed & implemented.

To optimise impact on both general services and HRA capital spend revised planning & performance management arrangements are being introduced.

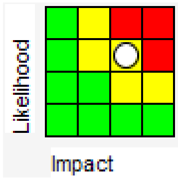
Additional capacity to support delivery has been provided for with capital sums determined.</td></tr>
<tr><td>Risk Factors</td><td>- Lack of funding available to improve asset base
- Lack of staff resources allocate to the area of asset management
- Council buildings deemed to be unfit for existing purpose
- Meeting SQHS by 2015
- Economic downturn may reduce level of potential capital receipts from surplus property sales
- Increased public liability claims due to poor condition of roads network</td></tr>
<tr><td rowspan="2">Internal Controls</td><td rowspan="2">- Corporate Asset Management Strategy
- Schools Estate Strategy
- Existence of Asset Management Group with meetings held on a regular basis
- Asset management plan
- (HRA) Asset Management Group/Plan
- Capital plan
- Roads and Lighting Asset Implementation Plan
- Fleet Asset Implementation
- Open Space Asset Implementation Plan
- Detailed asset database that shows relevant information on a property by property basis
- Sustainability Policy
- Housing Asset Management Strategy
- Housing Improvement Plan - Housing Estate Management Strategy</td><td>Managed By</td><td colspan="2">Elaine Melrose</td></tr>
<tr><td>Assigned To</td><td colspan="2">Ronnie Dinnie; Jim McAloon; Helen Turley</td></tr>
<tr><td>Risk Opportunity</td><td>- Enhance reputation of Council by being able to improve Council estate and service delivery (e.g. new school buildings, new</td><td colspan="3"></td></tr>
</table>

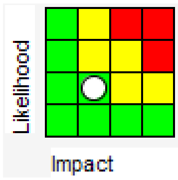
	Council Headquarters, meeting SQHS)) - Enhance employee "feel good" factor by providing modern office accommodation equipped with up to date IT facilities - Secure external funding for development of assets (e.g. EC, lottery) - Leisure Trust	
Linked Actions	H/2012/CAM/05 Support and develop new business cases for renewal of assets	Housing, Environmental and Economic Development
	H/2012/CAM/06 Develop new schools Estate Strategy in partnership with Educational Services	Housing, Environmental and Economic Development
	H/2012/CAM/09 Develop new Energy Strategy for WDC	Housing, Environmental and Economic Development
	H/2012/CAM/10 Submit Carbon Reduction Commitment Report and submit for approval	Housing, Environmental and Economic Development
	H/2012/FWS/03 Implement and continually review the Vehicle Fleet Asset Management Plan	Housing, Environmental and Economic Development
	H/2012/HCS/03 Work towards meeting the Scottish Housing Quality Standard by 2015	Housing, Environmental and Economic Development
	H/2012/RT/09 Implement and continually review Roads Asset Management Plan	Housing, Environmental and Economic Development
Linked PIs	H/CAM/01 Tonnage of carbon dioxide emissions from Council operations and assets	Housing, Environmental and Economic Development
	H/CAM/09 Energy Consumption value per m2 (ga, electricity, oil, solid fuel) per kwh	Housing, Environmental and Economic Development
	SCM9a CM8aiii: Proportion of operational accommodation that is in a satisfactory condition	Housing, Environmental and Economic Development
	SH7axii HS2avi: The total percentage of Council's housing stock meeting the Scottish Housing Quality Standard	Housing, Environmental and Economic Development
	SRL1e RL1v: Overall percentage of road network that should be considered for maintenance treatment	Housing, Environmental and Economic Development

<table>
<tr><td></td><td>SR107 Failure to develop or implement innovative use of Information Technology</td><td>Current Risk Matrix</td><td>Current Rating</td><td>Last Review Date</td></tr>
<tr><td rowspan="2">Description</td><td rowspan="2">The risk is that the Council's Information Technology is not sufficiently modernised / brought up to date to enable the delivery of sustainable ICT services to support and enhance the delivery of front line services to the community.</td><td></td><td>9</td><td>04-Dec-2012</td></tr>
<tr><td>Target Risk Matrix</td><td>Target Rating</td><td>Target Date</td></tr>
<tr><td>Potential Effect</td><td>A lack of consistent, sufficiently robust planning in respect of ICT arrangements
is likely to result in the Council being ill prepared to meet future demands in key service areas and lacking the capacity to respond effectively to changing need.</td><td></td><td>4</td><td>31-Mar-2017</td></tr>
<tr><td>Measures of Impact</td><td>- Extent of wireless connections in the Council network
- Number of ICT Help Desk calls resolved at the first point of contact
- Percentage of users of the Council's Contact Centre who are satisfied or very satisfied with the services delivered by the Contact Centre
- Extent of functionality development in key Council systems (i.e. lack of development beyond base system leading to ineffective management information)
- Fit for purpose Council website, delivering information and services to a significant percentage of the Council's customers
- Provide efficient desktop services to meet changing workforce flexibility and property rationalisation requirements
- Implementation of mobile and flexible working, enabling a downsizing of required office accommodation through enabling people to work more efficiently and to adopt a more flexible policy towards office accommodation and desk provision
- Broadband speed in the Council area</td><td rowspan="2">Latest Note</td><td colspan="2" rowspan="2">General infrastructure is not robust and recent underinvestment has resulted in systems which require upgrading. Council agreed £4M funding for IT infrastructure to improve robustness and capability of employees.</td></tr>
<tr><td>Risk Factors</td><td>- Insufficient resourcing of ICT developments so that benefits and opportunities identified are not realised
- Poor project and programme change management arrangements
- Poor quality of mobile communication provision</td></tr>
<tr><td>Internal Controls</td><td>- Information & Communication Technology (ICT) Policy
- Governance structures to support integrated planning and decision making in relation to ICT
- Use of both internal IT resources from across the Council and skilled specialist advisers in key areas
- Fit for purpose data centre (with remote back up site)</td><td>Managed By
Assigned To</td><td colspan="2">Angela Wilson
Patricia Marshall</td></tr>
<tr><td>Risk Opportunity</td><td>- Provide 21st century state of the art technology for employees and service users
- Rationalise IT systems
- Use of innovative IT linked service delivery models to effect change
- Provide Council employees with secure access to email and supporting systems at
times and locations of choice
- Provide self service style systems to employees and the local community
- Increase the use of electronic document storage and workflow across the Council</td><td></td><td colspan="2"></td></tr>
<tr><td rowspan="3">Linked Actions</td><td>CS/1217/FAR/011 Implement ICT asset management strategy and plan</td><td>Corporate Services</td><td colspan="2"></td></tr>
<tr><td>CS/1217/FAR/015 Development and delivery of the ICT Modernisation project</td><td>Corporate Services</td><td colspan="2"></td></tr>
<tr><td>CS/1314/PAT/019 Implement ICT asset management strategy</td><td>Corporate Services</td><td colspan="2"></td></tr>
</table>

	and year 3 plan	
Linked PIs	CS/ICT/SP001 Percentage of schools with optimal data communication network band width in operation	Corporate Services
	CS/ICT/SP002 Percentage of Council information technology desktop hardware that meets ICT's agreed minimum software specification	Corporate Services

	SR108 Lack of strategy / plans / vision to ensure a committed and dynamic workforce
Description	There is a risk that the Council fails to develop and implement a flexible, strategic structured approach to workforce and capacity planning
Potential Effect	- Low staff morale - Inability to deliver services effectively - Reduced level of service - Lack of improvement or increase in staff absences - Council underachieves as an organisation (tick box Council) - Employee conflict
Measures of Impact	- Statistics on staff development - Absence rate - Staff turnover - Grievance and discipline statistics - Staff survey statistics - Reports from external scrutiny bodies and award bodies
Risk Factors	- Lack of appropriate staff development / skills may be lacking to support new model of service delivery - Lack of capability to deliver - Workforce unable to adapt to change
Internal Controls	- HR processes designed to meet service delivery needs - Develop new structures to reflect strategic priorities - Align workforce plan to the Council's strategic planning processes (i.e. have the right people available at the right time with the right skills to fulfil properly all of the Council's strategic priorities - Succession planning - Identify training programmes to reskill staff as identified by training needs analysis - Flexible HR policies, in particular recruitment & selection, learning & development (including elearning), continuous improvement / development flexible working, attendance management, employee wellbeing related polices - Effective use of Occupational Health Service - Robust PDP process - Effective leadership and management behaviours and practice - Maintain the Council's Healthy Working Lives Gold Award
Risk Opportunity	- Identity previously unknown skills and talents in the workforce - Realise the potential of staff

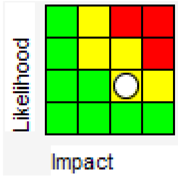
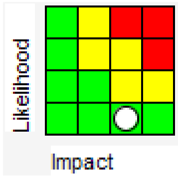
Current Risk Matrix	Current Rating	Last Review Date
	9	12-Dec-2012

Target Risk Matrix	Target Rating	Target Date
	4	31-Mar-2017

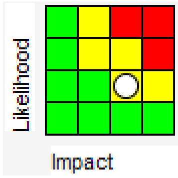
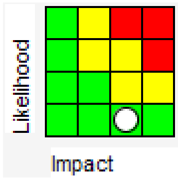
Latest Note	A significant amount of work has been undertaken in this area with a number of the linked actions now complete or underway. Focus has been on the Council campaign to reduce absence; embedding PDP, including our Elected Members; further development of our workforce strategy and implementation of a cyclical framework to support the process.
Managed By	Angela Wilson
Assigned To	Vicki Rogers

Linked Actions		
	CS/1217/HROD/003 Implement systematic approach for monitoring and reporting absence case management	Corporate Services
	CS/1217/HROD/004 Develop robust process for reporting sickness absence	Corporate Services
	CS/1217/HROD/007 Implement key health and wellbeing initiatives	Corporate Services
	CS/1217/HROD/012 Increase awareness of Council's equalities obligations.	Corporate Services

	CS/1217/HROD/026 Develop dispute resolution framework in partnership with TU's & ACAS	Corporate Services
	CS/1217/HROD/028 Facilitate annual performance cycle and embed PDP framework	Corporate Services
	CS/1217/HROD/033 Support development and delivery of Elected Member business day programme	Corporate Services
	CS/1217/HROD/034 Implement PDP (CPD framework) for Elected Members	Corporate Services
	CS/1217/HROD/036 Implement leadership development and support for senior managers	Corporate Services
	CS/1217/HROD/038 Facilitate development and support programmes for middle and front line managers.	Corporate Services
	CS/1217/HROD/040 Complete review of the Continuous Improvement Strategy	Corporate Services
	CS/1217/HROD/052 Develop an HR Strategy	Corporate Services
	CS/1217/HROD/053 Work in partnership with directors to implement key departmental restructures and initiatives	Corporate Services
	CS/1217/HROD/054 Review departmental workforce & Council workforce planning process	Corporate Services
	CS/1314/COMS/002 Lead a communications campaign to support the Attendance Management strategy and reduce absence levels.	Corporate Services
	CS/1314/COMS/003 Improve the Council management newsletter to maximise manager satisfaction and staff communication	Corporate Services
	CS/1314/COMS/006 Produce 4 issues of Talk magazine and increase satisfaction levels with the publication amongst staff	Corporate Services
	CS/1314/COMS/007 Improve Council Intranet and maximise staff satisfaction and Council efficiency	Corporate Services
Linked PIs	CS/HROD/SPI1/001 Percentage of staff who have an agreed annual personal development plan	Corporate Services
	CS/OD/101 Percentage of employees who express satisfaction with the Council as a place of work	Corporate Services
	SCM1aiv: CM1biii: Average number of working days lost per employee through sickness absence for all other local government employees	Corporate Services
	SCM1civ CM1aiii: Average number of working days lost per employee through sickness absence for teachers	Corporate Services

	SR109 Failure to embrace opportunities which can be derived from constructive partnership working and joined-up service delivery	Current Risk Matrix	Current Rating	Last Review Date
Description	The Council fails to engage adequately with partnership bodies		6	04-Dec-2012
		Target Risk Matrix	**Target Rating**	**Target Date**
Potential Effect	- Use of public sector resources not optimised in local area - Council left holding the tab if a partnership relationship fails		3	31-Mar-2017
Measures of Impact	- No of shared service arrangements made by the Council - Partnership arrangements go off on tangents not related to the original purpose	**Latest Note**	The strategic plan is fully aligned with the current SOA and all partnership opportunities are progressed through CPP structures, either at CPP strategic board or through thematic groups. The national and local reviews of community planning give us the opportunity to ensure stronger governance and accountability against delivery of the priority outcomes for the area. Any necessary supports, agreements and processes for this will be developed following agreement of the new CPP structure, and a new CPP risk register will be developed. The CPP will act as the scrutiny body for local fire and police plans to ensure strategic oversight and key linkages to service delivery areas.	
Risk Factors	- Reduction in control through partnership arrangements - Council's reputation is adversely affected through a failed partnership arrangement			
Internal Controls	- Ensure that partnership opportunities are considered as an option across all Council services - Robust partnership arrangements (e.g. legal documents, service level agreements) - Align the Council's strategic plan with the Single Outcome Agreement (SOA) - Ensure that partners have signed up to deliver on the outcomes and targets set in the SOA - Develop data sharing protocols with partner agencies - Participate in shared service agenda where it is evidently of benefit to the Council - Participate in Police and reform agenda as it impacts on Council area - Develop code of practice for partnerships which would assist in ensuring consistency across the Council - Develop specific partnership risk register	**Managed By**	Angela Wilson	
		Assigned To	Peter Barry	

Risk Opportunity	- Position West Dunbartonshire as a modernising Council - Police and Fire Reform - Shared Services options	
Linked Actions	CS/12-17/CP/005 Lead and manage the delivery, monitoring and reporting of the SOA 2011-14	Corporate Services
	CS/12-17/CP/006 Lead and manage the effective governance and administration of Community Planning	Corporate Services
	CS/12-17/CP/007 Ensure effective response to COSLA Review of Community Planning	Corporate Services
Linked PIs	CHCP/CICR/001 Percentage of Council-operated children's residential care homes which are graded 5 or above	Community Health and Care Partnership
	CHCP/CIHC/001 Percentage of Council Home Care services which are graded 5 or above	Community Health and Care Partnership
	CHCP/CIOPR/001 Percentage of Council-operated older people's residential care homes which are graded 5 or above	Community Health and Care Partnership
	CS/CCP/002 Percentage of WD third sector organisations involved in SOA delivery that report constructive engagement with the Council	Corporate Services

	SR110 Failure to ensure positive dialogue with local citizens and communities	**Current Risk Matrix**	**Current Rating**	**Last Review Date**
Description	The risk is that the Council does not establish or maintain positive communications with local residents and the communities it represents		**6**	04-Dec-2012
		Target Risk Matrix	**Target Rating**	**Target Date**
Potential Effect	- Tensions develop with individuals and local community groups		**3**	31-Mar-2017
Measures of Impact	- Responsiveness to communities PI measures	**Latest Note**	Community engagement services are currently being reviewed with the view to streamlining and improving the Council's ability to reach wider communities. Positive and effective models such as citizens panel, PPF and tenant participation will form the core of the community engagement approach going forward. The emphasis will be on community engagement processes as opposed to over reliance on static structures.	
Risk Factors	- The Council tries to please everyone and so ends up pleasing no-one			
Internal Controls	- Develop mechanisms for public feedback - Develop robust methods for identifying community priorities - Annual budget consultation events - Citizens Panel - Community Council arrangements - Open Forum questions at Council meetings	**Managed By** **Assigned To**	Angela Wilson Peter Barry	
Risk Opportunity	- Community Empowerment and Renewal Bill - Council seen as being open, honest and transparent with the local community			
Linked Actions	CS/12-17/CP/004 lead the development of new framework for Community Engagement across Council and CPP	Corporate Services		
	CS/1314/COMS/004 Lead the telephone satisfaction survey project and explore ways in which its data can have the most impact on service improvement.	Corporate Services		
	CS/1314/COMS/005 Improve the Council website to maximise visitor satisfaction and Council efficiency with a particular focus on SOCITM ratings.	Corporate Services		
	CS/1314/COMS/008 Provide an effective Press Office service that promotes the Council's achievements and protects the organisation against unfair criticism	Corporate Services		
Linked PIs	CED/CP/002 Percentage of Citizens' Panel (CP) respondents who agree that there is evidence that the Council and it's Community Planning partners listen to what they tell us in surveys on developing and changing the way we provide services	Corporate Services		

	CED/CP/003 Percentage of Citizens Panel respondents who think the Council communicates well with its residents	Corporate Services
	CS/CCM/1000 Percentage of citizens who are satisfied with the Council website	Corporate Services
	CS/FAR/015 Percentage of Audit Scotland-led Shared Risk Assessment and Improvement Plans areas assessed as having no significant risk	Corporate Services
	CS/ICT/SP003 Percentage of complaints received by the Council that are resolved at Stage 1	Corporate Services

Risk Status	
	Alert
	High Risk
	Warning
	OK
	Unknown

APPENDIX 2

WEST DUNBARTONSHIRE COUNCIL

BUSINESS CONTINUITY PLANS – DEPARTMENTS (as at April 2013)

Question	**Corporate Services**	**Education**	**HEED**	**CHCP**
Does the department have a business continuity plan?	Yes	Yes	Yes	Yes
Does the plan cover the whole department?	Yes, separate documents exist for: • LARS (August 2012) • Finance & ICT (October 2007) • HR & OD (December 2007) • Chief Executive's Policy Unit (September 2007) • IT DR Plan for 2012	Yes	Yes	Yes WDCHCP integrated management structure established with integrated business continuity arrangements and plan currently in development. Individual business continuity plans in place for service areas.
When was the plan prepared?	See dates above	August 2007	January 2008	Department - October 2007 Service areas - 2011

APPENDIX 2

WEST DUNBARTONSHIRE COUNCIL

BUSINESS CONTINUITY PLANS – DEPARTMENTS (as at April 2013)

Question	**Corporate Services**	**Education**	**HEED**	**CHCP**
When was the plan last updated?	Some elements in 2012, otherwise as per dates shown above	As above	As above	As above
Has the plan been tested? (please provide details)	Some testing of Disaster Recovery Plans	No	No	Although the plans have not been formally tested, discussions have been ongoing with service managers since the plans were developed to ensure that business continuity arrangements are well understood.
Other comments	Various Disaster Recovery Plans also exist			The integration of WDC social work and criminal justice services with NHS GG&C community services in West Dunbartonshire was established in October 2010. The integrated partnership business continuity plan currently

APPENDIX 2

WEST DUNBARTONSHIRE COUNCIL

BUSINESS CONTINUITY PLANS – DEPARTMENTS (as at April 2013)

Question	Corporate Services	Education	HEED	CHCP
				in development will recognise the business continuity requirements of both organisations.

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Audit and Performance Review Committee: 22 May 2013

Subject: The Accounts Commission's overview of local government in 2013: *Responding to challenges and change*

1. Purpose

1.1 The report is to provide Members with information regarding a report recently published by the Accounts Commission.

1.2 The report provides the Accounts Commission's perspective on local government in Scotland based on recent audit work. It builds on last year's report (reported to this Committee on 29 August 2012) and focuses on how Councils are responding to the pressures which were identified in the previous report.

2. Recommendations

2.1 It is recommended that Members consider the Accounts Commission report and the checklist at Appendix 1 of the report and agree:

i) that a fuller consideration of the issues should form part of a Members Seminar to be arranged at a future date; and

ii) the Chief Executive presents the report to the Council's Community Planning partners for a wider consideration of the challenges, in order to seek a partnership approach.

3. Background

3.1 The Accounts Commission is interested in the impact of various pressures on local government and in how Councils are dealing with these pressures.

3.2 Last year the Accounts Commission provided an overview report which concentrated on the pressures that local government is facing and this year's report can be considered as a follow-up to that report and examines how councils are responding, and what more needs to be done.

3.3 These two reports have been done in the context of providing elected members with some information and linking the challenges identified to the role of the Councillor.

4. Main Issues

4.1 The report highlights a number of issues for Councils, summarised as follows:

4.1.1 Demand and Resource pressures

Demand for services continues to rise due to a range of factors including: the aging population; increasing benefits claimants; pressures on welfare benefits and advice services; demand on economic regeneration; implementing national and local priorities; maintaining roads and infrastructure; and weather-related demands. In contrast to this resources are being reduced through impact of austerity measures; employee cost pressures (pay inflation and pension commitments); borrowing pressures; impact of general economic pressures on income streams such as Council Tax, Non-domestic rates, and charges.

4.1.2 Public Service Reform

The Scottish Government's plans for reform are gathering pace focusing on: shifting from reactive to preventative spend; integration and partnerships; workforce development; and improving performance. Councils are reviewing how services work in order to meet these demands and to work with the increasing expectations around community planning. Upcoming changes include: ongoing welfare reform; integration of adult health and social care; community planning and effective community engagement.

The report highlights some ways in which Councils have reformed service delivery models through: sharing services, setting-up arms length external organisations (ALEO), contracting with external private or voluntary sector suppliers, etc.

4.1.3 Councillor Involvement

Clearly councillors will require to be involved in decisions being made around service levels, service delivery models, partnership approaches, etc. The report also focuses on how councillors are involved in performance management, performance improvement and governance. The Best Value audit approach is based around the principle of self-evaluation and performance management as a route to improvement. There is a key role for councillors in scrutinising the outcomes of such evaluations and performance information to ensure the improvement is being driven and implemented.

4.1.4 Performance Management in Partnerships

This is an area that is highlighted in the report, as often partnerships are created and don't have a joined-up approach to planning, expected partnership service outcomes, performance improvement and performance management. There is an expectation that this is an area for improvement for Community Planning Partnerships.

4.1.5 Using Cost Information

The recent Audit Scotland report on how councils use cost information found that there are a number of areas where such use of information through benchmarking activity can drive cost improvements and quality comparisons. The use of cost comparisons as well as performance indicators is seen as a crucial element of decision making for councillors.

4.1.6 Governance of Finances

The report highlights that, in the current financial climate, effective financial governance is more important than ever. The report highlights the importance of good-quality, timely information on variances; the need for appropriate controls over accounting systems and the appropriate resourcing of the internal audit function. The independent role and chairing of an Audit Committee is seen as being an important aspect of financial governance. The role of the Section 95 officer is also highlighted in relation to responsibility for proper financial governance, role in strategic management and being a member of the senior management team. Effective risk management is also identified as a key aspect of managing complex organisations such as councils and there is a need to ensure risk management is embedded through the council.

4.1.7 Leadership Change

The report recognises that there has been a significant change in the political make-up of councils in recent years and also there that after the 2012 elections 34% of councillors were new to local government. In addition there have been significant changes at senior officer level. This change is seen as both a possible challenge as people get used to new roles but also in terms of the new ideas that new people can bring.

4.1.8 Reducing Staff Numbers

Inevitably as resources are reduced then councils have been looking at different ways of providing services and often this includes reducing the number of employees. As a result of this and the expected ongoing reduction in funding the report identifies the benefit of having appropriate workforce plans in place. The report also highlights the need for good governance around voluntary early release of staff.

4.1.9 Workforce-related Financial Pressures

A number of such pressures are identified in the report, including: continuing pressures around equal pay; risks around pensions costs and contributions; pension reform; and absence management and the cost of absence.

4.1.10 Financial Positions and Asset Management

The report highlights a tendency recently to fund revenue expenditure from revenue reserves which due to the nature of reserves is not a sustainable solution. The report highlights the importance of effective procurement practices, noting improved PCA scores across the country.

Capital investment is seen increasing due to investment to improve service delivery or provide more efficient services. The maintenance of assets is seen as a key pressure and need as no-one would wish to see new assets not being appropriately maintained which could shorten anticipated life-spans. Linked to capital investment is indebtedness and evidence is that across Scotland this has increased significantly, though clearly councils are operating within the prudential code for capital finance.

The report highlights that in general reserves have increased, though it is recognised that much of the increase was earmarked for known commitments such as equal pay claims. The importance of holding a “prudential” reserve is highlighted.

4.2 At Appendix 1 of the report there is a set of action points for councillors to consider as a focus for improvement.

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 Accounts Commission highlights the important role of councillors in financial planning and financial governance. The continued input of councillors in these processes going forward is necessary in order to provide leadership to the community and to ensure effective financial governance within the Council. The points identified in Appendix 1 of the report may be helpful for councillors to consider.

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.

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Angela Wilson
Executive Director of Corporate Services
Date: xx/05/2013

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:	The Accounts Commission's overview of local government in 2013: *Responding to challenges and change*
Background Papers:	Report to Audit and Performance Review Committee 29 August 2012: *An overview of local government in Scotland – Challenges and change in 2012*
Wards Affected:	All wards affected.

Responding to challenges and change

An overview of local government in Scotland 2013

Accounts Commission

Prepared by Audit Scotland
March 2013

The Accounts Commission

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

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

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

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

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Councillor involvement in performance, improvement and governance is crucial
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There have been significant changes in the make-up of those leading, managing and working in councils
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Financial reserves strengthened in 2012, but funding is decreasing and significant cost pressures are growing
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Exhibit data

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

Summary

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

Introduction

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

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

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

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

Context

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

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

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

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

Priorities

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

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

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

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

Pressures

Resource and service demands

Challenges

Public service reform

Recommendations

Leadership and governance

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

Working in partnership

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

Service changes

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

Performance information and management

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

Source: Audit Scotland

Part 1. Service challenges in 2013

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

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

Demand and resource pressures continue to build

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

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

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

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

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

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

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

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

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

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

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

Reforms and changes, now and in future

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

Welfare reform

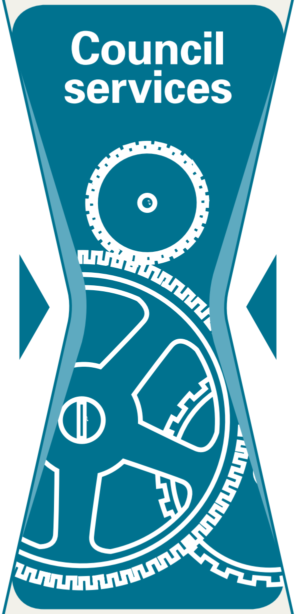
23. The Welfare Reform Act 2012 of the UK Parliament aims to improve work incentives, simplify benefits

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

Exhibit 2
Demand and resource pressures in 2013 and beyond

Demand pressures

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



Resource pressures

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

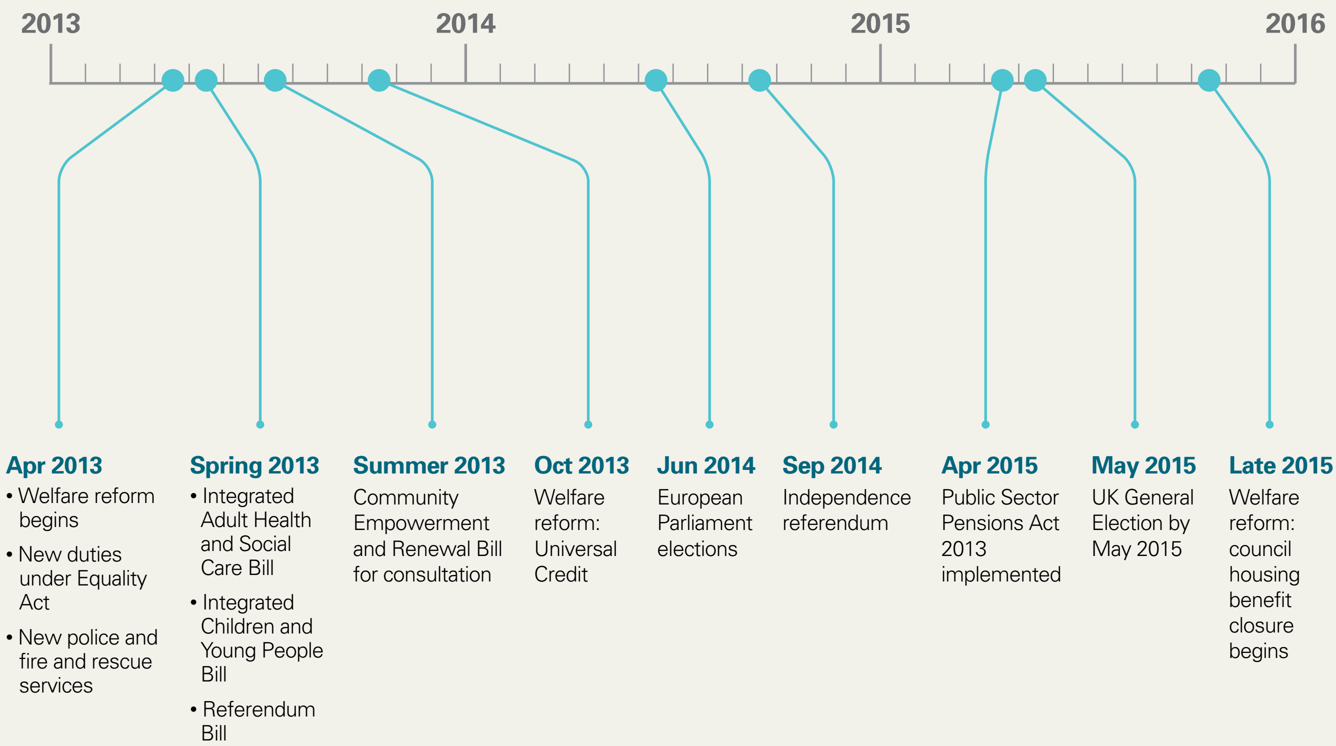
Source: Audit Scotland

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

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

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

Exhibit 3
Summary of changes facing local government



Source: Audit Scotland

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

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

Other changes

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

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

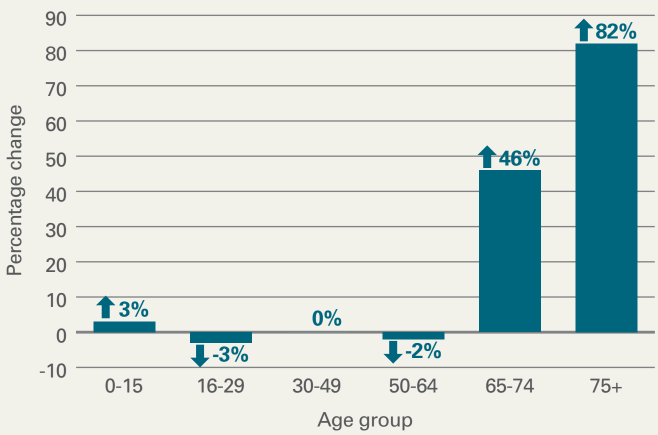
29. Demographic changes, particularly the ageing population, have significant implications for council services and will increase demands in key areas such as homecare and housing. Registrar General for Scotland[4] figures show

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

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

Exhibit 4

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



Source: General Register Office for Scotland

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

Reform and the growing expectations of community planning

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

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

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

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

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

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

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

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

Exhibit 5

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

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

Source: Audit Scotland

Exhibit 6

Community planning – audit findings

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

Source: Audit Scotland

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

Councils and CPPs must involve and consult local communities

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

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

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

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

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

Reviewing services and implementing options

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

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

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

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

Exhibit 7
Health inequalities

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

Source: Audit Scotland

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

Sharing services

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

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

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

ALEOs

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

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

Exhibit 8
Shared services

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

Source: Audit Scotland

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

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

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

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

Councillor involvement in performance, improvement and governance is crucial

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

Self-evaluation and improvement

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

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

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

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

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

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

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

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

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

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

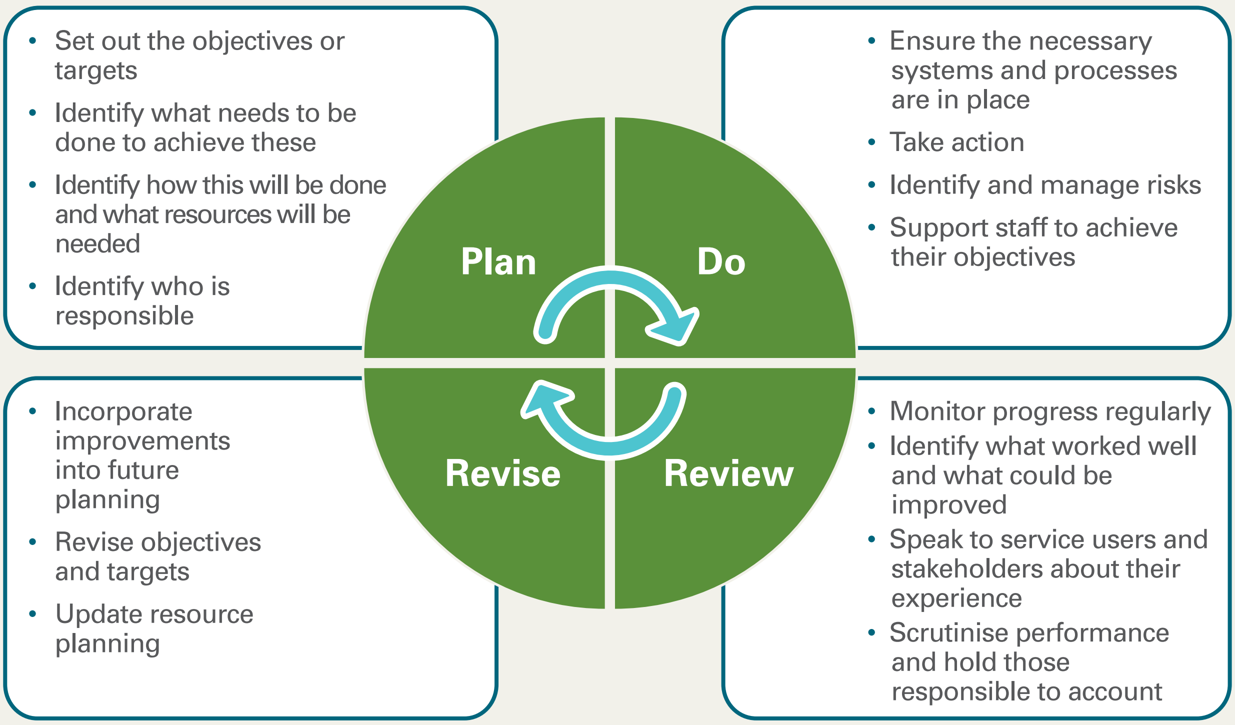
65. We will continue to review councils' approaches to the Best Value principle of reporting performance to citizens, both in terms of the benchmarking indicators and in the range of service and corporate performance information reported.

Effective performance management in partnership working

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

Exhibit 9

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



Source: Audit Scotland

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

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

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

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

Using cost information more effectively

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

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

Governance of finances

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit 10
CIPFA statement on the role of the chief financial officer (CFO)

The CFO:

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

To deliver these responsibilities the CFO:

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

Source: CIPFA

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

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

Summary of Part 1

Leadership and governance

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

Working in partnership

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

Service changes

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

Performance information

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

Part 2. Use of resources in 2012

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

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

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

Changes in councils, councillors and senior managers

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

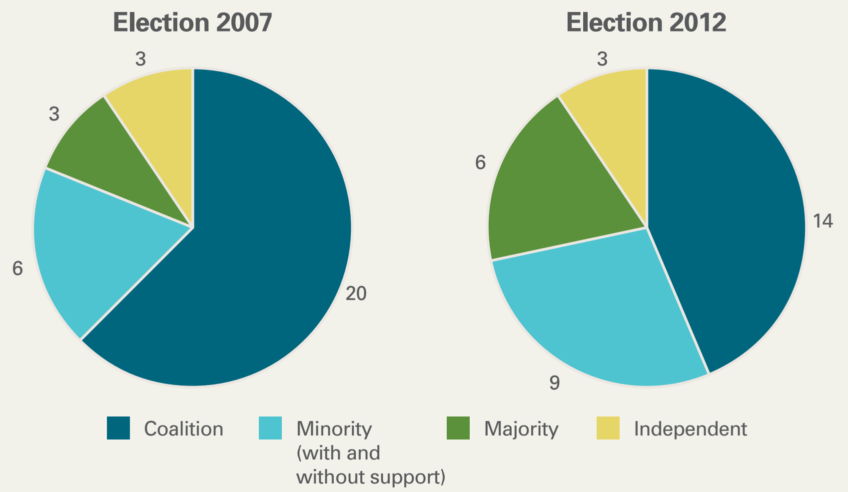
85. A significant number of the 1,222 councillors across Scotland are new or relatively new to local government. In 2007, nearly half were elected for the first time and in the 2012 elections 34 per cent of councillors were new to local government. In some councils, the proportion was significantly higher,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

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

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

Exhibit 11

Political control in councils: 2007 and 2012



Source: Audit Scotland

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

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

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

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

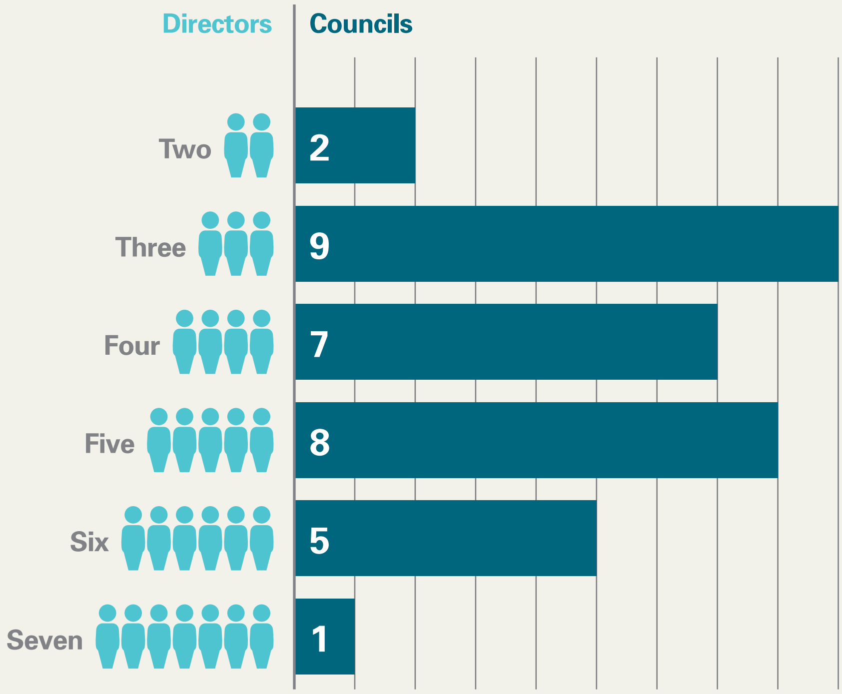
91. Changes in the make-up of councils provide an opportunity for fresh ideas and renewed impetus. This makes it more important than ever that councillors get the support they need, including effective training and development. Councils have made good progress in introducing personal development plans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

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

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

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

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



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

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

Reducing staff numbers

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

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

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

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

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

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

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

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

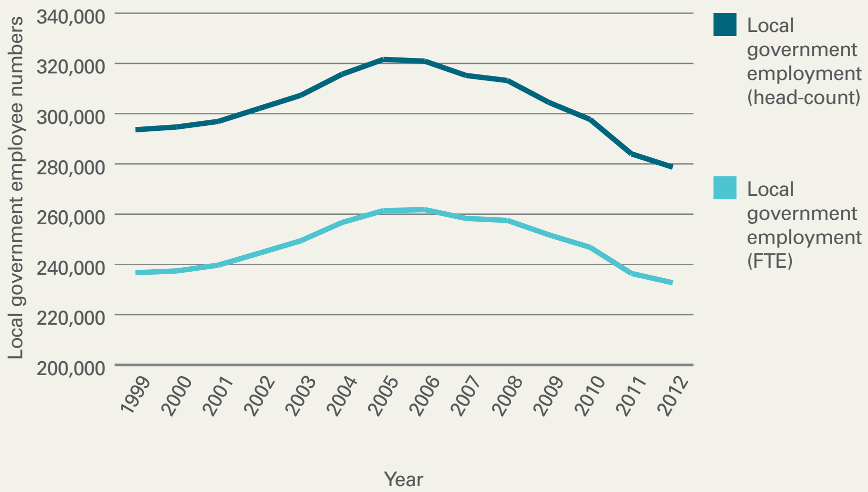
102. Part of the approach to reduce staff costs is to offer staff voluntary early release. Since 2010, about 9,400 local authority staff left at an average cost of £35,600 per person and at an aggregate cost over the two years of £335 million. Schemes vary, with some requiring individual business cases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

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

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

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

Exhibit 13
Numbers directly employed in local government



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

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

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

Workforce-related financial pressures

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

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

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

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

Exhibit 14

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

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

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

Source: Accounts Commission

Exhibit 15

Bye now, pay later? – key recommendations

Framework for decision-making

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

Informing members

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

Decision-making

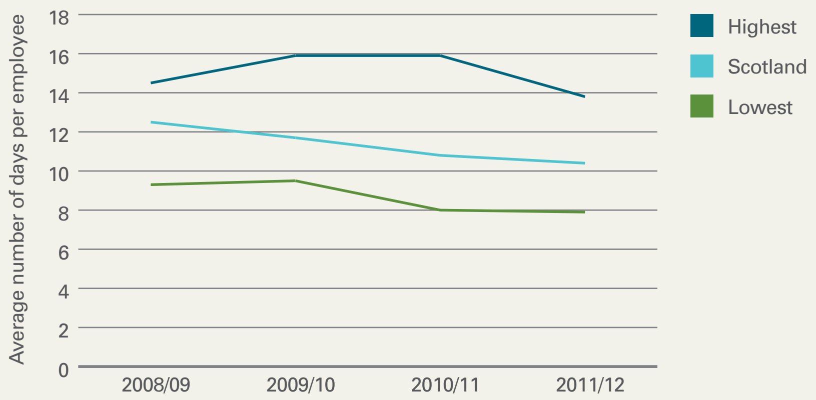
- Local authorities should rigorously appraise individual cases to ensure the expected savings associated with retirement outweigh the costs.
- To improve accountability and assist monitoring, the costs of early retirement should be charged to the appropriate service budget.
- Councillors should be involved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

Source: Accounts Commission

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

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

Exhibit 16
Other local government staff sickness absence



Source: Audit Scotland

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

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

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

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

The financial position and asset management

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit 17
Income and expenditure 2011/12

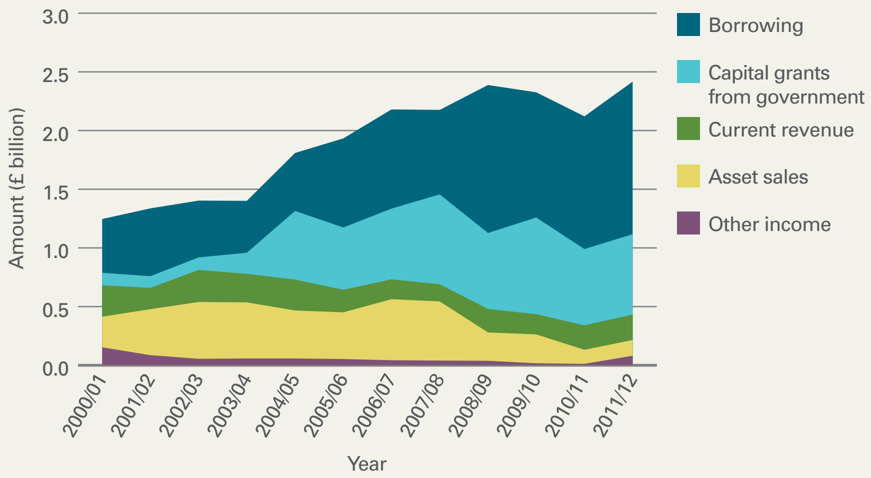
	£ billion
Where the money came from:	
General revenue funding from government	£7.8
Service fees, charges, other revenue, government grants and housing rents	£5.6
Capital grants and contributions	£0.7
Council tax	£2.3
Non-domestic rates	£2.2
Total income	**£18.6**
Where the money was spent:	
Education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

Source: Audit Scotland

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

Exhibit 18

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



Source: Audit Scotland

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

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

Indebtedness

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

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

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

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

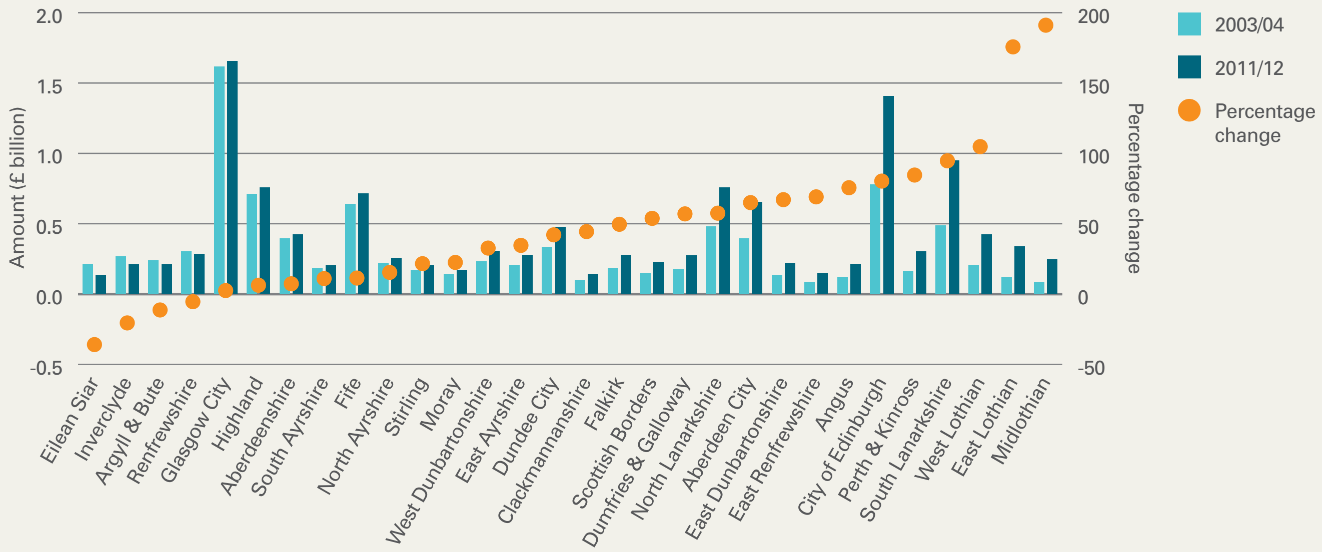
Reserves

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

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

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

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



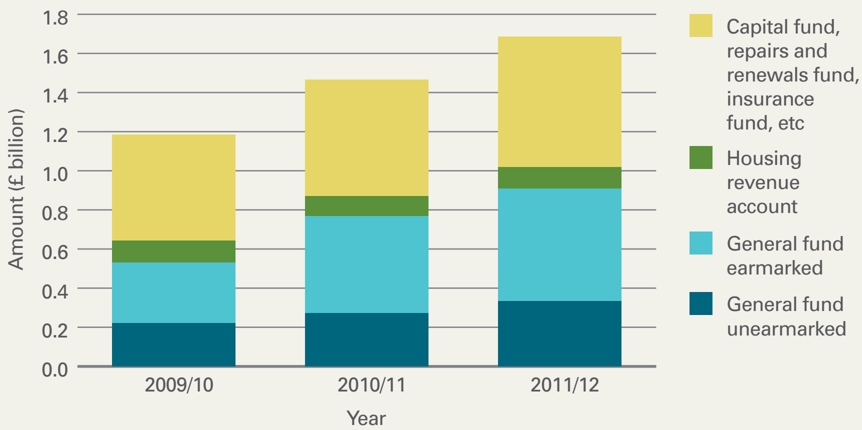
Source: Audit Scotland

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

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

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

Exhibit 20
Total usable reserves



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

Source: Audit Scotland

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

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

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

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

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

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

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

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

Financial reporting and management

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

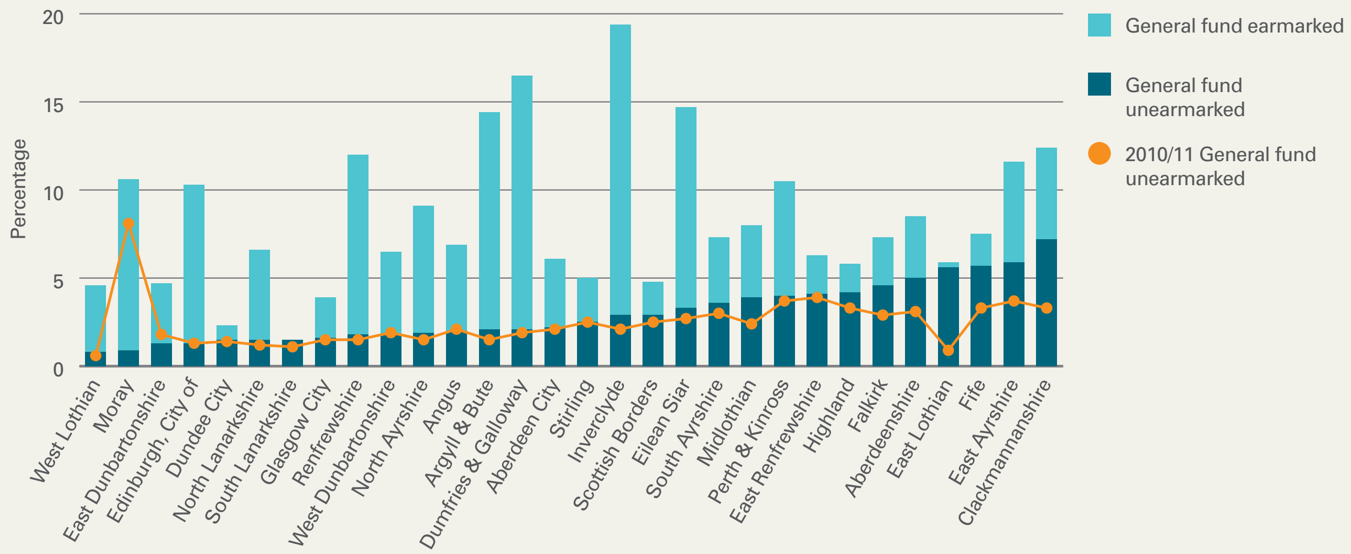
142. In 2011/12, accounts for all councils and other local authority organisations, including the 11 local authority-administered pension funds for 2011/12, were presented for audit on time and signed off by auditors without qualification. We welcome this achievement and the assurance it provides to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

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

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

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

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



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

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

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

Exhibit 22
Basic weaknesses in accounting systems

Examples from auditors' reports:

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

Source: Audit Scotland

Summary of Part 2

Leadership and governance

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

Working in partnership

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

Service changes

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

Performance information

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

Concluding comment on this report

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

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

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

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

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

Appendix 1

Action points for councillors

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

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

Appendix 2

Glossary of terms

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

Responding to challenges and change

An overview of local government in Scotland 2013

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

ISBN 978 1 907916 99 1

This publication is printed on 100% recycled, uncoated paper

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WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Audit and Performance Review Committee: 22 May 2013

Subject: Audit Scotland Report: *Major capital investment in councils*

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 the first comprehensive review of major capital investment in councils, and provides a set of recommendations for councils to consider.

1.3 The report provides information as to the position in West Dunbartonshire and areas for improvement.

2. Recommendations

2.1 It is recommended that Members note the report, the set of recommendations arising from the report as described at 4.2 below and the position within West Dunbartonshire Council.

3. Background

3.1 The Accounts Commission and Audit Scotland are interested in the impact of capital investment projects, how well they are delivered in terms of being within cost and time targets, and the management of capital projects and investment programmes.

3.2 Audit Scotland based their views, as expressed in the report, on:

- A review of 63 recently completed major (value of over £5m) capital projects in councils which were worth a total cost of £2.9b;
- A review of 15 major projects in progress worth £919m;
- Interviews with 21 senior council staff and 9 elected members; and
- Published good practice in project and programme management.

4. Main Issues

4.1 The report provides a number of key messages throughout the report which showed that:

- since 2000/01 councils have invested £27b in real terms in building and maintaining assets and infrastructure;

- to fund this councils have increased levels of borrowing, where plans were available it was identified that future investment will be mainly funded through borrowing;

- accurate cost estimates are important to ensure successful delivery and value for money. Evidence from the audit identified that cost and time estimates were mainly inaccurate at the outset and improved as the projects matured; and

- councils have improved governance structures in recent years, however improvement is required in the development and use of business cases and use of monitoring information, both of which enable and support scrutiny and decision-making.

4.2 The report identifies a number of key recommendations that councils should:

- develop and confirm long-term investment strategies which set out the needs and constraints for local capital investment and consult with stakeholders as the strategies are developed;

- assess the appropriateness of using borrowing and/or private finance within the investment strategy to ensure that plans are financially sustainable and help achieve value for money;

- actively look for opportunities for joint working with other councils, community planning partners and public bodies to improve the efficiency of the capital programme by considering joint projects, sharing resources such as facilities and staff and joint procurement opportunities;

- improve the quality of capital project and programme information that is routinely provided to elected members. Information provided should cover:

    - annual financial performance against the capital budget;

    - project and programme level performance against cost, time and scope targets;

    - risk reporting, including identification, likelihood, financial impact and mitigating actions taken; and

    - an assessment of intended and realised benefits.

- carry out early assessments of risk and uncertainty to improve the accuracy of early-stage cost estimates and project timescales;

- consider developing a continuing programme of training for elected members on capital issues;

- collect and retain information on all projects including explanations of cost, time and scope changes and lessons learned. This to be reported publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils; and

- develop and use clearly defined project milestones for monitoring and reporting to include a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects.

4.3 In relation to the above recommendations and the position of West Dunbartonshire Council the council:

- has recently approved a long term approach to investment planning, however for future development of this there is a need to improve how the council consults with stakeholders;

- the long term capital plan identifies a number of funding sources to deliver the projects within the plan. As far as possible the council will aim to minimise borrowing by aiming to fund projects through capital receipts, grant provision, match funding, etc. Where borrowing is required the plan clearly identifies the revenue impact of such borrowing and where possible will consider alignment of any revenue savings generated as a result of the capital investment to funding the revenue impact of the borrowing;

- in general the approach to seeking joint working opportunities has not been planned, however management are taking steps to improve this area through work currently underway with the Scottish Futures Trust;

- for 2013/14 onwards a new format for reporting of capital programmes and projects has been agreed through the Strategic Asset Management Group (SAMG) and the Corporate Management Team (CMT). This will improve the standard of reporting, however officers will review this in light of the elements which are identified in the Audit Scotland report;

- the early analysis and consideration of risk should form part of the development of business cases for investment projects. The approach to planning and review of projects has recently been developed and as part of the new monitoring arrangements agreed by the SAMG and the CMT will include post project reviews which will cover this aspect of the process;

- the training needs of elected members in relation to capital issues will form part of the ongoing consideration of members training plans;

- the new monitoring and post-project review process referred to above will provide the relevant record of scrutiny in the progress of projects and programmes allowing appropriate transparency of reporting and of changes to project/programme cost, timescales and scope; and

- the new monitoring process referred to above required key milestones to be identified and project/programme progress will be monitored against these.

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 capital resources are not used effectively and/or efficiently through poor management processes and weak monitoring and scrutiny arrangements. The processes recently developed for long term capital planning and recently agreed by the CMT for monitoring arrangements for 2013/14 aim to improve the approach to capital planning and monitoring. Historically for West Dunbartonshire the main issue has been about not achieving planned timescales as evidenced by significant slippage of funds between financial years. It is anticipated that the new approach to managing and monitoring by projects over the expected life of the project will improve this position

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: xx/05/2013

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:	The Accounts Commission's overview of local government in 2013: *Responding to challenges and change*
Background Papers:	Report to Audit and Performance Review Committee 29 August 2012: *An overview of local government in Scotland – Challenges and change in 2012*
Wards Affected:	All wards affected.

Major capital investment in councils

ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2013

The Accounts Commission

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

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

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

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

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Summary

Key facts

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

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

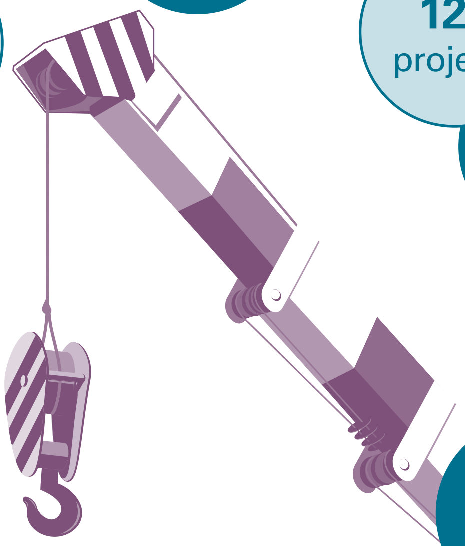
84 primary / **secondary 72** / **£2 billion**
The number and cost of new and refurbished schools in our sample that councils completed in the three years to March 2012

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

£12.9 billion
The combined indebtedness of councils at March 2012

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

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



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

Background

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

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

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

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

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

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

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

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

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

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

About this audit

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

8. The report has three parts:

- Capital investment in councils (Part 1).

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

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

1 These methods do not involve using a council's capital budget. Instead, the council meets the cost of providing each project over typically 25 to 30 years or more through ongoing revenue payments to the providers over the life of the contract. These payments cover the costs of construction as well as service and maintenance costs. For accounting purposes, PFI projects are now usually reflected in council balance sheets.

2 In particular, in recent years, *Commonwealth Games 2014 – position statement* (2012 and 2009), *Edinburgh trams interim report* (2011), *Maintaining Scotland's roads – a follow-up* (2011), *Improving the schools estate* (2008).

3 *Management of the Scottish Government's capital investment programme* (2011); *Review of major capital projects in Scotland* (2008).

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

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

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

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

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

13. Appendix 1 provides more information on our methodology.

Summary of key messages

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

Key recommendations

Councils should:

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

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

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

Part 1. Capital investment in councils

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

Key messages

- Since 2000/01, councils have invested £27 billion in real terms in building and maintaining assets and infrastructure – more than any other part of the public sector. This includes £23 billion from the capital budget and £4 billion using private finance methods such as Private Finance Initiative and Non-Profit Distributing contracts. This investment was needed to address a long-term decline in councils' assets and to develop new infrastructure.
- Councils increased borrowing in recent years to maintain investment, during a period of wider public spending reductions and constraints.
- Most recently, in the three years ending March 2012, councils have completed 121 major capital projects worth £3.5 billion. A further 203 major projects are in progress with a combined value of £5.1 billion. Most of the completed projects (£2.5 billion) were for improving schools and school properties. This area remains a priority with 82 schools projects worth £2 billion in the current programme.

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

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

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

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

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

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

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

Councils have increased borrowing in recent years to maintain investment

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

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

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

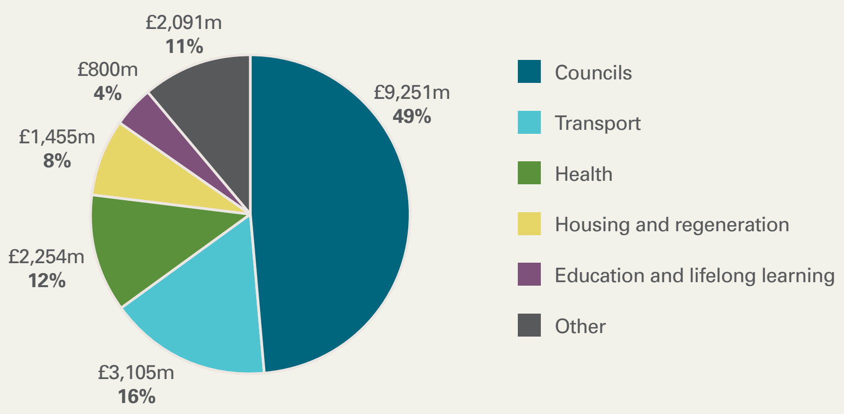
21. Councils have increased their use of borrowing since prudential borrowing was introduced in 2004. (Exhibit 2, page 9). This allowed councils greater flexibility to borrow for capital investment without specific consent from the Scottish Government. In doing so, each council

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

Exhibit 1

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

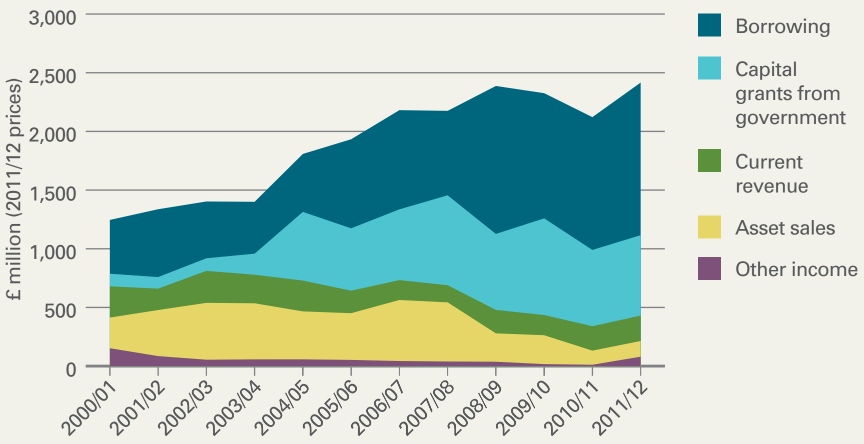
Councils have completed 121 major capital projects worth £3.5 billion since 2009

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

Exhibit 2

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

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

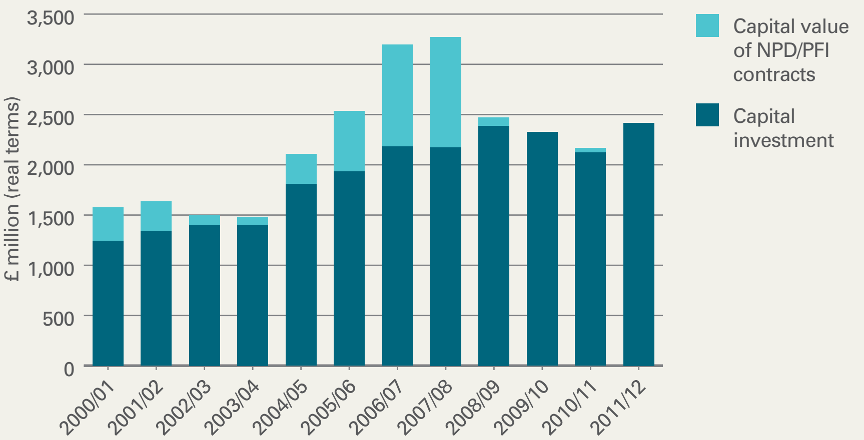


Source: Audit Scotland

Exhibit 3

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

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



Source: Audit Scotland

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

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

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

32. Our analysis of completed projects shows the following:

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

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

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

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

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

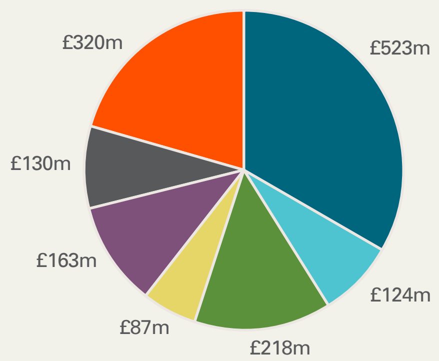
36. Investing in school buildings and property will continue to represent the highest spending area in councils' capital investment plans. Projects in progress include 82 school projects with a combined value of £2 billion (40 per cent). Councils will fund most of these schools projects from their capital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

Exhibit 4

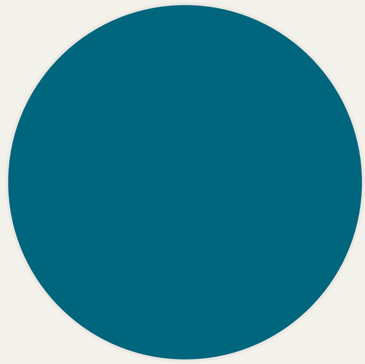
Completed major capital projects (2009–12)

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

£1,565m from Capital budget



£1,969m from Private finance

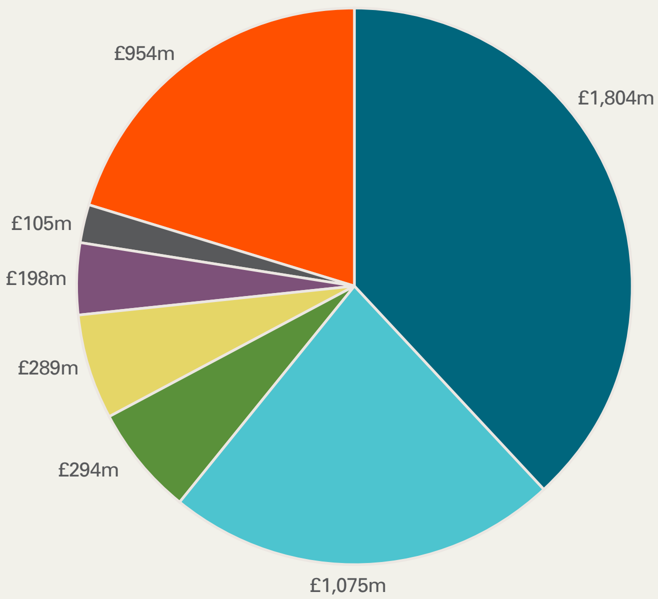


Major capital projects in progress

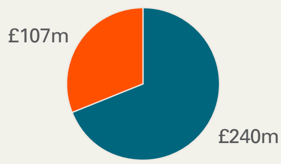
Around £5.1 billion worth of projects are in progress.

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

£4,719m from Capital budget



£347m from Private finance



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

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

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

Key messages

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

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

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

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

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

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

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

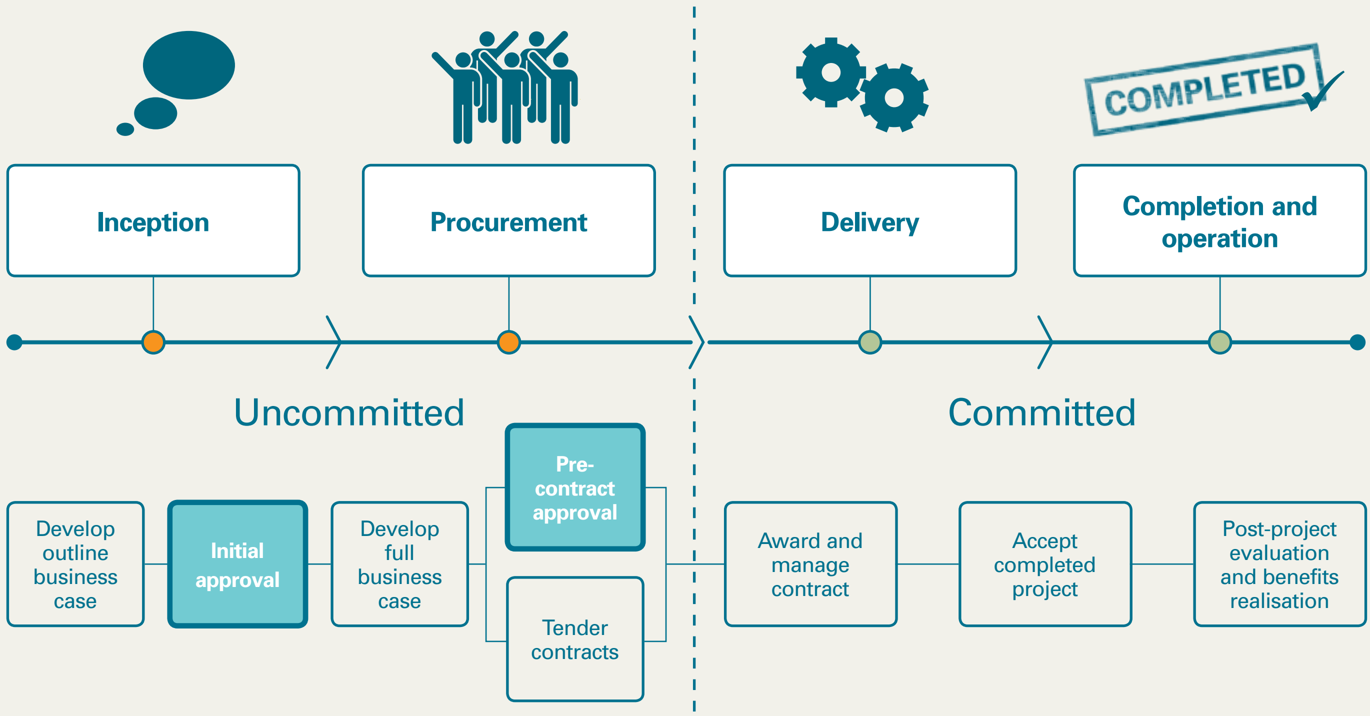
41. There are some significant gaps in the availability of cost and time information. For one in five projects, the relevant council could not provide a cost estimate at the initial approval stage, either because project costs were not estimated at this time or data were unavailable (records could not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

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

Exhibit 5

Key stages in major capital projects

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



Source: Audit Scotland

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

Few major projects are completed within initial cost estimates

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

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

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

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

Estimating improved by the point of contract award

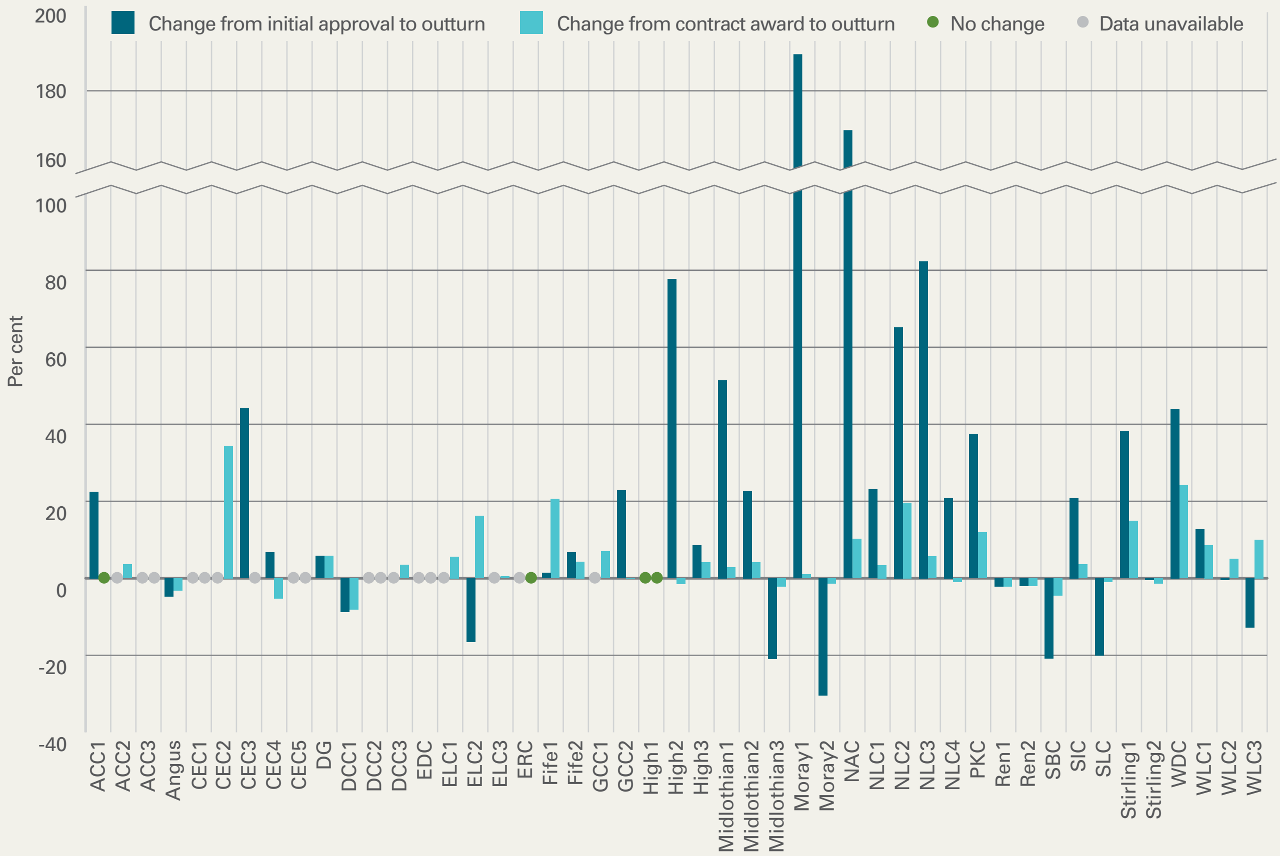
45. Councils were able to provide contract award estimates and final costs for 41 of 47 traditionally financed projects. These had a combined final cost of £838 million, £26 million (three per cent) more than the combined approved contract award estimate. Contract award cost estimates are more reliable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

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

Exhibit 6

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

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



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

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

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

Early cost estimates for PFI projects were too low

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

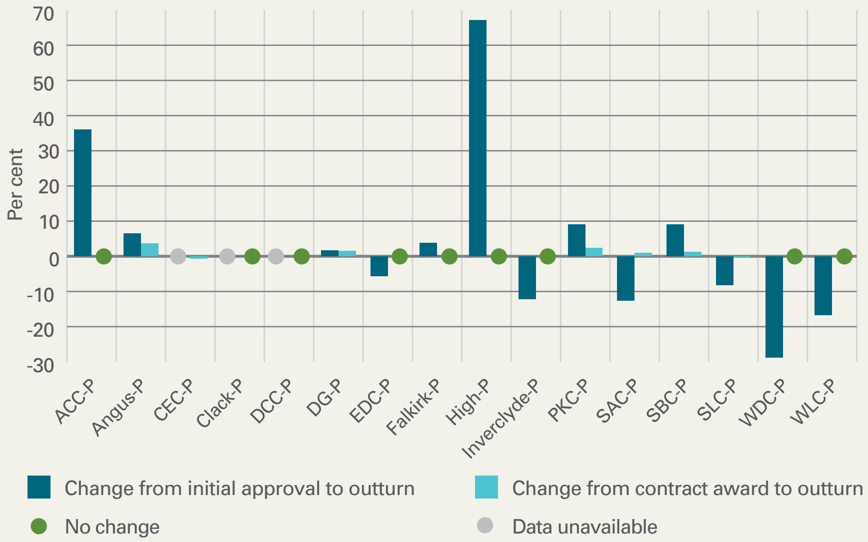
48. We examined the cost and time targets for all 16 schools projects. For these projects we have used the Net Present Cost of the contract as the best measure of final cost.[19, 20] South Lanarkshire Council's Secondary Schools Modernisation programme and The City of Edinburgh Council's PPP2 Schools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

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

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

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

Exhibit 7
PFI projects – contract cost compared to earlier estimates
Initial cost estimates for around half of PFI projects were under-estimates.



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

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

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

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

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

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

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

Most projects were delayed compared to initial estimates

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

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

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

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

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

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

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

School projects perform better to cost and time targets

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

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

- Fourteen per cent of schools projects had cost overruns of at least five per cent compared to the contract award estimate. This compared to 45 per cent of non-schools projects.
- Twenty-two per cent of schools projects were completed at least two months later than estimated at contract award. This compared to 54 per cent of non-schools projects.

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

Some major projects in progress have increasing costs and delays

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

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

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

Recommendations

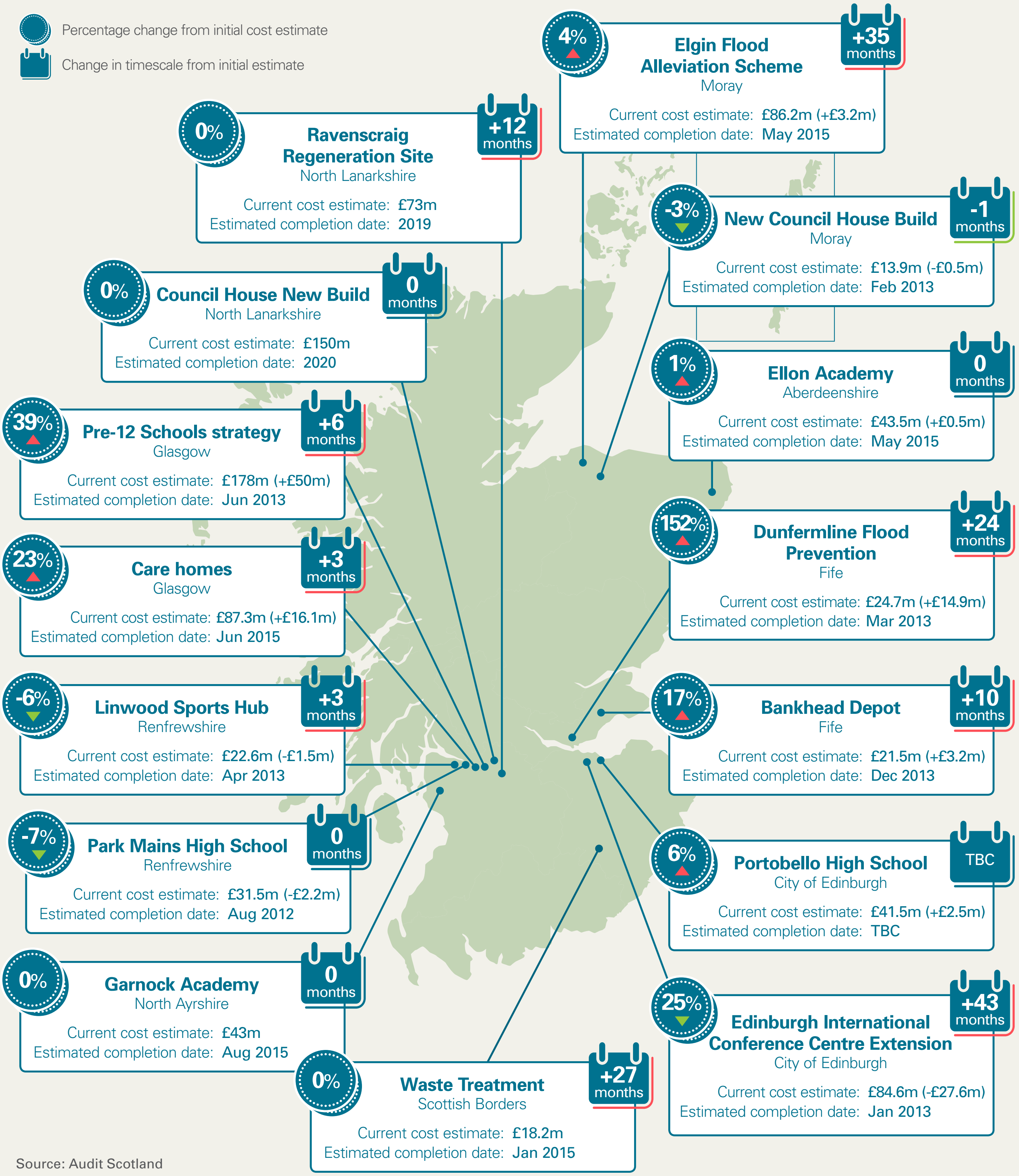
Councils should:

- carry out early assessments of risk and uncertainty to improve early-stage estimating of the cost and time of projects; each risk assessment should take into account experience and expertise gained from previous projects and the potential for higher risks with projects that are relatively novel
- collect and retain information on all projects including explanations for cost, time and scope changes and lessons learned
- report this information publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils.

Exhibit 8

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

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



Source: Audit Scotland

Case study 1

Fife Council – Dunfermline Flood Prevention Scheme

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

Source: Audit Scotland

Case study 2

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

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

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

Source: Audit Scotland

Part 3. Managing capital projects and investment programmes

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

Key messages

- Councils have improved governance structures for investment planning in recent years. But councils do not have enough monitoring information to scrutinise effectively. All levels of the governance structure, from working groups to committee level, need to be supplied with reliable, accurate, realistic and publicly available information for arrangements to be effective.

- Councils' investment and financing plans are uncertain. To the extent that plans are available, councils anticipate that investment will decrease over the next few years to 2014/15, although the position after this is unclear. Borrowing will remain the main source of finance for councils' investment spending.

- Many councils do not have established processes for developing and using business cases. Where available, business cases are often short and highly summarised and do not all reflect good practice. Without good-quality and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This may make it more difficult to hold decision-makers to account if problems arise on a project.

- Councils are clear about the broad goals for their investment projects. However, where councils outline intended benefits, they are often high-level and measurable benefits are rarely specified. Councils have evaluated about half of recently completed projects to assess if they have delivered the intended benefits.

- Councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes. While there are some examples of shared assets, joint procurement and joint projects, there is little evidence of councils systematically assessing the potential for increased joint working and the related costs and benefits.

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

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

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

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

- their investment programme

- how well they select and progress individual major projects.

Good practice – managing capital programmes

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

- Be clear about the overall purpose and justification for spending and the benefits it will deliver. There should be a clear understanding of the links between investment, performance and outcomes.

- Establish priorities to help them decide which projects to choose taking into account what they can afford. Proposals for new investment should reflect these priorities. Councils should balance proposals for new projects with what they need to spend to maintain current properties and ensure they stay fit for purpose.

- Take a long-term view of their total investment spending so they can plan and coordinate it effectively.

- Put a clear and effective governance structure in place and ensure responsibilities are clearly defined, allocated and understood. The structure should provide scope for constructive challenge and effective scrutiny at all stages of the programme.

- Ensure financial and risk management are robust.

- Clearly define benefits and manage programmes to ensure they deliver the benefits. Monitor and report outcomes and learn lessons from programmes.

Source: Audit Scotland

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

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

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

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

Good practice – asset management

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

Source: Audit Scotland

Case study 3

Good practice example – Aberdeenshire Council

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

Source: Audit Scotland

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

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

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

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

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

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

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

Case study 4

Good practice example – consultation. Moray Council

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

Good practice example – consultation. Aberdeenshire Council

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

Source: Audit Scotland

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

Councils' investment and financing plans are uncertain

Good practice – capital investment plans

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

Source: Audit Scotland

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

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

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

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

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

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

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

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

Councils need to develop long-term, sustainable investment strategies

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

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

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

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

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

Councils have weak processes for developing and maintaining business cases

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

Good practice – business cases

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

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

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

Source: Audit Scotland

Councils have appointed in-house providers for some major projects

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

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

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

Good practice – identifying the benefits

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

Source: Audit Scotland

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

Case study 5

Procurement of in-house providers to deliver capital projects

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

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

Source: Audit Scotland

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

Councils do not have enough information to scrutinise effectively

Good practice – monitoring information

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

Source: Audit Scotland

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

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

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

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

Councils do not review all completed projects to learn lessons

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

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

Good practice – lessons learned

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

Source: Audit Scotland

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

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

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

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

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

There is limited evidence of collaboration in capital investment planning

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

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

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

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

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

Councils should improve procurement strategies

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

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

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

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

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

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

Recommendations

Councils should:

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

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

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

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

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

Appendix 1

Audit methodology

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

Our audit had five main components:

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

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

Initial data request

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

Data survey of 63 major capital projects

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

Case study review of projects in progress

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

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

Review of capital programme management arrangements

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

Desk research and other analysis

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

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

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

Appendix 2

Methods of financing and funding capital investment in councils

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

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

Appendix 3

Sixty-three completed projects analysed in our audit

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

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

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

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

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

Appendix 4

Project advisory group members

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

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

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

Major capital investment in councils

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AUDIT SCOTLAND

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

ISBN 978 1 907916 93 9

This publication is printed on 100% recycled, uncoated paper