Agenda

Audit & Performance Review Committee

Date: Wednesday, 8 June 2016

Time: 10:00

Venue: Committee Room 3,
Council Offices, Garshake Road, Dumbarton

Contact: Craig Stewart, Committee Officer
Tel: 01389 737251 craig.stewart@west-dunbarton.gov.uk

Dear Member

Please attend a meeting of the **Audit & Performance Review Committee** as detailed above. The business is shown on the attached agenda.

Yours faithfully

JOYCE WHITE

Chief Executive

Distribution:

Councillor J McColl (Chair)
Councillor G Black
Councillor J Brown
Councillor P McGlinchey
Councillor I Murray (Vice Chair)
Councillor T Rainey
Councillor G Robertson
Councillor M Rooney
Mr SJ Doogan

All other Councillors for information

Chief Executive
Strategic Director – Transformation & Public Service Reform
Strategic Director – Regeneration, Environment & Growth
Chief Officer of West Dunbartonshire Health & Social Care Partnership

Date of issue: 26 May 2016

AUDIT & PERFORMANCE REVIEW COMMITTEE

WEDNESDAY, 8 JUNE 2016

AGENDA

1. APOLOGIES

2. DECLARATIONS OF INTEREST

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

3. MINUTES OF PREVIOUS MEETING **1 - 6**

Submit for approval as a correct record, the Minutes of Meeting of the Audit & Performance Review Committee held on 9 March 2016.

4. INTERNAL AUDIT ANNUAL REPORT TO 31 MARCH 2016 **7 - 20**

Submit report by the Strategic Lead – Resources advising of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2015/16 and advising of the contents of the Assurance Statement given to the Section 95 Officer (Strategic Lead – Resources) in support of the Statement of Internal Financial Control/Governance Statement.

5. AUDIT ACTION PLANS **21 - 24 Appendices To Follow**

Submit report by the Strategic Lead - Resources advising of:-

(a) Recently issued Internal Audit action plans; and

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

6. /

6. CODE OF GOOD GOVERNANCE **25 - 30**

Submit report by the Strategic Lead – Resources advising of the outcome of the annual self-evaluation undertaken of the Council's compliance with its Code of Good Governance.

7. AUDIT SCOTLAND REPORT: WEST DUNBARTONSHIRE COUNCIL: REVIEW OF KEY INTERNAL CONTROLS 2015/16 – MAY 2016 **31 - 42**

Submit report by the Strategic Lead – Resources providing for information a report which has been received by the Council's external auditors – Audit Scotland – and providing information to Members as to management actions implemented following receipt of this report.

8. ACCOUNTS COMMISSION REPORT: *AN OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND 2016* **43 - 98**

Submit report by the Strategic Lead – Resources providing information regarding a report recently published by the Accounts Commission.

9. AUDIT SCOTLAND REPORT*: MAJOR CAPITAL INVESTMENT IN COUNCILS – FOLLOW UP* **99 - 148**

Submit report by the Strategic Lead – Resources providing information regarding the Audit Scotland's follow-up report to their 2013 report entitled "Major Capital Investment in Council's".

10. DATA PROTECTION ACT ENFORCEMENT NOTICE FROM INFORMATION COMMISSIONER'S OFFICE (ICO) **149 - 152**

Submit report by the Strategic Lead – Regulatory providing an update on an Enforcement Notice from the Information Commissioner's Office (ICO) which followed an investigation into the Council's compliance with the Data Protection Act 1998.

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, 9 March 2016 at 2.03 p.m.

Present: Councillors George Black, Jim Brown, Jonathan McColl, Ian Murray, Tommy Rainey, Gail Robertson, Martin Rooney and Mr Stevie J. Doogan.

Attending: Joyce White, Chief Executive; Angela Wilson, Executive Director of Corporate Services; Richard Cairns, Executive Director of Infrastructure and Regeneration; Gillian McNeilly, Finance Manager; Colin McDougall, Audit and Risk Manager; Amanda Coulthard, Corporate & Community Planning Manager; and Craig Stewart, Committee Officer, Legal, Democratic and Regulatory Services.

Also Attending: Mr David McConnell, Assistant Director, Mr Peter Lindsay, Audit Manager and Ms Karen Cotterell, Senior Auditor, Audit Scotland; and Ms Yvonne Douglas, Audit Manager, South Lanarkshire Council.

Apologies: An apology for absence was intimated on behalf of Councillor Patrick McGlinchey.

Councillor Jonathan McColl in the Chair

CHAIR'S REMARKS

Councillor McColl, Chair, informed the Committee that Laurence Slavin, Senior Auditor was moving on and his new post would not involve attending the Committee in the future. After hearing Councillor McColl, the Committee agreed that a letter of thanks be sent to both Mr Slavin and Ms Elaine Boyd, formerly Senior Audit Manager, Audit Scotland as a gesture of appreciation for their hard work and support.

DECLARATIONS 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 MEETING

The Minutes of Meeting of the Audit & Performance Review Committee held on 9 December 2015 were submitted and approved as a correct record.

INTERNAL AUDIT PLAN 2015/16 PROGRESS REPORT TO 31 JANUARY 2016

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 2015/16.

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

AUDIT ACTION PLANS

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

(a) recently issued Internal Audit action plans; and

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

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

INTERNAL AUDIT CHARTER – UPDATE

A report was submitted by the Executive Director of Corporate Services providing the Committee with an updated version of the Audit Charter previously submitted to the meeting on 11 March 2015.

After discussion and having heard the Audit and Risk Manager, Chief Executive and the Executive Director of Corporate Services in further explanation and in answer to Members' questions, the Committee agreed to approve the revised Internal Audit Charter.

AUDIT SCOTLAND – REVIEW OF ADEQUACY OF INTERNAL AUDIT ARRANGEMENTS

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

After discussion and having heard Mr Lindsay, Audit Manager, Audit Scotland in further explanation, the Committee agreed to note the contents of the report.

AUDIT SCOTLAND ANNUAL AUDIT PLAN 2015/16

A report was submitted by the Executive Director of Corporate Services presenting for information Audit Scotland's Audit Plan for the audit of financial year 2015/16.

After discussion and having heard Mr McConnell, Assistant Director, Audit Scotland and relevant officers in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to note the terms of the discussion that had taken place in respect of this matter; and

(2) otherwise to note Audit Scotland's audit plan for the audit of financial year 2015/16.

INTERNAL AUDIT PLAN 2016/17

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 2016/17.

The Committee agreed to approve the Audit Plan for 2016/17.

PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) – EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT AT WDC

A report was submitted by the Executive Director of Corporate Services presenting the External Quality Assurance of Internal Audit at West Dunbartonshire Council.

After discussion and having heard Ms Douglas, Audit Manager, South Lanarkshire Council, and the Chief Executive in elaboration and in answer to Members' questions, the Committee agreed:-

(1) to pass on thanks and appreciation to the Audit and Risk Manager and his team for the hard work and assurance given as a consequence of the review;

(2) to note that the report, provided at Appendix 1, included an action plan, which once implemented would ensure the Council's Internal Audit Service was fully compliant with PSIAS; and

(3) to pass on its thanks to Ms Douglas and her team for the professional manner in which the review was conducted, while also acknowledging and recording thanks to all Council staff and Elected Members who contributed to the process.

COUNTER FRAUD PROGRESS REPORT

A report was submitted by the Executive Director of Corporate Services advising on the results from investigating matched datasets provided to the Council through participation in the National Fraud Initiative and other work taking place within the Corporate Fraud team.

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 to note the contents of the report.

PUBLIC INTEREST DISCLOSURES FOR THE PERIOD 1 JULY 2015 TO 31 DECEMBER 2015

A report was submitted by the Executive Director of Corporate Services advising on public interest disclosures received during the period 1 July 2015 to 31 December 2015.

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

PRUDENTIAL INDICATORS 2015/16 TO 2025/26 AND TREASURY MANAGEMENT STRATEGY 2016/17 TO 2025/26

A report was submitted by the Executive Director of Corporate Services providing an update on:-

(a) the proposed Prudential Indicators for 2015/16 to 2018/19;

(b) Treasury Management Strategy (including the Investment Strategy) for 2016/17 to 2018/19; and

(c) the indicative prudential indicators for the period from 2019/20 to 2025/26.

After discussion and having heard the Finance Manager and the Chief Executive in further explanation and in answer to Members' questions, the Committee agreed to note that Council approved the following at its meeting on 24 February 2016:-

(1) The Prudential Indicators and Limits discussed in Appendix 1 of the report and set out within Appendix 6 of the report for the period 2016/17 to 2018/19:-

  (a) Capital Expenditure and Capital Financing Requirements (Tables A and B);

  (b) Forecast and estimates of the ratio of financing costs to Net Revenue Stream (Table C);

(c) Incremental impact of capital investment decisions on the Band D Council Tax (Table D); and

(d) Incremental impact of capital investment decisions Housing Rent levels (Table E).

(2) The Treasury Management Strategy for 2016/17 to 2018/19 (including the Investment Strategy) contained within Appendices 2 to 6;

(3) The Treasury Prudential Indicators and Limits discussed in Appendix 2 and set out within Appendix 6 for the period 2016/17 to 2018/19:-

(a) Operational Boundaries (Table G);

(b) Authorised Limits (Table H);

(c) Counterparty Limits (Table K); and

(d) Treasury Management Limits on Activity (Table M).

(4) The draft Prudential and Treasury Management Indicators for the period 2019/20 to 2025/26 discussed in Appendices 1 and 2 and set out within Appendix 6; and

(5) The statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement (Appendix 2 – Point 2.3).

LOCAL GOVERNMENT BENCHMARKING FRAMEWORK 2014/15

A report was submitted by the Executive Director of Corporate Services providing the Committee with the West Dunbartonshire position in the recently published Local Government Benchmarking Overview report for 2014/15.

After discussion and having heard the Executive Director of Corporate Services, Corporate & Community Planning Manager and relevant officers in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to note the publication of the national overview report;

(2) to note the relative position of West Dunbartonshire across the suite of indicators used in the benchmarking report; and

(3) to note the actions already underway within each department following publication of this information.

RECRUITMENT OF 1 LAY MEMBER VACANCY ON COMMITTEE

Having heard the Audit and Risk Manager, the Committee agreed to note that work was ongoing to fill the Lay Member vacancy on the Committee and that a further update would be provided in the near future, with regard to the appointment.

The meeting closed at 4.20 p.m.

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit and Performance Review Committee: 8 June 2016

Subject: Internal Audit Annual Report to 31 March 2016

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 2015/16 and to advise Members of the contents of the Assurance Statement given to the Section 95 Officer (Strategic Lead - - Resources) in support of the Statement of Internal Financial Control / Governance Statement. This report outlines how audit assurances are obtained.

2. Recommendations

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

3. Background

3.1 The Public Sector Internal Audit Standards (PSIAS) became effective on 1st April 2013 and require that:

"The chief audit executive [WDC: Audit and Risk Manager] *must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*

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

The annual report must incorporate:
- *The opinion;*
- *A summary of the work that supports the opinion; and*
- *A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme"*

3.2 Attached at Appendix A is information on the completion of the key risk based and ICT audit elements of the Audit Plan. The Assurance Statement is included at Appendix B. The report of progress against the overall Audit Plan is attached at Appendices C and D.

3.3 Quarterly progress reports were provided to the Audit and Performance Review Committee during the course of 2015/16. There was no slippage in Risk Based Audits despite significant resource challenges during the year and all assignments necessary to form an opinion on the system of internal control were undertaken. The action plans for three risk based audits are in the process of being agreed with management and one audit ("*Procurement – approved contractors list*") is still in progress.

4. Main Issues

4.1 The risk based systems audits and ICT audits contained within the Audit Plan for 2015/16 are shown in the tables included at Appendix A, showing the number of agreed actions for each of these reports. The numbers in brackets denotes the number of outstanding actions as at 25 May 2016.

4.2 On the basis of the key Internal Audit work performed in 2015/16 as summarised in Appendix A, it can be concluded that the Council's control procedures in key areas are operating as expected during the period under review, although it is recognised that:

- For risk based audits, 68 recommendations were made by Internal Audit to improve controls of which 42 have now been implemented;
- For ICT audits, 16 were made by Internal Audit to improve controls of which 8 have now been implemented;
- None of the outstanding recommendations is overdue.

4.3 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 systems of governance, risk management and internal control in the year to 31 March 2016. However, in relation to the incomplete audit *"Procurement – approved contractors list"* the audit work completed to date has highlighted a number of high risk issues. Management has been advised of these issues and is currently in the process of implementing appropriate actions to rectify them.

4.4 The work of Internal Audit, External Audit and 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.

4.5 The Internal Audit Annual Report for 2015/16 included at Appendix B includes the Audit and Risk Manager's independent and objective opinion as to the adequacy and effectiveness of internal controls within the Council and has informed the Council's annual Governance Statement.

4.6 The report of progress against the overall Audit Plan is attached at Appendix C.

4.7 The Benefits Fraud Team transferred to join Internal Audit from 1 April 2015. This has enabled a more joined-up approach to fraud detection and will see the Fraud Team shift focus more onto corporate fraud areas. Variances from the planned programme of work are outlined at Appendix D.

5. People Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 As a result of Corporate Fraud Team activity, actual recoveries, charges and rebillings of £233,988 have been identified.

6.2 There are direct procurement implications arising from this report, though as reported above the ongoing audit has identified actions which require procurement activity to mitigate the risks identified.

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 consultation with appropriate Strategic Leads.

10. Strategic Assessment

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

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Stephen West
Strategic Lead - Resources
Date: 25 May 2016

Person to Contact:	Colin McDougall, Audit and Risk Manager Telephone (01389) 737436 E-mail: colin.mcdougall@west-dunbarton.gov.uk
Appendix A:	Audit Plan 2015/16: Risk Based Audits and ICT Audits
Appendix B:	Assurance Statement for the year ended 31 March 2016 from the Audit and Risk Manager
Appendix C:	Internal Audit Progress Report: 1 April 2015 to 31 March 2016
Appendix D:	Corporate Fraud Progress Report: 1 April 2015 to 31 March 2016
Background Papers:	Audit & Performance Review Committee – 11th March 2015: Internal Audit Plan 2015/16 EIA Screening
Wards Affected:	All wards

APPENDIX A1

Audit Plan 2015/16: Risk Based Audits

	No. Of Agreed Actions			
Report Title	**High**	**Medium**	**Low**	**Comments**
Treasury Management	0 (0)	4 (1)	0 (0)	The one o/s action is not yet due
Council Tax Billing	0 (0)	0 (0)	1 (0)	The one action identified has been completed
NDR Billing & Collection	0 (0)	0 (0)	3 (1)	The one o/s action is not yet due
Construction Industry Scheme - Review of Practices	0 (0)	8 (3)	0 (0)	The three o/s actions are not yet due
Asset Management Strategy – Vehicles	0 (0)	2 (2)	3 (2)	The four o/s actions are not yet due
Attendance Management	-	-	-	Action Plan in the process of being agreed with management
Review of key reconciliations	0 (0)	0 (0)	3 (1)	The one o/s action is not yet due
Use of Consultants	-	-	-	Action Plan in the process of being agreed with management
Child Protection	-	-	-	Action Plan in the process of being agreed with management

Senior Officer financial controls	0 (0)	4 (1)	3 (3)	The four o/s actions are not yet due
SEEMIS	0 (0)	3 (1)	0 (0)	The one o/s action is not yet due
Validation and monitoring of projected savings	0 (0)	1 (0)	2 (2)	The two o/s actions are not yet due
Procurement – approved contractors list	-	-	-	This Audit is still in progress
Self-Directed Support	0 (0)	1 (0)	3 (0)	All actions have been completed
Purchasing in the homeless service	0 (0)	2 (0)	8 (0)	All actions have been completed
Review of overtime and additional working	0 (0)	1 (1)	0 (0)	The one o/s action is not yet due
TOTAL	**0 (0)**	**26 (9)**	**26 (9)**	

NB: Figures in ( ) denote actions which remain outstanding as at 25th May 2016

APPENDIX A2

Audit Plan 2015/16: ICT Audits

	No. Of Agreed Actions			
Report Title	**High**	**Medium**	**Low**	**Comments**
Printer / Printing Controls	2 (0)	3 (0)	0 (0)	All actions have been completed
Internet and Email controls	0 (0)	4 (1)	0 (0)	The one o/s action is not yet due
ICT Infrastructure management	0 (0)	2 (2)	0 (0)	The two o/s actions are not yet due
Web based applications	0 (0)	2 (2)	3 (3)	The five o/s actions are not yet due
TOTAL	**2 (0)**	**11 (5)**	**3 (3)**	

NB: Figures in ( ) denote actions which remain outstanding as at 25th May 2016

APPENDIX B

Assurance Statement for the year ended 31 March 2016 from the Audit and Risk Manager

To the Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Strategic Lead - 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 2016.

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.

The Council's framework of governance, risk management and internal control

The Council has a responsibility to ensure that its business is conducted in accordance with legislation and proper standards.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and how it accounts to communities. It enables the Council to monitor the achievement of its strategic priorities and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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;
- Economic, efficient, effective and safe use of resources and assets;
- The relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- Compliance with statutory requirements.

The system of internal control is a significant element of the governance framework. 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 in order to identify and prioritise the risks that would prevent the achievement of the Council's strategic objectives

The work of internal audit

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

The Council's Internal Audit Section operates in accordance with the *Public Sector Internal Audit Standards* (PSIAS) which have been agreed to be adopted from 1st April 2013 by the relevant public sector Internal Audit Standard setters. PSIAS applies the Institute of Internal Auditors International Standards to the UK Public Sector.

PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed in order to provide assurance that internal audit activity

- Is conducted in accordance with an Internal Audit Charter;
- Operates in an efficient and effective manner; and
- Is perceived to be adding value and improving operations.

An internal self-assessment of internal audit practices has been carried out by the Audit and Risk Manager every year since PSIAS became effective on 1st April 2013, with improvements identified and implemented as appropriate. PSIAS also requires, as outlined in Standard 1300 "QAIP", that:

> *"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation".*

To meet this requirement, a reciprocal arrangement to complete a programme of inspections has been developed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). This process identified South Lanarkshire Council as the Authority to undertake the independent review of WDC's Internal Audit function's level of compliance with PSIAS.

A report detailing the findings from the External Quality Assessment (EQA) undertaken in the period August 2015 to December 2015 by the Chief Internal Auditor of South Lanarkshire Council was submitted to the A&PRC on 9th March 2016. This report, which confirmed that West Dunbartonshire Council Internal Audit Service generally conforms to the PSIAS, identified the following areas of good practice:

- Fully qualified Chief Internal Auditor with extensive local authority experience;
- Internal Audit staff who are experienced and able to provide a professional service;

- A receptive culture in the organisation that embraces the output of the internal audit function;
- A robust planning methodology in evidence on which the annual Audit Plan is based;
- Regular and comprehensive reporting of activity to the A&PRC; and
- Substantial compliance with PSIAS and the International Professional Practices Framework (IPPF).

The recommendations contained in the report have all been accepted and their implementation will ensure that, during 2016/17, the Council's Internal Audit Service will be able to work towards full compliance with PSIAS.

The Internal Audit 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. A programme of follow-up on assignment findings and recommendations provides assurance on the complete and timeous implementation of both internal Audit and External Audit recommendations.

Internal Audit and Corporate Fraud staff regularly attended the following external user group meetings:

- SLACIAG, the purpose of which is to develop and improve the practice of internal audit activity with Scottish local authorities. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, working in partnership with other professional / governing bodies and promoting SLACIAG as the representative body for internal audit in local authorities. The Council's Audit and Risk Manager attended all of the quarterly meetings of SLACIAG during 2015/16 and also further meetings in his role as a member of the SLACIAG management committee;

- SLACIAG Computer Audit sub group: either an Auditor or the ICT Security Officer attends this forum which has the aim of ensuring that audit teams are better equipped to perform technical Information Systems auditing; and

- The Scottish Local Authority Investigators Group (SLAIG): This group consists of fraud practitioners from local authorities in Scotland, with the objectives of:
    - Raising the profile of the counter fraud agenda;

- Sharing good practice;
- Raising awareness of the risk of fraud; and
- Ensuring that fraud is investigated in a professional manner.

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 2016, including risk based systems audits, ICT audits, investigations, follow-up reviews and one-off exercises;
- The assessment of risk completed during reviews of the annual audit plan;
- The assurance statements signed by the Executive Directors on the operation of the internal financial controls for the services for which they were responsible during the year to 31 March 2016;
- The assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2016;
- 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.

Limitation to Resources or Scope of Internal Audit Work

There were sufficient resources available to deliver the programme of audit assignments contained within the 2015/16 Audit Plan and no significant threats emerged to the independence of the internal audit activity such as inappropriate scope or resource limitations.

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 systems of governance, risk management and internal control in the year to 31 March 2016. However, in relation to the incomplete audit "*Procurement – approved contractors list*" the audit work completed to date has highlighted a number of high risk issues. Management has been advised of these issues and is currently in the process of implementing appropriate actions to rectify them.

Signature: ***Colin McDougall***

Title: Audit and Risk Manager

Date: 25 May 2016

APPENDIX C

WEST DUNBARTONSHIRE COUNCIL

INTERNAL AUDIT SECTION

PROGRESS REPORT FOR THE YEAR 1st APRIL 2015 TO 31st MARCH 2016

CATEGORY	AUDIT PLAN 2015/16 (DAYS)	ACTUAL (DAYS)	VARIANCE (DAYS)	
Risk Based Audit	400	475	-75	A
Computer Audit	110	110	0	-
Development	50	29	21	F
Investigations / Public Interest Disclosure / NFI	161	138	23	F
CRSA/Regularity	70	40	30	F
Annual Assurance / Governance	15	15	0	-
Follow Up	20	12	8	F
Year-End Procedures	5	6	-1	A
Performance Indicators	30	6	24	F
Financial Services/Grant Claims	15	15	0	-
Contingency	40	16	24	F
Review	53	35	18	F
Total Operational Days	969	897	72	F
Administration	37	40	-3	A
Management & Planning	61	46	15	F
Training / Staff Development	56	67	-11	A
Leave	306	306	0	-
Staff Turnover	0	73	-73	A
Total Non-Operational Days	460	532	-72	A
TOTAL	1429	1429	0	

APPENDIX D

WEST DUNBARTONSHIRE COUNCIL

CORPORATE FRAUD SECTION

PROGRESS REPORT FOR THE YEAR 1st APRIL 2015 TO 31st MARCH 2016

CATEGORY	PLANNED TIME (DAYS)	ACTUAL TIME (DAYS)	VARIANCE (DAYS)	
Work carried out on behalf of DWP	140	86	54	F
National Fraud Initiative	120	104	16	A
Corporate Fraud	210	275	-65	A
Development	65	63	2	-
Research	75	130	-55	A
Contingency	96	0	96	F
Review	40	41	-1	A
Total Operational Days	746	699	47	F
Administration	23	45	-22	A
Management & Planning	35	32	3	F
Training / Staff Development	20	33	-13	A
Leave	224	217	7	F
Staff Turnover	0	22	-22	A
Total Non-Operational Days	302	349	-47	A
TOTAL	1048	1048	0	

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit and Performance Review Committee: 8 June 2016

Subject: Audit Action Plans

1. Purpose

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

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

2. Recommendations

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

3. Background

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

4. Main Issues

4.1 The Appendices to this report will be run in the days leading up to the committee meeting so as to provide as up to date a position as possible in the progress of actions. Appendix A contains Internal Audit action plans recently agreed and issued. Appendix B details the outstanding actions on previously issued Internal Audit reports. Appendix C details the outstanding actions for External Audit reports, including the Local Scrutiny Plan for 2016/17.

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

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

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

5. People Implications

5.1 There are no personnel issues with this report.

6. Financial and Procurement Implications

6.1 There are neither financial nor procurement implications with this report.

7. Risk Analysis

7.1 There is a risk that failure to implement actions within the agreed timescale may result in weaknesses in internal control arrangements remaining unresolved longer than is desirable.

8. Equalities Impact Assessment (EIA)

8.1 A screening has been carried out and found no issues relevant to equalities duties.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads. In addition, services have been consulted in the update of action plans.

10. Strategic Assessment

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

....
Stephen West
Strategic Lead - Resources
Date: 23 May 2016

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Appendices: A - Internal Audit Reports (Recently Issued)
B - Internal Audit Reports (Previously Issued)
C - External Audit Reports

Background Papers: Internal Audit Reports
External Audit Reports
EIA Screening

Wards Affected: All Wards

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit and Performance Review Committee: 8 June 2016

Subject: Code of Good Governance

1. Purpose

1.1 The purpose of this report is to advise Committee of the outcome of the annual 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; and
- the issues identified and improvement actions.

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. The local code was revised in 2013.

4.2 A Governance Report is produced annually and is based on an annual self-evaluation of compliance against the Council's Code of Good Governance**.**

4.3 The annual self-evaluation review for 2015/16 has 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 A.

4.4 A new framework is currently under development with an estimated publication date for the version to be adopted by Scottish local authorities by CIPFA of September 2016. It will apply to annual governance statements prepared for the financial year 2016/17 onwards. It is anticipated that this will result in a revised local code being developed for West Dunbartonshire Council.

5. People Implications

5.1 There are no personnel issues.

6. Financial and Procurement Implications

6.1 There are no financial or procurement implications arising from this report.

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 consultation with appropriate Strategic Leads.

10. Strategic Assessment

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

....
Stephen West
Strategic Lead - Resources
Date: 19 May 2016

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Appendix A: Code of Good Governance - Improvement Action Plan

Background Papers: Report to Audit and Performance Review Committee (10 November 2010) - Local Code of Good Governance

Report to Audit and Performance Review Committee (10 June 2014) - Code of Good Governance

Wards Affected: All Wards

Appendix A
Code of Good Governance - Improvement Action Plan

19 May 2016

Improvement Actions for 2016/17

Recommendation Title	Recommendation Detail	Action Due Date	Assigned To
1. Improvements to service planning process	Ensure learning from customer feedback, including complaint information is embedded in the Strategic Planning and Performance Framework	31-Mar-17	Amanda Coulthard
2. Outcome based PI's	Develop an approach to embed outcome-focused Performance Indicators into the Planning and Performance Framework and processes	31-Mar-17	Amanda Coulthard
3. Embedding of quality standards	Establish and monitor customer satisfaction of Council services	31-Mar-17	Stephen Daly
4. Continuous improvement strategy	Review the effectiveness of the continuous improvement strategy focusing on reporting and benchmarking of performance	31-Mar-17	Amanda Coulthard
5. Performance Reporting	Improve annual reporting process to include information on service user feedback and lessons learned	31-Dec-2017	Amanda Coulthard
6. Continuous Improvement	Implementation of self-evaluation framework corporately where existing models of evaluation currently do not exist, including approach to embedding benchmarking processes and corporate monitoring of outcomes	31-Dec-2017	Amanda Coulthard
7. Risk Management	Review approach to Strategic Risk management following management restructure	31-Mar-2017	Vicki Rogers

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit and Performance Review Committee: 8 June 2016

Subject: Audit Scotland report: West Dunbartonshire Council: Review of Key Internal Controls 2015/16 – May 2016

1. Purpose

1.1 The purpose of this report is to provide Committee for information a report which has been received from our external auditors – Audit Scotland – and to provide information to Members as to management actions implemented following receipt of this report.

2. Recommendations

2.1 The Committee is invited to note the report and the agreed improvement actions.

3. Background

3.1 Part of the planned work of Audit Scotland as the Council's external auditors, which was described in their report to this Committee on 9 March 2016, is to produce on an annual basis a report on financial governance.

3.2 As part of the work required, the auditors undertook a high level review of the governance arrangements and the main financial systems operated by the Council. The purpose of this review was to evaluate whether the Council have sound governance arrangements in place and whether the key internal controls operating within the main financial systems are adequate.

4. Main Issues

4.1 The report states at paragraph 3 that the auditors are satisfied that the Council's governance arrangements and internal control systems are operating as planned.

4.2 The report identifies 5 areas where improvements could be made, identifying agreed management actions against these areas. These are listed, together with management responses, within the action plans detailed on pages 5 to 7 of the report.

4.3 At paragraph 3 of the report, Audit Scotland acknowledged that the Council has made good progress in implementing the actions agreed in their "2014/15 Review of Key Internal Controls report" report.

5. People Implications

5.1 The people issues arising from this report are in relation to implementing improved processes in a number of systems and can be implemented from within existing resources.

6. Financial and Procurement Implications

6.1 There are no financial or procurement implications arising from this report.

7. Risk Analysis

7.1 Failure to address the recommendations outlined in the report could impact on the final audit opinion awarded to the Council in respect of the audit in future financial years.

8. Equalities Impact Assessment (EIA)

8.1 There are no equalities issues arising from this report.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

10.1 Sound financial practices are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan.

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Stephen West
Strategic Lead - Resources
Date: 26 May 2016

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Appendices: Audit Scotland report: West Dunbartonshire Council: Review of Key Internal Controls 2015/16

Background Papers: None

Wards Affected:: All Wards

AUDIT SCOTLAND

West Dunbartonshire Council

Review of key internal controls 2015/16

Prepared for West Dunbartonshire Council

May 2016

Contents

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Summary

Introduction

1. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan the audit and develop an effective financial statements audit approach.

2. We seek to gain assurance that the audited body:

   - has systems of recording and processing transactions which provides a sound basis for the preparation of the financial statements
   - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
   - complies with established policies, procedures, laws and regulations.

Summary of findings

3. Overall we are satisfied that West Dunbartonshire Council's (the council) governance arrangements and internal control systems are operating as planned. The council has made good progress implementing the actions agreed in our 2014/15 Review of Key Internal Controls report.

4. In our review of the council's governance arrangements and internal control systems for 2015/16 we identified some areas where improvements could potentially be made to improve the efficiency and effectiveness of the service. These issues are summarised in the table at appendix I of this report which also sets out the agreed action to be taken in response to audit findings.

5. It is the responsibility of management to decide on the extent of the internal control systems appropriate to the council. Any weaknesses identified represent those that have come to external audit's attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist.

Audit Findings

Systems of internal control

6. Our audit approach included planned controls assurance on the key financial systems of:
   - main accounting
   - payroll
   - trade receivables (debtors)
   - trade payables (creditors)
   - cash, income and banking
   - council tax billing and collection
   - non domestic rates billing and collection
   - housing rents
   - treasury management
   - governance

7. To obtain our controls assurance, testing strategies were developed and work completed during January to April 2016. Our review involved the identification and assessment of the risks inherent in the key systems, and the adequacy of the procedures and controls in place to address these risks.

8. As documented in our Annual Audit Plan issued in February 2016 we planned to place reliance on the work of internal audit in the following areas:
   - treasury management
   - council tax billing
   - NDR billing and collection
   - review of key reconciliations

9. Following closer co-ordination between internal and external audit, the internal audit work programme has been amended to ensure full coverage of external audit requirements. We have completed our review of these internal audit files and concluded that we can place reliance upon the work performed.

10. Areas where improvements could be made are highlighted below.

Trade Payables (Creditors)

11. **Exception Reporting** – We previously highlighted that there was a lack of exception reporting In 2011/12 and 2012/13. However following implementation of these reports, they are not being utilised as effectively as they could be. Officers have indicated that the reports are too laborious to review and do not

provide relevant information. As a result, the exception reports are not produced on a frequent basis.

Action Plan 1

12. **Goods Received Notes (GRNs)** – Our audit work identified that GRNs have not been retained in certain departments. There is a risk that goods or services received are not being cross checked against documentation upon receipt. In addition, there is a risk that invoices are being authorised without supporting documentation.

Action Plan 2

Housing Rents

13. **Reconciliations** – We identified during the audit of the 2014/15 financial statements that reconciliations were only being carried out at the end of the financial year. These reconciliations relate to properties on the rent roll being reconciled to the fixed asset register as well as the accumulated values in the rent roll being reconciled to the financial ledger.

Action Plan 3

Trade Receivables (Debtors)

14. **Duplicate Invoice Exception Report –** Due to workforce constraints this exception report has not been reviewed since January 2015. In addition, only invoices valued over £5,000 are reviewed. Although it is intended that the new Debtors system (Agresso) will generate these reports in the future, there is a risk that duplicate invoices are not identified on a timely basis.

15. **Credit Note Exception Report –** This report has not been generated during the year, as officers are of the view that it is too laborious and time consuming to review. It is intended that a full year report will be reviewed at the year end for values over £5,000. There is a risk that this may result in duplication of invoices and/or credit notes during the period.

Action Plan 4

16. **Achieve Form Authorisation –** There is lack of a formal review process before submission of achieve forms to Debtors staff for input into the system. Achieve forms enable departments to provide details of relevant information which is required to be included within an invoice. Although achieve forms are passed for review within individual service departments, the forms are not evidenced by officers to indicate that balances have been checked for numerical accuracy or authorised for input to the debtors system.

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Action Plan 5

Appendix I: Action plan

The table below sets out the recommendations to improve the control environment.

No.	Para Ref.	Issue	Responsible officer	Management response / Planned action	Target date
1	**11**	**Trade Payables – Exception Reporting** Further work is required by the creditors department to ensure exception reports are used more efficiently and effectively. This includes documenting reasons for invoices being outstanding. **Risk:** The council may be subject to adverse publicity or financial penalties due to non-compliance with suppliers' payment terms.	Section Head – Transactional Services	It was agreed with External Audit that the previous process of exception reporting was ineffective and an updated approach has been agreed. This requires development of new Agresso reports which will be done by December 2016. Meanwhile Creditors will run an exception report manually for: • Duplicate invoices • Authorised limits • Payment PI	30-Jun-16

No.	Para Ref.	Issue	Responsible officer	Management response / Planned action	Target date
2	**12**	**Trade Payables – Goods Received Notes** GRNs should be retained by all departments as evidence for the authorisation of invoices. **Risk:** Incorrect invoices may be paid in error.	Section Head – Transactional Services	This has been highlighted to departments as part of the Creditors best practice guide. It will be reiterated again to managers.	30-Jun-16
3	**13**	**Housing Rents – Reconciliation** Reconciliations should be performed on a regular basis throughout the year to ensure accuracy between systems. **Risk:** Potential discrepancies between the rent roll and fixed asset register may not be highlighted and corrected in a timely manner.	Finance Business Partner (H&C)	A report will be run within the housing system monthly identifying the number of houses (and their weekly rent) along with their status (active or void). This will be reconciled against the opening asset register, adjusted for year to date sales, demolitions and new build additions. The report will also be scrutinised for any rent that appears wrong (e.g. too low, too high, zero, etc.).	30-Jun-16

No.	Para Ref.	Issue	Responsible officer	Management response / Planned action	Target date
4	14-15	**Trade Receivables – Exception Reporting** It is important that exception reports are reviewed and actioned on a frequent basis to ensure that the receivables system accurately reflects the amount owed to the council. **Risk:** Potential under/over statement of receivables balance due to duplicate invoices and/or credit notes.	Section Head – Transactional Services	The previous process for identifying duplicate invoices was very time consuming (approx. 1.5 days) and was agreed with External Audit that this needs to be done annually and only for invoices valued at more than £5,000. This is now part of the Debtors Year End process. As part of the Self Service module departments will also be able to run a report for potential duplicates which will further strengthen the process.	30-May-16
5	16	**Trade Receivables – Achieve Form Authorisation** There is a lack of evidence to demonstrate that achieve forms are reviewed and authorised before submission to the debtors system. **Risk:** Inappropriate or incorrect invoices may be raised.	Section Head – Transactional Services	It will be communicated to Service Departments that authorisation is to be evidenced on the achieve forms before submission to the Debtors Section for input into the system.	30-Jun-16

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit and Performance Review Committee: 8 June 2016

Subject: Accounts Commission Reports: *An overview of local government in Scotland 2016;* and *Why the Accounts Matter*

1. Purpose

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

2. Recommendation

2.1 It is recommended that Members consider the attached reports, the recommendations contained therein and note that it is planned to undertake development work with Members in relation to these reports.

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 Over the last few years the Accounts Commission has provided an overview report which concentrated on the pressures that local government is facing and this year's report continues the series.

3.3 The overview report is supported by a report produced by Audit Scotland entitled *Financial Reporting & Scrutiny: Why the Accounts Matter.*

4. Main Issues

4.1 The Accounts Commission report states the scale of the challenge in 2016/17 and beyond has significantly increased because of the local government funding settlement which has substantial implications for services to the public, councillors and the local government workforce.

4.2 The report highlights a number of key messages for local government, summarised as follows:

- Councils' revenue funding from the Scottish Government will reduce by five per cent in 2016/17. At the same time, they face additional financial pressures and greater demands on services. Councils have been effective in balancing their annual budgets until now but councillors face increasingly difficult decisions about how best to spend their reducing budgets. This requires clear priorities and better long-term planning;

- Councils' responses to budget reductions have mainly focused on incremental savings to existing services. In the face of further funding reductions, councils should be evaluating options for more significant changes to delivering key services, beyond health and social care integration;

- Despite reducing their spending, performance measures show that councils improved in areas such as educational attainment, the quality of council housing and waste recycling, in 2014/15. However, customer satisfaction with some services declined and there are more significant funding reductions to come in 2016/17 and beyond;

- Most Councils have reduced their workforces to save money, and many are planning further staff reductions. In doing so, they need to ensure they have people with the knowledge, skills and time to design, develop and deliver effective services in the future;

- Councils and their partners also need to respond to the Community Empowerment (Scotland) Act 2015, by involving local people more in making decisions about services, and empowering local communities to deliver services that are sustainable and meet local needs; and

- Councillors need to keep updating their skills and knowledge to fulfil their complex and demanding role. In particular, it is increasingly important that they are able to challenge and scrutinise decisions and performance, and fully assess options for new and different ways of delivering services within their reducing budgets.

4.3 The report contains a number of recommendations which are intended to complement other sources of support and help councillors in carrying out their role effectively.

4.4 The report includes a self-assessment tool for Councillors which is attached as Appendix 2.

4.5 A further document is attached at Appendix 3 - *Financial Reporting & Scrutiny: Why the Accounts Matter.* This document includes questions for elected members to consider as part of the accounts scrutiny and approval process.

4.6 Content within Appendices 2 and 3 will be used within a future Elected Members session.

5. Personnel Implications

5.1 There are no personnel implications.

6. Financial and Procurement Implications

6.1 There are no direct financial or procurement 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, workforce planning and service redesign. The continued input of councillors in these processes going forward is necessary in order to provide leadership to the community and to ensure effective governance within the Council.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

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.

....
Stephen West
Strategic Lead - Resources
Date: 19 May 2016

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Appendices:	Appendix 1**:** Accounts Commission Report: *An overview of local government in Scotland 2016*
	Appendix 2: Local government overview 2016: Self-assessment tool for councillors
	Appendix 3: Financial Reporting & Scrutiny: Why the Accounts Matter.
Background Papers:	None
Wards Affected:	N/A

An overview of local government in Scotland 2016

ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2016

The Accounts Commission

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

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

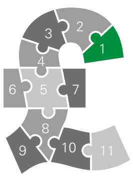
Our work includes:

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

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

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

Contents



These pound sign icons appear throughout this report and represent key facts.

These question mark icons appear throughout this report and represent questions for councillors.

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.

Chair's introduction

In our 2015 overview report we said, 'Councils tell us that they should manage budgetary pressures in 2015/16 but the years beyond pose a level of challenge not previously experienced.' The Commission recognises the achievement of councils – both councillors and officers – in meeting these challenges to date.

But the scale of the challenge in 2016/17 and beyond has significantly increased because of the local government funding settlement. The settlement has substantial implications for services to the public, councillors and the local government workforce.

Next year councils and health boards, through health and social care partnerships, jointly have the responsibility to make a significant start in the shift from hospital care to care at home and care in the community. This is the most far-reaching public service reform since the establishment of the Scottish Parliament.

And these challenges are compounded by: a one-year financial settlement, cost pressures, increasing demands on services from an ageing and growing population, the ambitions of the Community Empowerment (Scotland) Act 2015, and the political pressures created by elections in both 2016 and 2017.

the scale of the challenge has significantly increased – cuts can only be part of the solution

The majority of our recent Best Value audits have highlighted a dependency on incremental changes to services, increasing charges and reducing employee numbers in order to make savings. But these are neither sufficient nor sustainable solutions set against the scale of the challenge facing councils. Cuts can only be part of the solution. What is required is a more strategic approach, longer-term planning and a greater openness to alternative forms of service delivery.

It is challenging for councillors and officers to fundamentally change the way a council has provided a service over a lengthy period of time. But there are significant consequences to not conducting comprehensive option appraisals: services may not be as efficient or effective as they could be and may not be achieving value for money, resources may not be directed to priority areas such as preventative services, and councils may not be able to demonstrate that they are achieving best value.

In considering all viable options, it will be essential that councillors are provided with comprehensive and objective information on the cost, benefits and risks of each option. This will help them make considered decisions in partnership with service users and communities.

As the landscape of service delivery becomes ever more complex, councils will need to ensure they have people with the necessary knowledge and skills to manage that complexity. This is important for councillors and council officers, as both must have, for example, skills in options appraisal, programme management, commissioning, finance and scrutiny.

And in a climate of reducing resources the importance of scrutiny has never been greater. Scrutiny arrangements must add demonstrable value in monitoring the planning, execution and follow-up of key decisions. The public needs to have confidence that their council's arrangements are transparent, independent and effective. If they are not, the public interest is not being met.

The Commission hopes that this overview report will be a helpful tool for councillors and officers to stand back and assess their progress in the journey of improving outcomes for service users and communities. As always, the Commission welcomes feedback on its overview report.

Douglas Sinclair
Chair of the Accounts Commission

Summary

Key messages

1 Councils' revenue funding from the Scottish Government will reduce by five per cent in 2016/17, bringing the real terms reduction in revenue funding since 2010/11 to 11 per cent. At the same time, they face additional financial pressures and greater demands on services. Councils have been effective in balancing their annual budgets until now but councillors face increasingly difficult decisions about how best to spend their reducing budgets. This requires clear priorities and better long-term planning.

2 Councils' responses to budget reductions have mainly focused on incremental savings to existing services. In the face of further funding reductions, councils should be evaluating options for more significant changes to delivering key services, beyond health and social care integration.

3 Despite reducing their spending, performance measures show that councils improved in areas such as educational attainment, the quality of council housing and waste recycling, in 2014/15. However, customer satisfaction with some services declined and there are more significant funding reductions to come in 2016/17 and beyond.

4 Most councils have reduced their workforces to save money, and many are planning further staff reductions. In doing so, they need to ensure they have people with the knowledge, skills and time to design, develop and deliver effective services in the future.

5 Councils and their partners also need to respond to the Community Empowerment (Scotland) Act 2015, by involving local people more in making decisions about services, and empowering local communities to deliver services that are sustainable and meet local needs.

6 Councillors need to keep updating their skills and knowledge to fulfil their complex and demanding role. In particular, it is increasingly important that they are able to challenge and scrutinise decisions and performance, and fully assess options for new and different ways of delivering services within their reducing budgets.

Recommendations

Councillors are now leading complex organisations in increasingly challenging circumstances. There are a range of sources to help them understand and manage their council's financial and service performance, for example the Improvement Service. Our recommendations are intended to complement other sources of support and help councillors in carrying out their role effectively.

Councillors should:

- satisfy themselves that their council has a longer-term financial strategy (five or more years) supported by an effective medium-term financial plan (three to five years). These should show how the council will prioritise spending to achieve its objectives, make any necessary savings and remain financially sustainable
- appraise all practical options for how to deliver the services their communities need within the resources available. This includes examining opportunities to work with and empower communities to deliver services in different ways, and learning lessons from others and from wider public service reform. They should ensure they get all necessary information and support from officers to help them fully assess the benefits and risks of each option
- ensure their council continues to develop workforce strategies and plans that clarify the numbers and skills of staff needed in future. In assessing their council's workforce, councillors should consider whether they have people with the knowledge, skills and time to support them effectively in making the difficult decisions that lie ahead, and to design and implement new ways of delivering services
- make sure that decision-making processes and scrutiny arrangements remain appropriate for different ways of delivering services. This includes:
  - having clearly written and manageable information to help them make decisions and scrutinise performance
  - carrying out business openly and improving public reporting
- regularly review their personal training and development needs. They should work with council staff and others to create opportunities to update their knowledge and skills in increasingly important areas, such as financial planning and management, options appraisal, commissioning services, partnership working and scrutiny. These opportunities should also be available to any new members after the local elections in 2017
- use the questions in this report and the separate self-assessment tool to help them assess their council's position.

About this report

1. This report provides a high-level, independent view of councils' management and performance. It draws on the findings from local government audit work in 2015, including audits of 2014/15 financial statements, Best Value, Community Planning and performance. All reports are available on Audit Scotland's website.

2. The report is primarily for councillors and senior council officers as a source of information and to support them in their complex and demanding roles:

- Part 1 reviews the financial context in which councils are operating and gives a national overview of councils' financial performance. Information that compares one year with another is shown in real terms (taking inflation into account, based on 2014/15 prices) unless otherwise stated.

- Part 2 considers how councils are performing in delivering services and how they are changing the way they operate in the context of increasing pressures. It looks at the implications for councils' workforces and highlights key aspects of governance.

3. Exhibit 1 (page 9) provides a summary of the main pressures that councils face.

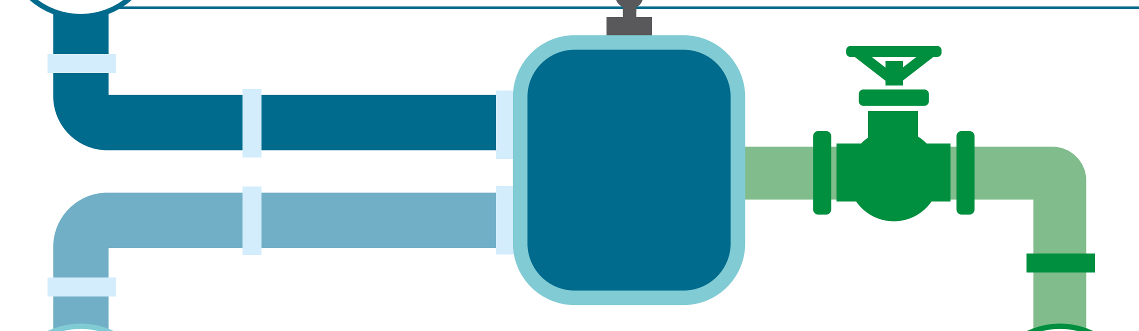
4. Throughout the report we identify questions that councillors could ask to help them understand their council's financial position, scrutinise performance and make good decisions. Councillors should satisfy themselves that they understand, and are comfortable with, the answers to the questions most relevant to them in their role within the council. These questions are also in a separate self-assessment tool on Audit Scotland's website, where we have also provided selected financial facts about each council to help comparisons and benchmarking.

Exhibit 1
Local government pressures

In the face of financial and service pressures, councils should be planning for the longer term and evaluating options for more significant service redesign.

Financial pressures

- **Funding reductions –** five per cent reduction in revenue funding in 2016/17; councils do not yet know the allocation for subsequent years
- **Increasing pension costs –** plans to reduce deficits in pension funds may cost councils more in future
- **Reduced financial flexibility –** national policy conditions on Scottish Government revenue funding allocations, eg maintaining teacher numbers, and on other sources of councils' income, eg council tax
- **Equal pay and living wage –** equal pay settlements continue and can result in unpredictable costs, while living wage rises are likely to affect contract costs



Service pressures

- **Service demand –** increasing demand due to demographic change, eg social care
- **Health and social care integration –** significant service transformation
- **Service performance –** maintaining and improving services; declining customer satisfaction
- **Staff reductions –** loss of knowledge, skills and time through workforce reductions; workload and morale pressures on remaining staff

Managing the pressures

- **Medium and long-term planning –** prioritising spending to achieve council objectives; making necessary savings; remaining financially sustainable
- **Options appraisal –** evaluating alternative ways of delivering services; involving and empowering local communities; learning lessons from others
- **Workforce planning –** developing workforce strategies and plans; ensuring staff have the knowledge, skills and time needed to design and deliver future services
- **Scrutiny –** ensuring decision-making and scrutiny processes remain appropriate; having clear and manageable information; carrying out business and reporting openly
- **Councillors' training and development –** reviewing needs regularly; updating knowledge and skills

Source: Audit Scotland

Part 1

Managing financial performance

Key messages

1 Councils received £10.76 billion of funding from the Scottish Government in 2014/15. This included £9.92 billion for revenue funding, which helps pay for day-to-day running costs, including staff. This was almost the same as the previous year and 6.5 per cent less in real terms than in 2010/11. While revenue funding in 2015/16 also remained largely unchanged in real terms, major challenges lie ahead for councils. The Scottish Government has reduced revenue funding in 2016/17 by five per cent in real terms. This equates to an 11 per cent reduction in revenue funding between 2010/11 and 2016/17. Councils also received capital funding in 2014/15 of £0.84 billion.

2 Councils have continued to balance their budgets each year by reducing their spending. The majority underspent their 2014/15 budgets and increased their reserves in anticipation of future funding reductions.

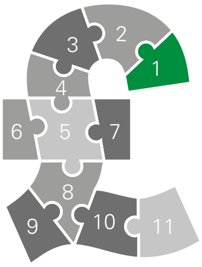
3 Local Government Pension Scheme (LGPS) funds report shortfalls between the value of funds and the future pension commitments to be paid. This does not create immediate problems. Pension funds have plans in place to reduce any deficits within a 20-year period.

4 Councils' debt has been increasing since 2011/12, although it decreased slightly in 2014/15. In addition, many councils predict gaps between their income and spending in future years. This may threaten their financial sustainability if risks are not well managed.

5 The challenging financial environment, together with changing demographics and rising demands on services, means that effective medium-term (three to five years) and longer-term (five or more years) financial planning is critical for councils. This is more challenging for councils when they do not know what their future funding and income will be, meaning that they need to plan for a range of possibilities.

councils have effectively balanced their budgets but long-term planning is critical in this challenging financial environment

In 2016/17, Scottish Government revenue funding for councils is 11 per cent lower (in real terms) than in 2010/11



5.1 per cent: reduction in Scottish Government revenue funding for councils in 2016/17

6.5 per cent: reduction in Scottish Government revenue funding between 2010/11 and 2014/15

£0.4 billion: increase in non-domestic rates (NDR) income between 2010/11 and 2014/15

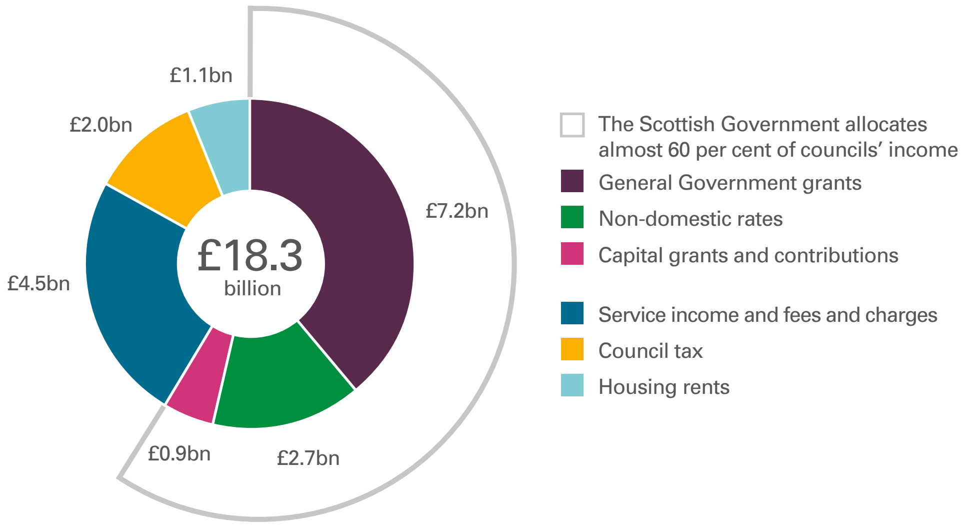
£18.3 billion: councils' total income in 2014/15

5. Councils' 2014/15 accounts showed that their total income was £18.3 billion. In line with previous years, the Scottish Government allocated almost 60 per cent of this (£10.76 billion) (Exhibit 2). This included revenue funding of £9.92 billion for day-to-day running costs, including staff; and capital funding of £0.84 billion to invest in buildings, roads and equipment. In real terms, the £10.76 billion is six per cent lower than in 2010/11, when total funding was at its highest.

Exhibit 2

Sources of councils' £18.3 billion of income in 2014/15

Almost 60 per cent of councils' income is allocated by the Scottish Government.



Notes:
1. Service income, fees and charges may include specific, service-related grants and income such as payments from the Scottish Government, NHS or other councils. They exclude housing rents which are shown separately as housing income.
2. Capital grants and contributions include income from the Scottish Government and others such as central government bodies, National Lottery and the European Union.
3. Figures sum to £18.4bn due to rounding.

Source: Councils' annual accounts, 2014/15

6. Scottish Government revenue funding remained almost unchanged (in real terms) in 2014/15 and 2015/16. In 2016/17, it will be five per cent lower than in 2015/16. This represents a reduction of 11 per cent in real terms since 2010/11.

7. In 2014/15, Scottish Government revenue funding included £343 million as part of the council tax reduction scheme, replacing council tax benefit that until 2013/14 came from the UK Government. It also included £490 million for freezing council tax at 2007/08 levels. The Scottish Government has added £70 million each year since 2008/09 to make up for income councils would have received if they had increased council tax in line with inflation each year. As part of the funding agreement for 2014/15, councils committed to implementing national policies to freeze council tax, and maintain teacher numbers and pupil to teacher ratios.

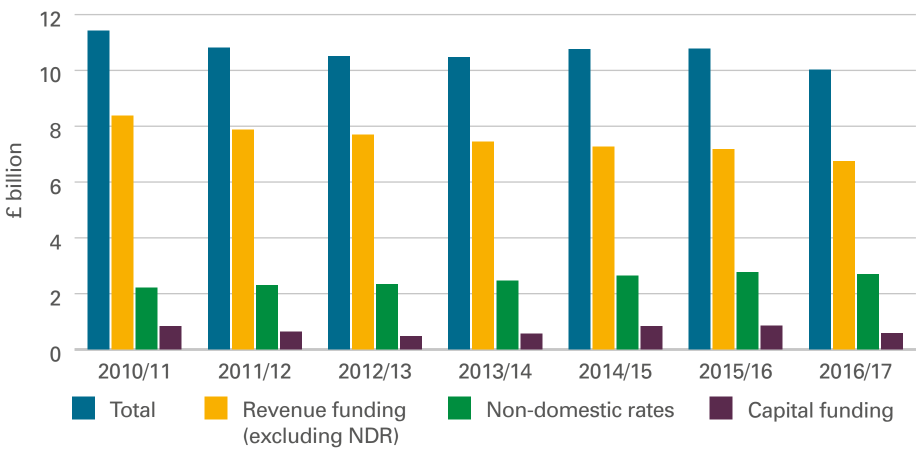
NDR makes up an increasing share of the revenue funding allocated by the Scottish Government

8. Non-domestic rates (NDR) are a tax on business property to help pay for local services. The Scottish Government sets the rate of tax, councils collect the money, and the Scottish Government redistributes it as part of its funding allocation to councils. NDR income has risen in recent years due to annual increases in the rate of tax and rises in the number of business properties on which the tax is paid (Exhibit 3). This increase, alongside total revenue funding decreases, has led to NDR making up 25 per cent of allocated revenue funding in 2014/15 compared with 19 per cent in 2010/11.

Exhibit 3

Scottish Government funding to councils from 2010/11 to 2016/17, at 2014/15 prices

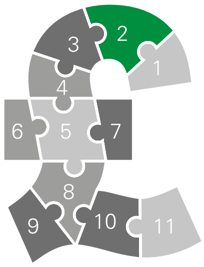
NDR income has been rising while total revenue funding has reduced.



Notes:
1. Funding allocations up to 2012/13 have been adjusted to remove funding for police and fire. Responsibility for these services transferred from local to central government in April 2013.
2. The Scottish Government has not yet set out its plans for local government funding beyond 2016/17.
3. From 2013/14, revenue funding includes payments for council tax reduction, replacing council tax benefit which previously came from the UK Government. This was £356 million in 2013/14 and £343 million in 2014/15, at 2014/15 prices.
4. The 2016/17 figures do not include £250 million that the Scottish Government allocated to health and social care integration authorities. This is an allocation from the Scottish Government health budget to NHS boards, rather than councils. The NHS boards will direct the funding to the integration authorities.

Source: Local Government Finance Circulars, Scottish Government, 2011-2016

Capital funding from the Scottish Government increased significantly in 2014/15 as part of a phased plan



£37.1 billion: value of physical assets owned by councils, for example buildings, schools, roads and equipment

£2.2 billion: amount councils invested in capital projects in 2014/15

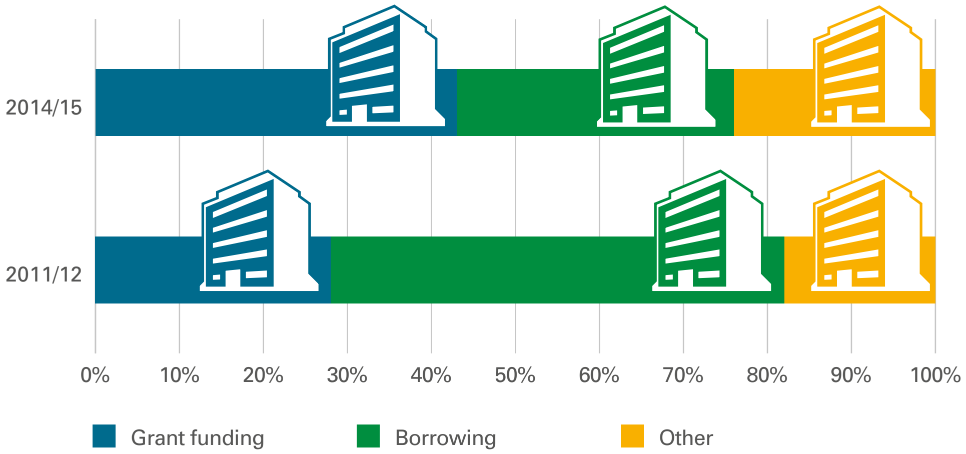
£498 million: revenue and capital payments for Private Finance Initiatives (PFI) and Non-Profit Distributing (NPD) contracts in 2014/15

9. As part of its 2011/12 Spending Review, the Scottish Government rescheduled payments of some planned capital grant funding for councils for 2012/13 and 2013/14 by two years. This was to provide more capital funding for government bodies that are not allowed to borrow money. The Scottish Government then increased capital allocations to councils by £120 million in 2014/15 and £94.2 million in 2015/16. Similar shifts in capital funding are planned between 2016/17 and 2019/20, with lower funding in the first two years and higher in the last two years.

10. Between 2011/12 and 2014/15, capital grant funding increased from £720 million to £925 million (at 2014/15 prices). The Scottish Government provided about 80 per cent of grants in this period. Councils' total capital spending has decreased over the same period, from £2.5 billion to £2.2 billion (at 2014/15 prices). Councils are now using more capital grants than borrowing to fund their capital programmes (Exhibit 4, page 14). In 2016/17, councils face a decision about whether to increase their borrowing or decrease their capital programmes due to planned capital funding reductions by the Scottish Government.

11. Twenty-eight councils underspent their capital budgets in 2014/15. Capital underspends can have significant effects on a council's financial position, including cash flows from year to year, and how well it achieves its objectives. They may also have an effect on current and future borrowing. It is therefore important that capital spending plans are realistic. Councils should closely monitor capital spending and make sure there is effective communication between their capital investment and treasury management functions (the latter of which manages cash flow, borrowing and investments). Councils' treasury management strategies should set out for councillors how the borrowing strategy is informed by corporate priorities and capital investment needs (*Borrowing and treasury management in councils* [PDF]).[1] Councils should also demonstrate to elected members and service users how planned capital investment will help achieve their long-term strategic priorities (*Major capital investment in councils: follow-up* [PDF]).[2]

Exhibit 4
Sources of funding for capital spending
From 2011/12 to 2014/15, funding from capital grants increased and funding through borrowing decreased.



Note: Other sources of capital finance include money from the sale of assets, revenue funding used for capital spending and contributions from specific capital funds.

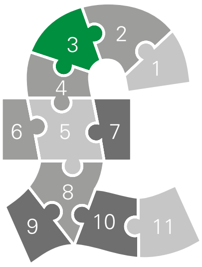
Source: Audit Scotland

12. As councils make decisions on how to manage reducing budgets, they must consider both the short and long-term implications of capital financing. This includes considering innovative funding options available for capital programmes, such as City Deals which attract additional funding from both the UK and Scottish Governments, as well as borrowing in traditional ways.

13. Councils are making significant revenue payments for Private Finance Initiatives (PFI) and Non-Profit Distributing (NPD) contracts, mostly for new and refurbished schools. In future, they will also face revenue charges associated with new projects financed through similar contracts or through newer funding models. It is important that both capital investment plans and treasury management strategies take into account the future revenue costs of capital financing options. Being aware of these costs allows councillors to fully scrutinise the long-term implications and affordability of funding decisions and to assess the sustainability of capital investment plans.

14. Councils have long-term assets worth nearly £40 billion, including physical assets, such as buildings, roads, vehicles and equipment, and long-term investments. The value increased by 1.7 per cent during 2014/15. The reported value of existing assets, shown in councils' annual accounts, is expected to increase greatly from 1 April 2016 when council-owned roads are to be valued on a different basis.

Councils have balanced their budgets by reducing their spending but face additional pressures on top of funding reductions



£18.7 billion: spending on day-to-day running of services (including interest costs and accounting adjustments)

23 councils spent less than their income on providing services in 2014/15

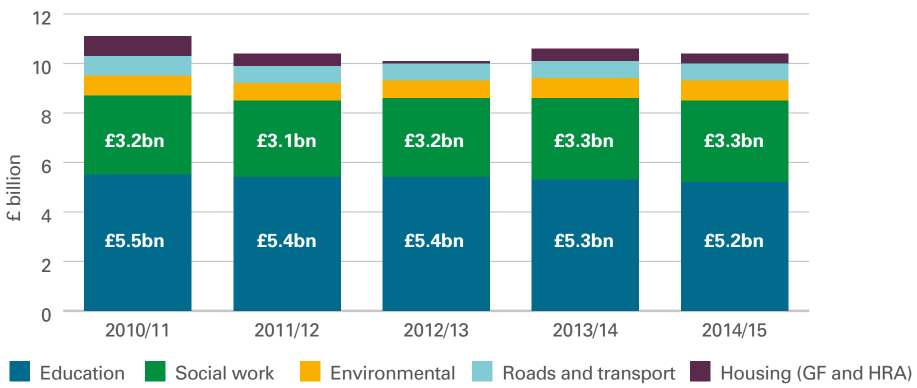
15. Councils have managed financial pressures by reducing spending across many of their main services and activities, except in social work (Exhibit 5). Councils' 2014/15 accounts showed expenditure of £18.7 billion. This looks like councils overspent by £0.4 billion but is actually due to adjustments that councils must make in their annual accounts, under local government accounting rules, for things like the accounting treatment of fixed assets and pension costs. In fact, the majority of councils underspent against their overall budgets in 2014/15. The one notable exception to this was Falkirk Council, which overspent by £2.9 million (0.8 per cent of its General Fund revenue budget). The most significant overspend of £3.3 million occurred in social work services and was partially offset by underspends in other areas.

16. The large number of underspends suggests that councils have successfully controlled their spending on services in preparation for the anticipated further funding reductions from 2016/17 onwards. Preparations for planned reductions in future years can also contribute to underspends if opportunities arise to

Exhibit 5

Council spending on main services 2010/11 to 2014/15, at 2014/15 prices

Councils have reduced their real terms net spending in service areas except in social work.

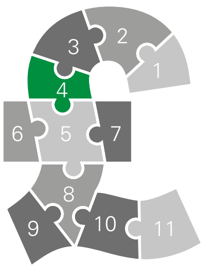


Notes:
1. The figures show net spending, which is the total amount spent less any income from fees, charges or other service-related income.
2. Housing figures include spending from the General Fund (GF) and Housing Revenue Account (HRA).

Source: Councils' annual accounts, 2010/11-2014/15 make savings ahead of schedule. Councils will find it increasingly challenging to underspend or balance their budgets from 2016/17 onwards because many incremental savings have already been made.

17. Even where councils underspent against their overall budgets, about a third of councils reported overspending their social work or social care budgets. The highest overspend in 2014/15 was in City of Edinburgh Council's health and social care service, which overspent its budget by £5.9 million due to demand pressures. The council has commissioned an external review to identify the main reasons for this and to help manage the budget in future. With demand rising because people are living longer, combined with further funding reductions, social care budgets will come under increasing pressure for many councils and for the new health and social care integration authorities. In 2016, we will publish a report, *Social work in Scotland, which* will look at the scale and impact of the financial and demand pressures facing social work and how councils and their partners are addressing these challenges.

Councils increased their usable reserves during 2014/15 in anticipation of further funding reductions



£1.9 billion: councils' usable reserves (excluding Orkney and Shetland Islands councils)

£375 million: unallocated General Funds (excluding Orkney and Shetland Islands councils)

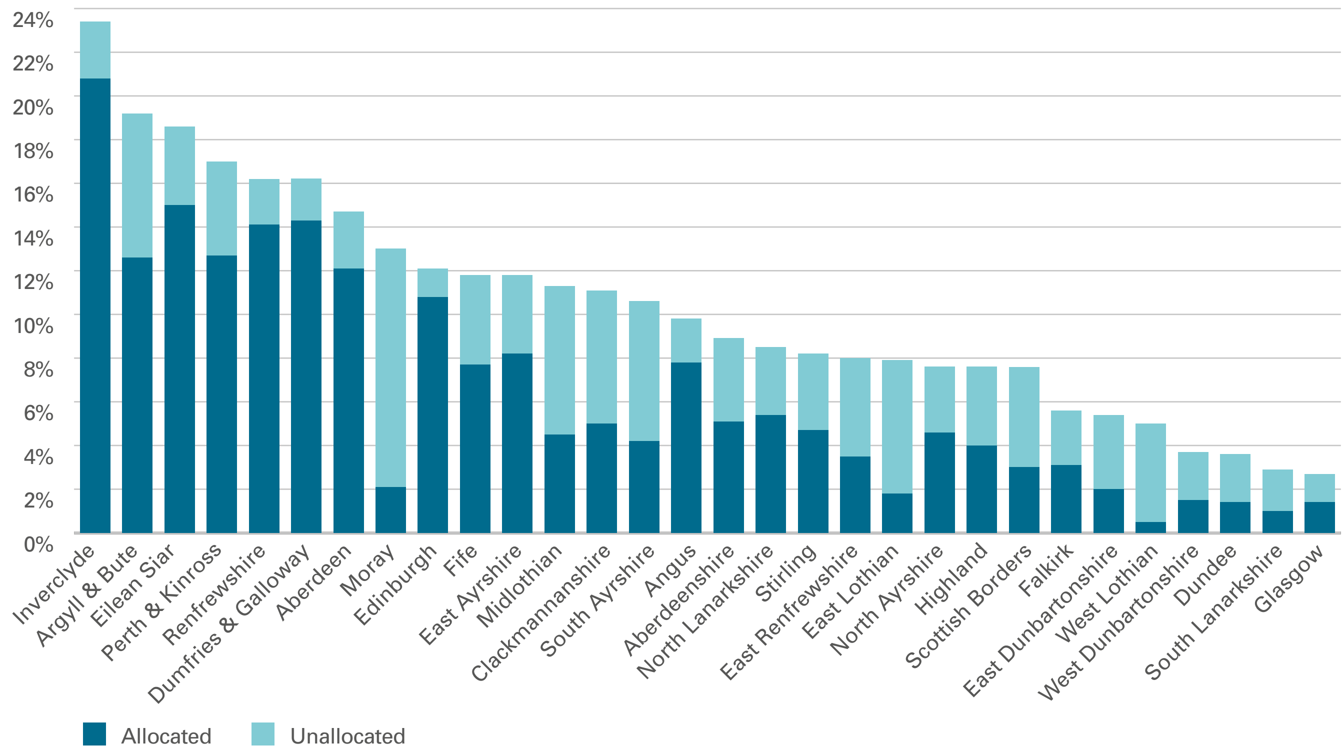
13 councils planned to use reserves for day-to-day spending in 2015/16

18. By the end of 2014/15, councils (excluding Orkney and Shetland Islands councils) had usable reserves of £1.9 billion, which is £31.4 million more than at the beginning of the year. £1.1 billion of this was in General Funds, available for councils to spend as required. £375 million of the £1.1 billion of General Funds were unallocated, meaning they were not earmarked for a specific purpose and therefore available as a contingency for unforeseen spending, such as making up shortfalls in income or savings, or for possible future commitments. Unallocated General Funds rose by 18.5 per cent during 2014/15. They are now 39 per cent higher than they were in 2010/11. Council finance directors tell us this is largely because they are being careful to save whenever opportunities arise, in anticipation of further funding reductions. Across Scotland, there is wide variation in the level of reserves councils hold and the levels of unallocated General Funds, with eighteen of the 30 councils having allocated more than half of their General Funds (Exhibit 6, page 17).

Exhibit 6

General Fund reserves held as a percentage of service costs, 2014/15

There is wide variation in the amount of General Fund reserves that councils hold compared to the cost of providing services.



Notes:

1. Figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities, which affect what is included in their General Funds.
2. Service costs in this context are taken as the General Fund net cost of services, as reported in councils' annual accounts.

Source: Councils' annual accounts and data returns from auditors, 2014/15

19. Eighteen out of the 30 councils allocated more than half of their General Fund. Thirteen of Scotland's 32 councils planned to use reserves to bridge a gap between their income and spending in 2015/16 or beyond. Using reserves to support day-to-day spending on services is unsustainable. Financial plans and reserves policies must strike a balance between the planned use of reserves and being prepared for any unforeseen changes in circumstances to ensure councils can manage external pressures. For example, there have recently been multi-million pound compensation payments for multiple equal pay claims. Such events can significantly affect councils' reserves and their plans for using them.

20. The level of reserves that a council holds is a local decision, but should be clearly informed by an annually reviewed reserves policy. Thirty-one councils had a reserves policy in 2014/15, the exception being The Moray Council which plans to finalise a policy in March 2016. It is important that officers advise councillors of the rationale for holding specific levels of reserves. Councillors need to be satisfied that their council's reserve level is both appropriate and necessary. Reserves policies set a minimum or target level of reserves to be held but half of councils ended 2014/15 with unplanned increases or decreases in their General Fund (Exhibit 7, page 18). This underlines the importance of ensuring reserve levels are adequate and policies are regularly reviewed.

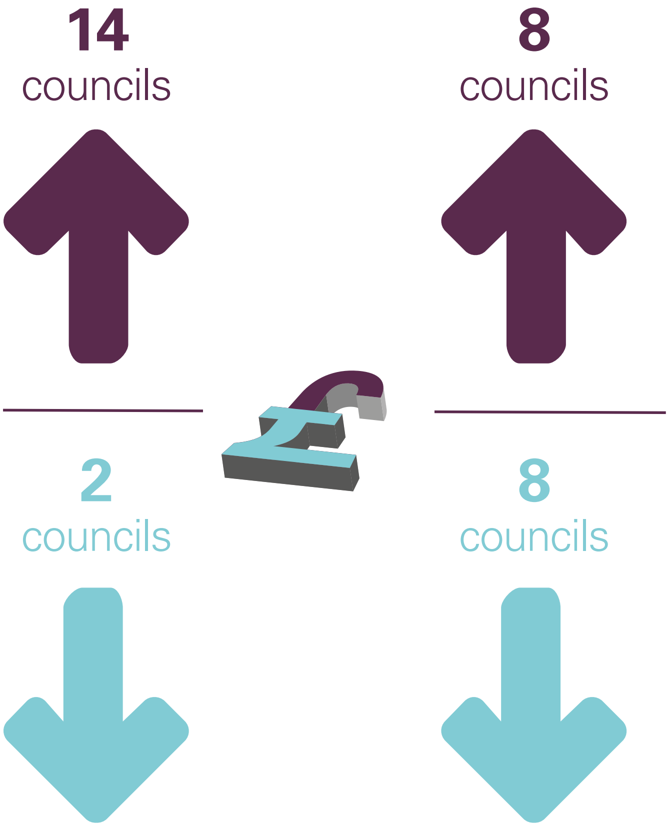
What level of reserves do we need, both allocated and unallocated?

How effectively are we using the reserves we hold?

Exhibit 7

Increases and decreases in General Fund reserves

Total General Fund reserves increased overall but half of councils did not increase or decrease their reserves as planned.



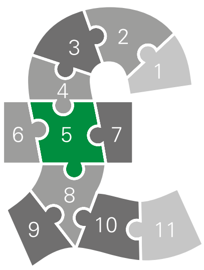
14 councils planned to increase their reserves and did

8 councils did not plan to increase their reserves but did

2 councils planned to use their reserves and did

8 councils did not plan to use their reserves but did

Source: Councils' annual accounts and data returns from auditors, 2014/15



£39.9 billion: value of councils' long-term assets including their physical assets (£37.1 billion) and other assets such as long-term investments and money they are owed

£13.8 billion: councils' net debt – the difference between what is borrowed and owed (£15.2 billion) and the value of short-term investments (£1.4 billion)

£12.5 billion: councils' total short and long-term borrowing, which is the majority of their debt

£0.5 billion: increase in borrowing during 2014/15

Councils’ net debt has increased since 2010/11, but decreased slightly in 2014/15.

21. Councils’ debt includes money they have borrowed as well as commitments made under PFI, NPD and finance leases. Councils paid interest and repayment charges of about £1.5 billion in 2014/15, similar to the amount they paid in 2013/14. Most of councils’ borrowing is for capital projects and helps them spread the cost of building, refurbishing and replacing their assets over a number of years.

22. Councils’ net debt (total debt minus investments and cash) decreased by £44 million during 2014/15. At £13.8 billion (excluding Orkney and Shetland Islands councils), it remains £1.3 billion more than in 2010/11 (Exhibit 8).

23. Councils need to assess the affordability of borrowing and other forms of debt. In the short term, they do this using a number of ‘prudential indicators’, which show the effects on revenue budgets, in compliance with The Prudential Code.[3] We recommended in *Borrowing and treasury management in councils* [PDF] that councils should do more to assess the long-term affordability of borrowing and other forms of debt.

Exhibit 8

Councils' net debt, 2010/11 to 2014/15

Councils' net debt has increased since 2010/11, but decreased slightly in the last year.

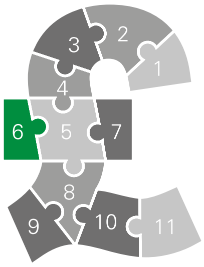
Notes:
1. Net debt is calculated as total debt (long-term borrowing, short-term borrowing, bank overdrafts and other long-term liabilities) minus external investments (short-term investments and cash, and cash equivalents).
2. Figures exclude Orkney and Shetland Islands councils, which have large investments associated with harbour and oil activities.

Source: Councils' audited accounts, 2010/11-2014/15

24. Borrowing levels are not an indication of financial problems or that a council may not be financially sustainable. As long as repayments are affordable and the council can finance its debts, then borrowing is a valuable means of financing longer-term capital costs. It is up to individual councils, taking into account their existing commitments, to determine how much they can afford to pay in annual repayments. Councils have reduced their borrowing in recent years, at the same time as there were changes in capital funding allocations from the Scottish Government and reductions in the overall size of capital programmes. Their overall level of outstanding borrowing has increased to £12.5 billion.

What implications do different borrowing and financing options have for our future revenue budgets?

Local Government Pension Scheme fund deficits can vary from year to year and long-term plans are in place to finance them



£33.8 billion: assets managed by the 11 separate LGPS funds in Scotland

£44.5 billion: total liabilities of the 11 LGPS funds

£10 billion: councils' share of the £10.7 billion long-term LGPS fund deficits

25. Pension contributions are a significant cost for councils. Most council staff pay into either the Scottish Teachers' Superannuation Scheme (STSS) or the Local Government Pension Scheme (LGPS). The Scottish Government is responsible for the STSS while councils are responsible for the LGPS. Staff in other related organisations, such as colleges, can also be members of these schemes.

26. The LGPS has 11 separate investment funds. These vary in size from Strathclyde Pension Fund, which manages about £16 billion (over 45 per cent) of the £33.8 billion LGPS assets, to a number of smaller funds each managing less than five per cent of total assets.

27. The value of the pension funds is fully assessed every three years to set contribution rates, most recently in 2014. Annual estimates are also made in between assessments. A range of factors are taken into account each time, for example inflation and life expectancy, and so annual estimates of fund values and future pension payments can vary from year to year.

28. At the end of 2014/15, there was an estimated £10 billion shortfall, or deficit, between the value of councils' pension funds and the future pension payments that will be made. This has increased by around £2.5 billion since 2011. During 2014/15, there were significant deficit increases in Glasgow City (£234m, 18 per cent), City of Edinburgh (£191m, 36 per cent), South Lanarkshire (£140m, 28 per cent), Falkirk (£128m, 51 per cent) and North Lanarkshire (£111m, 26 per cent) councils.

29. Pension deficits do not create immediate problems because staff and employer contributions and future payments will be made over a long period. There are long-term plans in place for funds to address current estimated deficits within 20 years.

The LGPS costs for councils are increasing

30. There are three main factors that determine variation in costs associated with the LGPS, and may result in increased pension costs for councils:

- Employer contribution rates: these range from around 17 to 22 per cent of employees' pay in 2014/15. They are not directly comparable between funds, or between councils within the same fund, because some councils make separate payments specifically to reduce deficits. But rates are set to increase. For example, by 2017/18 contribution rates will increase for five of the 11 councils that manage and administer the funds.

- Administration costs: these include the investment management fees for each fund, and other administration costs, and have been increasing. These are not comparable between funds, but the way the fees are reported has been changed to improve transparency and comparability between funds.

- Investment performance: the investment strategy for a fund takes into account the size of the fund's assets compared to its future liabilities, as well as other external market factors, when setting performance targets. Expected returns on investments are used to set employer contribution rates. In 2014/15, eight of the 11 LGPS funds reported above-expected returns and three reported returns below the targets they set for themselves (Highland, North East and Shetland).

31. Most LGPS funds have a growing number of pensioners within their schemes. The number of contributing members has also been increasing, despite staff reductions. Auto-enrolment into pension schemes is expected to result in more people joining. However, increases in the number of contributing members alone are not expected to offset the growing number of pensioners.

32. Councils face rising pension costs due to increases in pension scheme membership, raising the number of employees for whom they must contribute. Voluntary severance agreements can also increase the costs of paying pensions early and adding years to relevant employees' pensions. These agreements also result in councils having to make separate redundancy payments, although these are not pension costs.

33. Future employer contributions are part of a cost-sharing arrangement which may limit future increases. Employee contributions may however increase. Also, from 2016/17, employees and employers will no longer benefit from a reduction in National Insurance contributions, leading to increased costs for both.

34. There have been several recent developments to strengthen the governance and reporting of LGPS funds. In compliance with The Public Sector Pensions Act 2013, a local pension board was established for each LGPS fund before 1 April 2015. The board's role is to assist the fund manager to comply with rules relating to governance and administration of the fund.

35. A new Scottish Local Government Pension Scheme Advisory Board has also been set up as part of these reforms. Its role includes advising ministers on how the LGPS is operating and on any changes that may be desirable. It is likely to consider whether the structure of the LGPS in Scotland, with 11 separately administered funds, is efficient. That might include considering the value of the approach taken in England, of combining LGPS fund assets to allow collective investments to be made. The Accounts Commission welcomes this review of the LGPS.

What are the implications of workforce reductions on our pension costs?

How will these affect our pension liabilities and pension administration costs?

Equal pay remains a significant cost pressure

36. By March 2015, councils had paid out £605 million to employees in equal pay compensation. During 2014/15, 24 councils settled nearly 4,000 equal pay claims, worth a total of £24.9 million. Councils currently estimate that about 30,000 cases remain outstanding. Councils had put aside £117 million in anticipation of further payments in 2015/16 and beyond. This includes £78 million by North Lanarkshire Council to compensate employees whose claims were brought to tribunal and agreed in 2014/15.

37. Some councils do not expect many more significant equal pay claims and have reduced the money set aside for this purpose. However, recent cases highlight that councils' provisions can be significantly lower than the final costs. For example, Fife Council made a provision for equal pay claims of about £7 million in its 2014/15 accounts, based on the number of existing cases it had. However, in 2015/16 the council agreed to settle a large number of claims brought against it on the basis that the council's application of its job evaluation, pay protection and job assimilation arrangements under single status were unfair. The council's previous estimates of equal pay liability did not anticipate the application of its job evaluation scheme as being at risk. Therefore, the cost to the council of settling these cases is predicted to be many times greater than the financial provision it had made. This will significantly affect the council's financial position, including its planned spending on services and other projects or programmes. It is unclear how many other councils could potentially be in a similar position to Fife. The Accounts Commission plans to look at equal pay issues across local government in more detail during 2016/17.

Minimum and living wage rises have cost implications for councils

38. The living wage in Scotland is £8.25 per hour.[4] Councils have a collective agreement with Scottish Joint Council trade unions on pay for the period 2015/16 to 2016/17. As part of this agreement, councils committed to a pay settlement which set the living wage at a level of £8.33 per hour. In addition, the UK Government is aiming for a minimum wage of £9 per hour by 2020, which would mean significant pay rises for those currently on or near the current minimum wage (£7.20 per hour for those aged 25 and over from April 2016). While there are clearly benefits to low-paid workers through the living wage commitment, the increases in employee costs and contract costs – when contractors pay their staff the living wage – will put additional pressure on councils' finances. It will also require councils to review their grading structures where the living wage moves jobs out of existing pay scales.

Good financial planning and management is required to manage future pressures and ensure financial sustainability

39. At March 2015, all councils had balanced their budgets and were not planning to spend more in 2015/16 than they could afford. External auditors reported that councils had adequate reserves and could afford to repay their current debts. However, audit work has highlighted concerns about some aspects of financial planning, management and sustainability in a small number of councils.

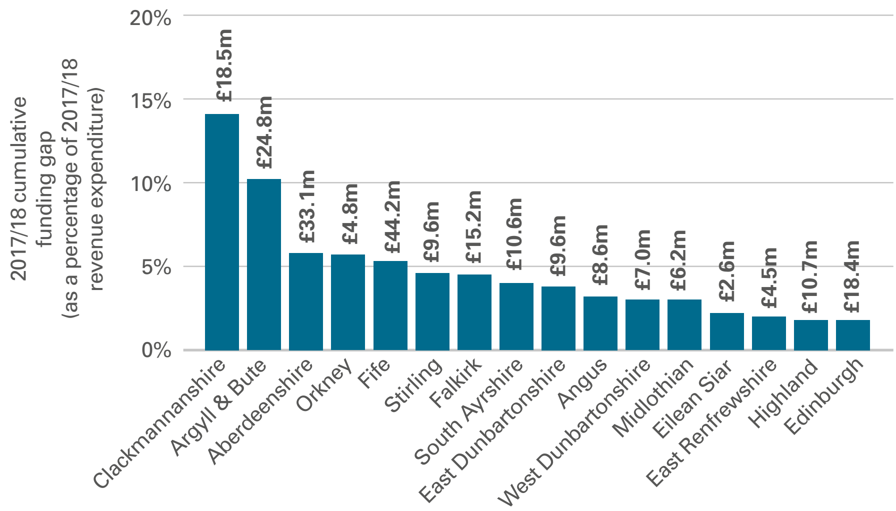
40. Auditors are most concerned about those councils that have been spending, or plan to spend, a significant amount of their reserves but still face a large gap between their expected income and spending. At March 2015, more than half of councils that had prepared indicative budgets for both 2016/17 and 2017/18 were reporting a funding gap between income and expenditure, even after they had identified savings and planned whether to use some of their reserves. At that point, five councils were predicting cumulative funding gaps of more than five per cent of their service costs by 2017/18. These were Clackmannanshire (14 per cent), Argyll and Bute (ten per cent), and Aberdeenshire, Orkney and Fife (five to six per cent) (Exhibit 9, page 23).

How fully do our financial plans identify estimated differences between income and expenditure (budget shortfall)?

Exhibit 9

Predicted funding gaps at March 2015

At March 2015, five councils were predicting cumulative funding gaps of more than five per cent in 2017/18.



Notes:
1. Figures are the 2017/18 cumulative funding gaps. Ten councils predict a balanced budget in 2017/18. Six councils had not prepared a budget for 2017/18 by March 2015.
2. Many councils have updated their estimates of funding gaps since this data was collected in March 2015 but we have not collected this updated information.

Source: Audit Scotland

41. The extent of the Scottish Government's funding reduction for 2016/17 is likely to result in councils identifying even larger funding gaps between the cost of delivering current services and their income, after taking account of planned savings or additional sources of income. Addressing this will require councils to go beyond incremental cost-saving measures to existing services and to fundamentally rethink their models of service delivery.

42. Councils' financial sustainability continues to be at risk as they face the combined challenges of reduced funding, increasing cost pressures (such as pensions, the living wage and equal pay) and rising demand for services from an ageing and growing population. Auditors will continue to assess councils' financial health and how well they are planning and managing their finances. Councils with good medium and longer-term financial plans and strategies are better equipped to manage these risks effectively.

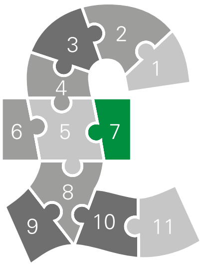
?

What options do we have to address this budget shortfall for example, redesign services, use reserves?

How big is the remaining funding gap after we implement our selected options?

What actions are we taking to close any remaining funding gap?

Financial planning is crucial as councils face significant pressures in 2016/17 and beyond



15 councils have long-term financial strategies covering five or more years

29 councils have medium-term financial plans covering three to five years

43. A good financial strategy sets out a council's financial objectives and how it will achieve them. It shows clearly how the council will use the money it has to help achieve its Single Outcome Agreement (SOA) and strategic objectives. A financial strategy should cover at least five years and should set out the risks and liabilities, any assumptions made about income and the implications for affordability. Councils should also have in place detailed financial plans that set out fully-costed annual spending plans over at least the medium term (three to five years). When future Scottish Government funding is not known, councils should plan for a range of possible scenarios so they are prepared for different levels of funding and income.

44. Almost all councils have financial strategies that are accompanied by detailed financial plans covering at least three years. About a third of councils have financial plans covering five or more years. In a small number of councils, auditors reported that plans and strategies were still being developed.

45. Effective financial strategies and plans must take into account future financial pressures and how the council intends to respond to these. For example, councils need to assess how affordable the different options are for changing the way they deliver services. It is therefore important that financial plans support councils' priorities, savings and service change programmes, and asset management and workforce plans.

46. Shetland Islands Council, for example, has a five-year financial plan based on forecasts of future income, cost pressures, managing spending within the budget and financial risks. The council also intends to develop a 35-year asset investment plan to help it maintain the assets needed to deliver its priorities without reducing the money left for day-to-day running of services.

Do we have a long-term financial strategy covering at least five years that accounts for future pressures?

Is our five-year strategy supported by detailed financial plans covering a minimum period of three years?

How well do our financial plans set out the implications of different levels of income spending and activity?

How does our financial strategy link to our vision for the future?

Part 2

Delivering services

Key messages

1 Councils' performance in 2014/15 continued to improve across many of the performance measures in the Local Government Benchmarking Framework (LGBF). Councils have well-established systems to manage their performance and are improving how they report to the public.

2 Health and social care integration is the most significant aspect of public sector reform for councils. New integration authorities may not be in a position to make an impact in 2016/17. Significant risks need to be addressed if integration is to fundamentally improve the way health and care services are delivered.

3 The Accounts Commission continues to be concerned about councils' slow progress in delivering services differently, rather than relying on incremental savings to existing models of service delivery. There are some examples of councils achieving savings and community benefits through increasing online access to services, sharing services, collaborating on procurement and using arm's-length external organisations (ALEOs). Councils, however, need to be more ambitious in their plans, better at longer-term planning, and willing to appraise all practical options for delivering services more efficiently and effectively. This includes empowering and supporting local communities in delivering local services.

4 Most councils continue to reduce staff numbers. It is essential that they have comprehensive workforce strategies and plans, which must take into account not only workforce-related cost pressures, but the staff knowledge, skills and time they will need to plan and deliver services differently in future.

5 There is a need for councillors to continuously review and develop their skills and knowledge to help them carry out their increasingly complex and challenging role effectively. They need to have the skills and the necessary information to allow them to carry out effective scrutiny of performance. This becomes ever more important as councils develop new and different ways of delivering services within their reducing budgets.

councils need to be more ambitious and consider all the practical options for delivering services differently in future

Councils’ performance improved in many service areas in 2014/15

47. Within the resources they had available in 2014/15 (for example money, people and buildings), councils continued to improve several key service performance measures, such as secondary school educational attainment, the balance between care at home and in care homes, the quality of council housing and waste recycling (Exhibit 10). Whatever their performance, the LGBF provides the starting point for councils to compare themselves with others to understand differences and learn lessons that will help them to improve performance.

48. The LGBF shows that public satisfaction with services has generally declined in recent years. This suggests a need for councils to work more closely with their communities and service users to establish service priorities.

Exhibit 10

Councils' service performance at a national level

There have been improvements across many of the performance indicators in the LGBF.

	LGBF indicator	2010/11	2011/12	2012/13	2013/14	2014/15
Education and Children's service	% of pupils gaining 5+ awards at Higher (Level 6)	23.0	25.0	25.7	28.1	29.3
	% pupils from deprived areas gaining 5+ awards at Higher (Level 6)[1]	8.0	9.0	10.1	12.6	12.8
	% of children being looked after in the community[2]	91.0	91.2	91.0	91.0	–
	% of adults satisfied with local schools	83.1	–	83.0	81.0	79.0
	% of pupils entering positive destinations	88.9	89.9	91.4	92.3	92.9
Corporate services	% of the highest paid 5% of employees who are women	46.3	48.5	48.7	50.7	51.7
	Domestic noise – average time (hours) to respond	47.8	31.6	43.2	80.7	58.9
	Sickness absence days per teacher	6.6	6.2	6.6	6.1	6.3
	Sickness absence days per employee (non-teacher)	10.8	10.4	10.9	10.3	10.8
	% of income due from council tax received by the end of the year	94.7	95.1	95.2	95.2	95.5
	% of invoices sampled that were paid within 30 days	89.5	90.2	90.5	91.9	92.5
Adult social care	SDS[3] spend on adults 18+ as a % of total social work spend on adults 18+	1.6	3.1	5.9	6.4	6.9
	% of people aged 65+ with intensive needs receiving care at home	32.2	33.0	34.1	34.3	35.6
	% of adults satisfied with social care or social work services	62.1	–	57.0	55.0	51.0
Culture and leisure	% of adults satisfied with libraries	83.5	–	83.0	81.0	77.0
	% of adults satisfied with parks and open spaces	83.1	–	86.0	86.0	86.0
	% of adults satisfied with museums and galleries	75.5	–	78.0	76.0	75.0
	% of adults satisfied with leisure facilities	74.6	–	80.0	78.0	76.0

Cont

Exhibit 10 continued

	LGBF indicator	2010/11	2011/12	2012/13	2013/14	2014/15
Environmental services	Street cleanliness score (% acceptable)	95.4	96.1	95.8	96.1	93.9
	% of total household waste that is recycled	38.7	41.0	41.7	42.2	42.8
	% of adults satisfied with refuse collection	80.9	–	83.0	83.0	84.0
	% of adults satisfied with street cleaning	73.3	–	75.0	74.0	74.0
Housing	Gross rent arrears (all tenants) as a % of rent due for the reporting year	–	–	–	5.6	5.9
	% of rent due in the year that was lost due to empty properties	1.3	1.3	1.2	1.3	1.2
	% of dwellings meeting Scottish Housing Quality Standards	53.6	66.1	76.6	83.7	90.4
	Average time taken to complete non-emergency repairs (days)	–	–	–	10.2	9.9
	% of council dwellings that are energy efficient	74.9	81.2	88.8	94.0	96.5
Corporate assets	% of operational buildings that are suitable for their current use	73.7	74.8	75.9	78.2	79.0
	% of internal floor area of operational buildings in satisfactory condition	81.3	82.7	82.6	80.9	82.9
Economic development	% unemployed people assisted into work from council operated / funded employability programmes	–	–	9.6	12.5	14.2
		2009/11	2010/12	2011/13	2012/14	2013/15
Roads maintenance	% of A class roads that should be considered for maintenance treatment	30.3	30.5	29.4	28.7	29.0
	% of B class roads that should be considered for maintenance treatment	35.8	36.3	35.0	35.2	36.1
	% of C class roads that should be considered for maintenance treatment	35.0	36.0	34.8	36.6	37.3

Decline in performance from previous year

Improvement from previous year

No change in performance

Baseline year

– No data available

Notes:
1. This data is calculated from the Scottish Index of Multiple Deprivation (SIMD).
2. Balance of care for looked after children: percentage of children being looked after in the community.
3. Self-directed support.
4. We have not included unit cost measures in this exhibit. Additional performance information is available at www.improvementservice.org.uk

Source: Local Government Benchmarking Framework, Improvement Service, 2016

Councils have well-established systems to help manage their performance and are improving how they report to the public

49. Councils have well-established systems for monitoring performance and continue to develop them. For example, in conjunction with the Scottish Public Services Ombudsman's (SPSO's) Complaints Standards Authority, councils are improving complaints monitoring as a means of better understanding public satisfaction with their services. Local government scrutiny bodies (Audit Scotland, the Care Inspectorate, Education Scotland, Scottish Housing Regulator and Healthcare Improvement Scotland), working collectively through the annual Shared Risk Assessment (SRA) process, have highlighted scope in some councils to use information more effectively in order to manage performance. This includes comparing performance with other councils and using self-evaluation.

50. Public performance reporting (PPR) is an important way for councils to demonstrate their performance to the public. Many councils have improved how they report their performance in public but there is a significant gap between top-performing councils and those that still need to improve their PPR.

How clearly do we report our plans and performance to the public?

51. The Accounts Commission will use LGBF data, complaints information and public performance reports as important sources of intelligence to inform future audits of Best Value.

Health and social care integration is intended to transform services across Scotland, but councils and their partners still need to address significant risks

52. The most significant transformation to council services taking place is the integration of health and social care services. The Public Bodies (Joint Working) (Scotland) Act 2014 sets out an ambitious programme of reform for the Scottish public sector to improve support for people who need health and social care services. It creates a number of new public organisations and aims to encourage more effective joint working between NHS boards and councils.

53. Councils and NHS boards are required to establish integration authorities by 1 April 2016. There are now 31 integration authorities, including a joint arrangement in Stirling and Clackmannanshire. All integration authorities are required to integrate adult health and social care services, but they can also choose to integrate other services. The scope of services being integrated varies widely across Scotland. Most notably, in Argyll and Bute, and Dumfries and Galloway, the integrated services will include all NHS acute services, including planned and unplanned hospital services. The integration authorities are now establishing management and governance arrangements, including organisational structures and internal processes.

54. Our *Health and social care integration* [PDF] report found that integration authorities may not be in a position to make an impact in 2016/17.[5] We reported on the significant risks that need to be addressed if integration is to fundamentally change the delivery of health and care services. These include:

- difficulties in agreeing budgets and finalising comprehensive strategic plans, due to councils having to set their budgets before NHS boards, and uncertainty about longer-term funding

- uncertainty about how complex governance arrangements will work in practice
- significant long-term workforce issues, such as different terms and conditions for NHS and council staff, and difficulties in recruiting and retaining GPs and care staff.

55. The issues around budgeting, strategic planning and governance need to be addressed quickly in order to improve local health and social care services in the next few years. In the longer term, joint action by councils and NHS boards will be needed to address workforce issues. Our *Changing models of health and social care* [PDF] report highlighted that, to transform services and successfully deliver better outcomes for users, NHS boards, councils and integration authorities will have to adopt innovative models of care and ways of working that are quite different from traditional services.[6]

The quality and ambition of councils' savings and service change programmes vary greatly

56. Most of the savings councils have made over the last four years have relied on incremental reductions to a wide range of services and relatively small increases in income from fees and charges. Many savings have come from staff voluntary redundancies. There is a limit to how many staff can be lost before there is a major impact on the quality or quantity of services. Councils need to consider options for more fundamental changes to the way they deliver services.

57. Councils have been developing savings plans and service change programmes in response to current and future reductions in their income. However, auditors have highlighted variation in the ability of councils' programmes to make the savings required. Some are making good progress towards tangible savings and improvements to services for communities. For example, East Ayrshire Council's transformation strategy is designed to achieve sustainable savings of £34.7 million over the five-year period up to 2016/17. Planned savings in the first three years have already been achieved and, at the time of approving its 2015/16 budget, the council reported no funding gap up to 2016/17. The council reviews its transformation strategy annually and consults local communities and stakeholders on its priorities as part of the review.

How will our savings plans help us achieve our corporate objectives and commitments made to our Single Outcome Agreement?

58. Auditors have expressed concerns about the extent to which planned changes in some councils are enough to make required savings, whether these changes are being implemented quickly enough, and how any changes reflect a council's priorities. For example, in Aberdeenshire Council, the auditor has reported that there is little evidence of robust plans with clear links to outcomes.

59. The Accounts Commission is concerned about councils' slow progress in delivering services differently, rather than relying on incremental savings and staff reductions. Recent Best Value audits on East Dunbartonshire, Falkirk, and Argyll and Bute councils highlight that, regardless of the ambition of savings plans and service change programmes, only relatively small-scale changes have been delivered so far.[7, 8, 9] Larger-scale changes that make a bigger impact on budget shortfalls have proved more difficult to achieve. Our *East Dunbartonshire Council: the Audit of Best Value and Community Planning – a follow-up report* [PDF] found a clear commitment to improvement but expressed concerns about the pace of delivering the improvements in practice. We recommended the council take urgent action to identify clearer priorities for its transformation programme.

How open are we to considering all possible options to reduce the cost, and improve the quality and effectiveness of the services we provide?

60. One area where councils are changing the way they work is in providing services online. This allows councils to provide services that better meet the needs of users, as set out in the Scottish Government's and COSLA's 2012 vision *Scotland's Digital Future – Delivery of Public Services*.[10] It also allows councils to deliver greater efficiency, reducing the number of staff required to deliver these services (Case study 1). However, it is important that councils continue to provide services for those who do not have access to, or simply do not want to use, online services.

Case study 1

Examples of online services in councils

City of Edinburgh Council

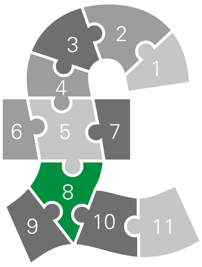
The council is currently redesigning many of its customer care services and moving services online where possible. The council plans to deliver annual savings of £5.9 million, through reducing the number of support staff. There are early signs that this initiative is making an impact: 40 transactions, such as school placing requests, are already available online and savings of £355,000 over the past year have been made. The council now aims to roll out a further 153 new types of online transaction in 2016/17.

The Highland Council

The council aims to reduce the equivalent of 54.2 full-time employees and save £1.3 million by 2018/19 through its Digital First programme. In 2014, 82,000 transactions took place online with a corresponding ten per cent decrease in face-to-face transactions. The council currently offers 87 services online, such as paying rent online, and is aiming to have 40 per cent of customer transactions online by April 2017. The council has implemented the Improvement Service's customer portal 'myaccount'. This reduces the requirement for customers to prove their identity every time they apply, and gives customers the ability to upload scanned and photographed evidence.

Source: Audit Scotland

There is limited evidence of councils collaborating or sharing services



£43 million: saved by councils in 2012/13 by using collaborative procurement contracts

61. Collaborating or sharing services can help meet financial challenges. For example, East Ayrshire and South Ayrshire councils have a shared roads maintenance service, which has been operating since April 2014. It aims to maintain and improve the service while saving £8.6 million over the next ten years. Stirling and Clackmannanshire councils are jointly delivering social work and education services. However, they decided in late 2015 to withdraw from this arrangement, and they will revert to single-council services by April 2017. These shared services involved a lot of preparatory work. They highlight the need for sustained commitment if councils are to deliver shared services successfully and realise any planned longer-term benefits.

How fully have we appraised the options for sharing services with similar or neighbouring authorities or other public sector bodies?

What options do we have for collaborating or sharing services?

62. Our *Procurement in councils* [PDF] report found that councils had saved £43 million in 2012/13 through using Scotland Excel or Scottish Government collaborative procurement contracts, and councils' use of collaborative contracts has been increasing since then.[11] Savings were not the only benefit to this collaborative working. Councils had been systematically using procurement spending to support local economic development, and they had begun to achieve community benefits, such as apprenticeships and environmental improvements, into procurement contracts.

63. Whatever the means of delivering services, a crucial element of achieving best value is using options appraisal effectively to evaluate current and alternative ways to deliver services. Our *How councils work: Options appraisal – are you getting it right?* [PDF] report recommends rigorous and challenging appraisal of all the options.[12] It is important that councils consider a wide range of alternatives, including fundamentally different approaches, to help find the most effective and efficient way to achieve the council's priorities for its local communities (Exhibit 11, page 32).

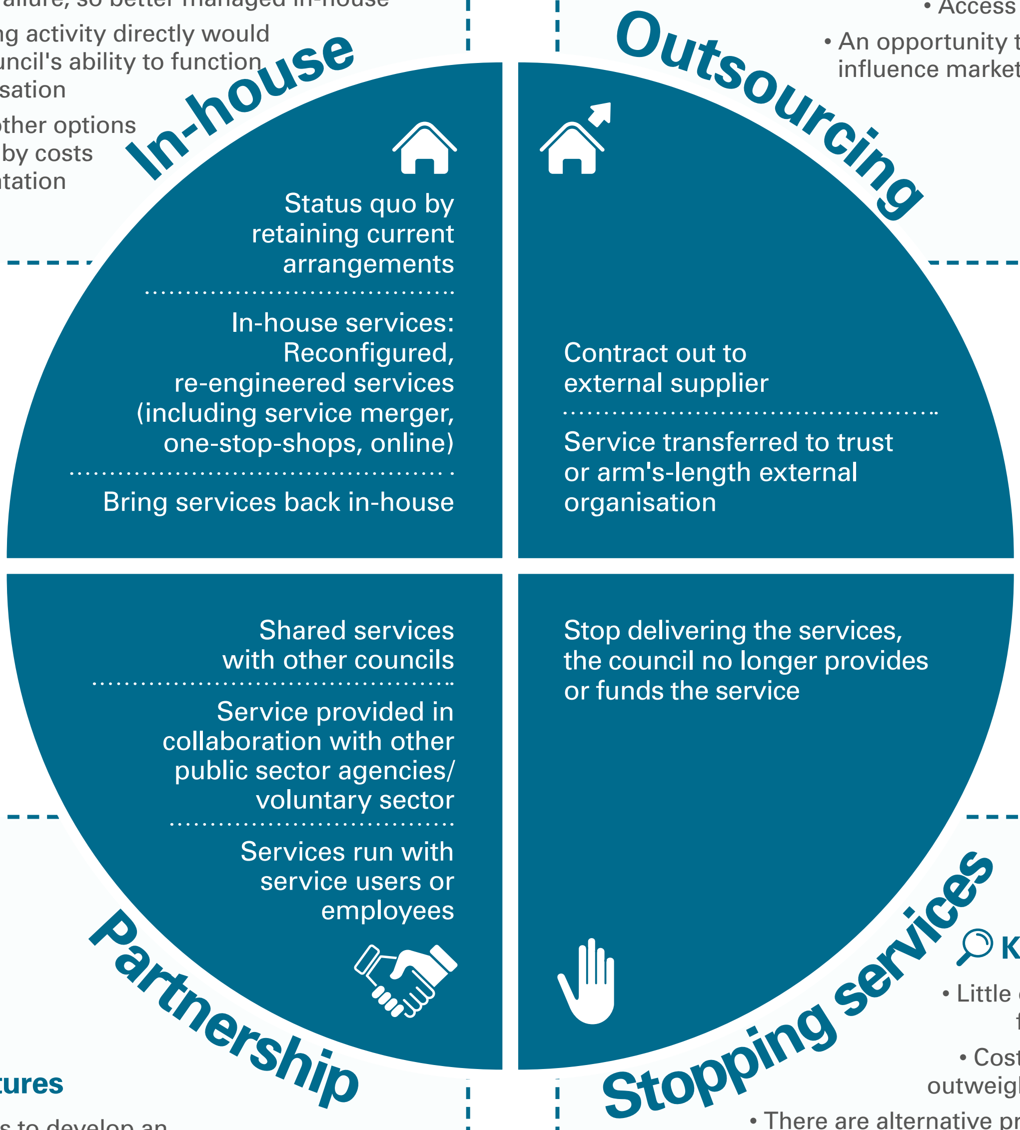
64. In looking at possible options for delivering services, councils and their partners need to consider the opportunities presented by the Community Empowerment (Scotland) Act 2015. The Act aims to empower community bodies through ownership or control of land and buildings, and by giving them more say in decisions about public services.

How are we involving and empowering local communities to design and deliver services to suit local needs?

Exhibit 11

Options for delivering services

Councils should use options appraisal to consider alternative ways of delivering services.



In-house – Key features

- The in-house team
  - is delivering economy, efficiency and effectiveness
  - has capacity/capability to sustain good performance
  - can generate sufficient funds
- No market for service or activity
- High risk of failure, so better managed in-house
- Not delivering activity directly would question council's ability to function as an organisation
- Benefits of other options outweighed by costs of implementation

Outsourcing – Key features

- Specialisation
- Economies of scale
- Innovation and investment
- Increased productivity
- Effective management of risk
- Access to investment
- An opportunity to stimulate or influence market development

Partnership – Key features

- Opportunities to develop an effective 'mixed economy' of approaches for achieving the council's objectives
- Risks and benefits are shared between the council and the partner organisation

Stopping services – Key features

- Little or no demand for the service
- Costs of provision outweigh any benefits
- There are alternative providers of the service – and individuals using those providers would not be disadvantaged
- The activity does not contribute to the council's objectives
- No statutory or strategic requirement to make provision

Source: Audit Scotland

Councils are planning to increase the number of ALEOs to deliver services

65. Councils use ALEOs to deliver services differently and more efficiently, as they offer different opportunities for generating income and making tax savings. ALEOs are typically used to provide more commercial activities, including leisure, property development, car parking, energy generation, and conference facilities such as the Edinburgh International Conference Centre. They are also used across a diverse range of services including social care and waste recycling. Auditors have identified approximately 140 ALEOs operated by Scotland's councils, with around three-quarters of these providing cultural, leisure, housing or economic development services. Councils are planning to deliver more services through ALEOs by establishing new ALEOs or expanding the remit of existing ALEOs (Case study 2).

How do we learn from other changes we have made and the experiences of other organisations when identifying and considering all the options?

Case study 2

Examples of new and expanded ALEOs

SB Cares

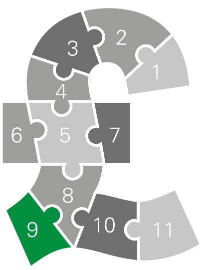
Scottish Borders Council established SB Cares to deliver most of the council's adult social care provision. Around 800 staff transferred to SB Cares on 1 April 2015. The new ALEO aims to make more efficient and flexible use of staff and generate additional income. The council expects to deliver £0.5 million savings in the first year.

Renfrewshire Leisure Limited

Renfrewshire Council expanded Renfrewshire Leisure Limited by transferring the management and staffing of cultural and leisure services, such as town halls, libraries and playing fields. It estimates £0.6 million of annual savings from the transferred services being eligible to pay reduced NDR.

Source: Audit Scotland

As councils continue to reduce staff numbers, it is essential that they plan to have the staff knowledge, skills and time to deliver services differently in future



24 councils, in September 2015, were planning to further reduce staff numbers during 2015/16 and beyond

31 councils have reduced and/or restructured their senior management in recent years, and 11 councils, in September 2015, were planning to make further changes

66. The majority of councils have reduced their workforces over the last few years to save money and establish more efficient ways of working. At 31 March 2015, there were approximately 200,800 people (full-time equivalent or FTE) employed by councils. This was around 800 fewer people (FTE) working in councils compared with the previous year. The net reduction in employment may be lower than 800 as it includes jobs transferring into ALEOs, although we do not have data on this. We have highlighted in previous reports that relying on reducing staff numbers to save money without changing the way councils deliver services is not sustainable.

67. With their income falling further, and as they identify funding gaps in the next two years or longer term, councils are planning further staff reductions. Some councils are now making compulsory redundancies to reduce costs and better manage their workforces. For example, over half of councils have policies that allow them to make compulsory redundancies if necessary, and seven have already made a very small number of compulsory redundancies in 2014/15. At the same time, councils feel that their ability to fully manage their workforce in line with local priorities is affected by other factors outwith their control, such as the Scottish Government's requirement for councils to maintain teacher numbers.

68. A key area of savings has been in reducing and restructuring senior management. Councils need to ensure that they manage the risks of relying on smaller numbers of individual officers with an increasingly wide range of responsibilities. There is also the risk that they may not have the management skills and time they need to plan and implement new ways of delivering services. In contrast, some councils have difficulties in recruiting and retaining people in some key roles. For example, Aberdeen City Council had difficulty filling the position of Director of Corporate Governance. More widely, there is a recognised shortage of qualified procurement professionals. Councils may therefore have to develop the skills of their existing staff or find new ways to attract people with the specialist skills they need. This highlights the importance of succession plans as part of workforce planning to avoid losing essential skills and knowledge, particularly when considering further staff reductions.

How do we ensure our senior officers have the knowledge, skills and time to support us in making difficult decisions?

Further workforce reductions must reflect councils' priorities

69. A number of councils have been developing their workforce strategies and plans. An effective workforce strategy takes account of the skills needed for the future, not just the numbers and grades of staff. This means tying it in with the council's identified priorities and its plans for changing how services are delivered. For example, with councils expected to involve local communities more in planning, managing and delivering services, in response to the Community Empowerment (Scotland) Act 2015, they may need to retain or develop further their skills in this area.

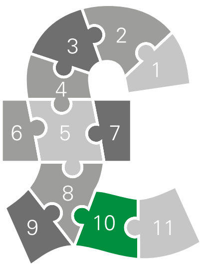
70. Some councils have still to fully, or further, develop their workforce planning. We have raised concerns about workforce planning in recent Best Value reports. For example, East Dunbartonshire Council has a workforce strategy in place but it does not contain clear targets or timescales for meeting objectives, and so it is difficult to assess its impact. Our *Health and social care integration* [PDF] report also identifies the need for long-term workforce strategies in the new integration authorities. Developing a suitably skilled workforce is particularly challenging in health and social care integration, given the wide range of people involved and the size of the workforce.

What do we need the workforce to look like in terms of numbers, skills and knowledge?

How do we ensure the council's future pay structures do not discriminate against any groups of staff?

71. We have also identified a risk that staff in some support services may be under severe pressure after significant staff reductions. For example, information collected by auditors shows that most councils have reduced finance staff. This has not had a negative impact on service delivery to date, with all councils submitting their unaudited accounts on time and all council audits being completed by the due date of 30 September 2015. Some councils are planning to reduce finance staffing further. This can pose risks for councils in being able to carry out good long-term financial planning, effective monitoring of budgets and savings, and responding to the additional work involved in budgeting for the new health and social care arrangements. However, it can also indicate better use of technology and therefore a need for fewer finance staff.

There is potential to reduce staff time lost due to sickness absence



10.8 days: the average number of sickness days per employee (excluding teachers) in 2014/15

6.3 days: the average number of sickness days per teacher in 2014/15

72. In 2014/15, sickness absence across councils increased by almost half a day per employee, excluding teachers. Sickness absence per employee varied across councils from an average of 8.8 days per year in Orkney to 14.5 days per year in West Dunbartonshire (Exhibit 12, page 36). If councils with high absence levels could lower this to match the top eight performing councils (lower than 9.9 days), that would gain the equivalent staff time of close to 700 full-time employees (excluding teachers) across Scotland.

73. Sickness absence also varied in 2014/15 among teachers from an average of 3.6 days per year in North Ayrshire to 10.1 days per year in Clackmannanshire. Similarly, if councils with high teacher absences could match the top eight performing councils (lower than 5.7 days), that would gain the equivalent staff time of close to 200 full-time teachers across Scotland.

74. With councils' workforces reducing, this potentially increases the workload for remaining staff, which in turn can negatively affect morale and sickness absence. It can also impact on the ability of managers to deal with absence issues.

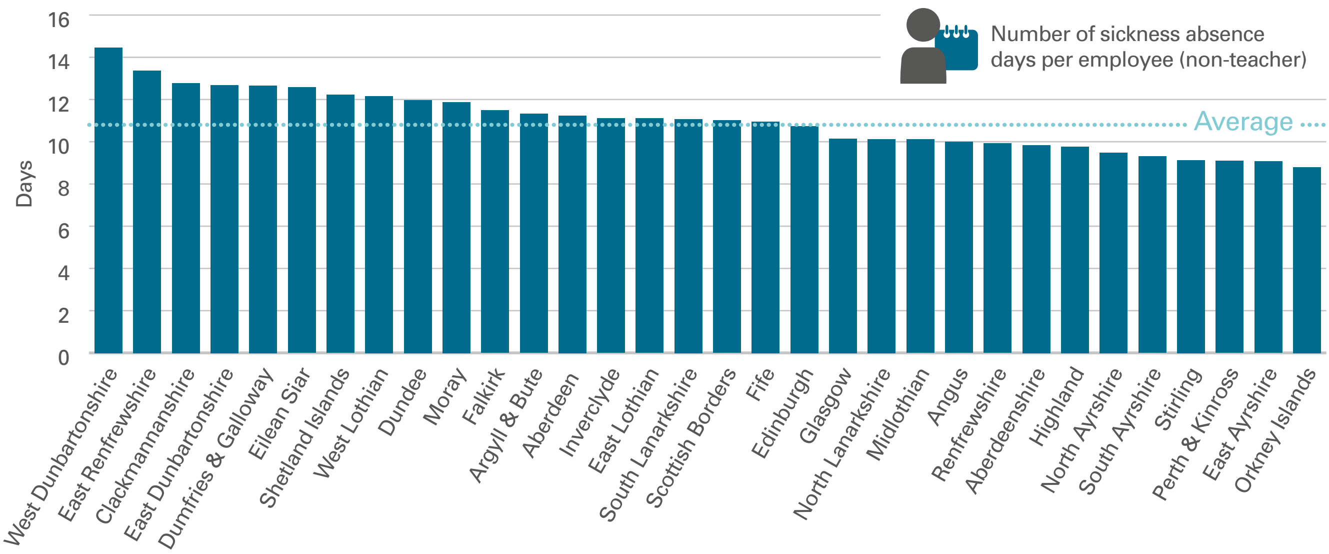
75. Reasons for sickness absence are complex and varied and therefore reducing absence is not easy. East Dunbartonshire Council has taken steps to reduce sickness absence, for example, by introducing better monitoring of short and long-term absences, identifying departments with high absence rates, and providing further support and guidance for managers. This has led to a decrease in staff absence levels, although they are still above the Scottish average. To try to reduce the cost of absence, the Improvement Service is helping councils to learn from each other, using the LGBF as a starting point.

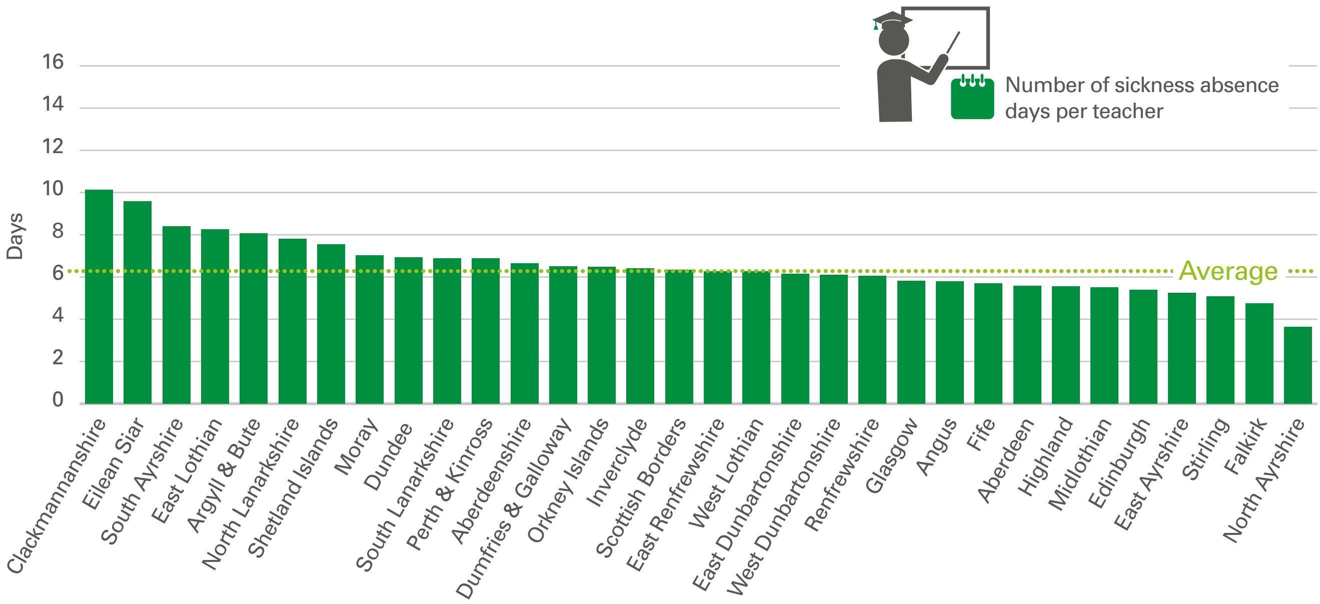
How effectively is the council working to improve sickness absence among employees?

Exhibit 12

Sickness absence for council employees in 2014/15

Clackmannanshire and West Dunbartonshire councils have the highest average number of sickness days for teachers and other employees respectively.

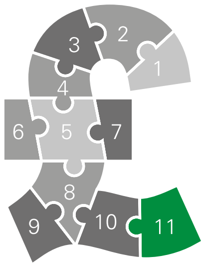




Note: Sickness absence varies from year to year. When councils use this LGBF information, they will want to consider the data for more than one year.

Source: Local Government Benchmarking Framework, Improvement Service, 2016

Councillors need good quality information to make decisions and the appropriate skills to carry out their scrutiny role



1,223: the number of councillors in Scotland

32: all councils' audited accounts were unqualified in 2014/15

76. It is important that councillors have clear, understandable and manageable information to help them make decisions and scrutinise effectively. We have seen meeting papers where councillors were expected to read over 700 pages of information. Committee reports can be long, complex and written in very bureaucratic language, making them difficult to understand. This places significant demands on councillors and makes it difficult for them to focus on the most important issues, such as the council's underlying financial position.

How do we ensure that the information we receive is clearly written, jargon-free and manageable?

77. Councils were required to add a management commentary to their annual financial reports for the first time in 2014/15. It replaces the previous explanatory foreword, as part of the move to make the accounts more accessible to readers. This should enable councillors and others to scrutinise the annual financial reports more effectively. We have prepared guidance for councils about financial reporting and scrutiny, with suggested questions for councillors to ask. This is available on our website. We will review these in more detail next year.

78. As well as making the accounts more understandable, officers need to provide councillors with information, support and advice to help them scrutinise the accounts and other financial and service performance information. For example, there are gaps between the technical information, such as prudential indicators, and the straightforward explanations that many councillors need to fully understand the consequences of their decisions. Our *Borrowing and treasury management in councils* [PDF] report found that councils need to improve their scrutiny in this area.

Councils need to conduct their business openly in the interests of local accountability

79. Good governance requires councils to conduct their business in a transparent manner. In some of the Best Value audits we carried out in 2015, for example in East Dunbartonshire and Argyll and Bute councils, we highlighted that they are carrying out a relatively high proportion of business in private. A wider analysis of the number of reports that councils consider in private, rather than in public, has highlighted variation in approach. For example, around a quarter of councils discuss less than two per cent of reports in private at meetings of the full council or at a policy and resources committee (or equivalent). In contrast, a few councils consider over 15 per cent of items in private.

How can we consider more of our business in public?

80. Decisions on considering items publicly or privately are influenced by a range of factors. In particular, they may be affected by local schemes of delegation to senior officers, allowing them to make certain operational decisions. They may also be influenced by the local culture developed over time in councils. In our recent Best Value report on Argyll and Bute Council, we recommended that the council establishes a more open and transparent culture and style of working, which includes minimising the amount of business it carries out in private. Councils should be looking to identify and adopt best practice to strengthen local accountability.

How can we involve our communities more in local decisions?

81. Every year, the Accounts Commission emphasises in its overview report the importance of good governance. This includes procedures for authorising spending decisions, systems for managing risks, processes for reporting and scrutinising financial and service performance, and the way councillors and staff behave. All of these are increasingly important as councils continue to adapt to changing circumstances and develop more creative and ambitious ways of achieving positive outcomes for communities. In doing this, they are working more with partners in the public, private and third sectors, and in partnership with their communities. It is therefore even more important for councils to review and update governance arrangements to ensure that they are fit for purpose. The principles of good governance are:

- creating and implementing a vision and focusing on outcomes
- councillors and officers working together to achieve a common purpose, with clearly defined functions and roles
- promoting the council's values and upholding high standards of conduct and behaviour
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- developing the capacity and capabilities of councillors and officers
- engaging with local people and other stakeholders to ensure robust public accountability.[13]

82. Councils should have appropriate arrangements in place to approve, monitor and hold ALEOs to account for the public funding that is provided to them. This includes complying with the Following the Public Pound Code. The Code is designed to ensure that openness, integrity and accountability are applied to all council decisions when public money is being spent, for example when establishing funding relationships with ALEOs. The importance of good governance was highlighted in Audit Scotland's ***Conclusions on issues relating to the Lennoxtown Initiative*** [PDF] in November 2015.[14] The report found that more robust processes should have been put in place to demonstrate that the public funds provided were used for the charitable purposes intended, and that using resources in this way represented best value.

83. In 2015, the chair of the Accounts Commission wrote to all chief executives and council leaders highlighting the importance of good governance and to encourage councils to apply good practice more consistently across all ALEOs. Local Area Networks will continue to monitor how effectively councils are overseeing ALEOs, with audit work looking at the role of ALEOs in service delivery being considered for 2017/18.

Councillors must develop their skills and knowledge as their role becomes more complex and demanding

84. Councillors face taking increasingly difficult decisions, often needing to consider new and more complex ways of delivering services. They need to be confident in their ability to appraise new ways of working and to scrutinise operational and financial performance. This will help them carry out their role effectively in the current demanding environment. Their continuing professional development should identify the skills and knowledge they need to develop.

85. Training on scrutiny tends to be provided at the start of a political term, as part of the induction scheme for new councillors, or targeted towards councillors who sit on scrutiny committees. However, scrutiny training needs to be provided more widely. Perth and Kinross Council, for example, developed an action plan after identifying a risk in councillors appointed to ALEOs not having the appropriate skills and training.

86. Our *Borrowing and treasury management in councils* [PDF] report found that councillors said it was often difficult to attend training due to other commitments. This was said to be particularly difficult where training courses were scheduled to last for a full day. To keep knowledge and skills up to date, councils could consider providing more training in a variety of ways to suit councillors' needs, including short briefings and online training.

87. Following local elections in 2017, the induction and training for new and re-elected councillors will be very important in helping them fulfil their role and responsibilities in an increasingly complex and challenging environment. To contribute to this, the Accounts Commission is doing more work on roles and responsibilities in 2016/17.

How well do we scrutinise decisions on financial and service performance?

How do we ensure we have the knowledge and expertise we need to scrutinise effectively?

Endnotes

1 *Borrowing and treasury management in councils* [PDF], Audit Scotland, March 2015.

2 *Major capital investment in councils: follow-up* [PDF], Audit Scotland, January 2015.

3 *The Prudential Code for Capital Finance in Local Authorities,* CIPFA.

4 Living Wage Foundation.

5 *Health and social care integration* [PDF], Audit Scotland, December 2015.

6 *Changing models of health and social care* [PDF], Audit Scotland, March 2016.

7 *East Dunbartonshire Council: the Audit of Best Value and Community Planning – a follow-up report* [PDF], Audit Scotland, June 2015.

8 *Falkirk Council: the Audit of Best Value and Community Planning* [PDF], Audit Scotland, August 2015.

9 *Argyll and Bute Council: Best Value audit 2015* [PDF], Audit Scotland, December 2015.

10 *Scotland's Digital Future – Delivery of Public Services,* November 2012.

11 *Procurement in councils* [PDF], *Audit Scotland,* April 2014.

12 *How councils work: Options appraisal – are you getting it right?* [PDF], Audit Scotland, March 2014.

13 *Delivering good governance in local government, Guidance note for Scottish authorities,* SOLACE/CIPFA, 2008.

14 *Conclusions on issues relating to the Lennoxtown initiative* [PDF], Audit Scotland, November 2015.

An overview of local government in Scotland 2016

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

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Local government overview 2016

Self-assessment tool for councillors

ACCOUNTS COMMISSION

This self-assessment brings together a number of potential questions for councillors related to *An overview of local government in Scotland 2016* [PDF].
It is designed to help councillors identify how well informed they are about each area and to highlight areas where they may wish to ask further questions.

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Reserves (paragraphs 18 to 20)		
What level of reserves do we need, both allocated and unallocated?		
How effectively are we using the reserves we hold?		
Borrowing and financing (paragraphs 21 to 24)		
What implications do different borrowing and financing options have for our future revenue budgets?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Pension costs (paragraphs 30 to 35)		
What are the implications of workforce reductions on our pension costs?		
How will these affect our pension liabilities and pension administration costs?		
Funding gaps (paragraphs 39 to 42)		
How fully do our financial plans identify estimated differences between income and expenditure (budget shortfall)?		
What options do we have to address this budget shortfall for example, redesign services, use reserves?		
How big is the remaining funding gap after we implement our selected options?		
What actions are we taking to close any remaining funding gap?		
Long-term planning (paragraphs 43 to 46)		
Do we have a long-term financial strategy covering at least five years that accounts for future pressures?		
Is our five-year strategy supported by detailed financial plans covering a minimum period of three years?		
How well do our financial plans set out the implications of different levels of income spending and activity?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
How does our financial strategy link to our vision for the future?		
Public Performance Reporting (paragraph 50)		
How clearly do we report our plans and performance to the public?		
Service redesign (paragraphs 56 to 65)		
How will our savings plans help us achieve our corporate objectives and commitments made to our Single Outcome Agreement?		
How open are we to considering all possible options to reduce the cost, and improve the quality and effectiveness of the services we provide?		
How fully have we appraised the options for sharing services with similar or neighbouring authorities or other public sector bodies?		
What options do we have for collaborating or sharing services?		
How are we involving and empowering local communities to design and deliver services to suit local needs?		
How do we learn from other changes we have made and the experiences of other organisations when identifying and considering all the options?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Workforce planning (paragraphs 66 to 75)		
How do we ensure our senior officers have the knowledge, skills and time to support us in making difficult decisions?		
What do we need the workforce to look like in terms of numbers, skills and knowledge?		
How do we ensure the council's future pay structures do not discriminate against any groups of staff?		
How effectively is the council working to improve sickness absence among employees?		
Openness and scrutiny (paragraphs 76 to 87)		
How do we ensure that the information we receive is clearly written, jargon-free and manageable?		
How can we consider more of our business in public?		
How can we involve our communities more in local decisions?		
How well do we scrutinise decisions on financial and service performance?		
How do we ensure we have the knowledge and expertise we need to scrutinise effectively?		

Financial Reporting & Scrutiny: Why the Accounts Matter

AUDIT SCOTLAND

Prepared for Local Government
February 2016

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

Financial Reporting & Scrutiny: Why the Accounts Matter

The role of financial reporting

1. Effective planning, management and scrutiny of the use of public funds are a key part of a local authority's responsibilities. The financial statements (commonly known as the accounts) are a vital part of the accountability framework, as they demonstrate how an authority has spent its resources. They also record assets used, and liabilities incurred, in delivering services.

2. Audited accounts provide the public with reliable information about the stewardship of funds and the financial position of the authority. They provide elected members with information to scrutinise the use of funds in each year, and to make budgetary decisions for the future.

3. The accounts are prepared based on International Financial Reporting Standards (IFRS). Under local government accounting rules councils make a number of adjustments to the IFRS financial results to determine the impact on the General Fund, and consequently the level of council tax set for future years. For example large adjustments are made for the accounting treatment of fixed assets and pension costs. Councils monitor their financial results relative to the General Fund, and not on an IFRS basis. In taking decisions, it is therefore important that members understand the link between what the accounts show on the council's spending, assets and liabilities, and the budgetary outturn information.

Your role in the accounts process		
Role of the s95 officer	**Role of elected members**	**Role of the auditor**
• Responsible for the preparation and submission of the financial statements, in accordance with proper accounting practice. • To support the Audit Committee in their scrutiny role.	• To scrutinise and approve the accounts. • To consider the financial results reported in setting future budgets and reserves policies. • To consider the annual audit report and hold officers to account on areas of concern reported.	• To provide an independent auditor's report on whether the accounts show a 'true and fair view' of the financial position. • To provide an annual audit report addressed to members and the Controller of Audit, reporting significant audit findings.

Developments in financial reporting in 2014/15

4. In 2014/15 council's faced the challenge of producing the accounts to tighter timescales as prescribed by new accounts regulations[1].

5. External auditors said that councils generally met this challenge well. They commented as follows:
   - The councils did well to bring forward the completion of the accounts for approval by members by 30 September.
   - Members welcomed receiving the audited accounts for approval alongside the auditors' annual audit reports.

6. The auditors also commented on some areas for improvement:
   - The accounts are complex and lengthy documents. Some s95 officers could do more to explain to the Audit Committee the role of the accounts, and what they show about the council's performance.
   - The management commentaries could do more to explain the overall picture regarding the council's financial performance and challenges.
   - Some members need more guidance on what they are looking for when reviewing and approving the accounts.
   - It is disappointing that members do not ask more questions about the issues raised in our annual audit reports.
   - The standing orders in some councils need to be updated to reflect the processes adopted for approving the accounts under the new regulations.

7. In light of these key messages we have compiled a list of questions, at Appendix 1, for members to consider when reviewing the accounts.

8. Your local auditor will request an opportunity to discuss this paper with members of the audit committee prior to the June meeting at which they consider the draft accounts. The expectation is that the audit committee members could then use the questions in considering the accounts and annual audit report at their meetings in June and September.

9. This paper complements the messages in the 2011 Local Authority (Scotland) Accounts Advisory Committee's publication 'Holding to Account, Using Local Authority Financial Statements.'

[1] The Local Authority Accounts (Scotland) Regulations 2014

Appendix 1

Questions for elected members to consider as part of the accounts scrutiny and approval process

Stewardship of the council's funds	Your answer
1. Does the auditor's report included in the accounts give you independent assurance on how the financial position of the council has been reported?	
2. Does the council's governance statement provide you with assurance that the internal controls and governance arrangements are operating effectively? Does it adequately disclose any risk areas that you are aware of?	
3. Does the annual audit report provide you with assurance that: • financial management of the council is effective? • financial sustainability of the council is demonstrated? • the council reports on its financial and service performance in a transparent way? • the council demonstrates Best Value in how its funds are used? • management have responded appropriately to any audit recommendations?	
Sustainability of services	
4. Does the management commentary in the accounts clearly explain to you the financial position of the council?	
5. Do you understand how the figures in the comprehensive income and expenditure statement link to the budgetary outturn information that you have considered for this year?	

6. Do you understand how the council's reserves, shown in the movement in reserves statement (MIRS), will be used in the future?	
7. The value of fixed assets is shown in the balance sheet. Do you understand how these assets are managed to secure the delivery of services in the future?	
8. Are you satisfied that the council's commitments for funding the capital programme, shown as liabilities in the balance sheet, are affordable into the future?	
9. If the council has significant borrowings have you received assurances that the council can afford the interest and is keeping up with the repayment of capital?	
10. Do you understand what any provisions included in the balance sheet are for? Is there risk that further significant liabilities could arise in the future?	
11. If there is a significant movement in the pension liability, do you understand what has caused the change, and the implications for the council?	
12. Do you understand the reason for any large movements in this year's figures compared with those shown for last year? Are those movements in line with strategic decisions to shift resources?	
13. Do you have suggestions for the s95 officer on how information in the accounts could be presented in a different or more understandable way?	
14. After considering the accounts and the budget outturns you have seen how the council is funding current services. Are you satisfied that adequate plans have been made to realise efficiencies or deliver services in a different way with reduced budgets in the future?	

WEST DUNBARTONSHIRE COUNCIL

Report by the Strategic Lead - Resources

Audit and Performance Review Committee: 8 June 2016

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

1. Purpose

1.1 The purpose of this report is to provide Members with information regarding the Audit Scotland follow up report to their 2013 report entitled "Major Capital Investment in Council's".

2. Recommendations

2.1 Members are asked to:

i) note the Audit Scotland report as detailed in Appendix 1; and

ii) note the position within West Dunbartonshire Council as detailed in Appendices 2 to 4.

3. Background

3.1 The Accounts Commission and Audit Scotland are interested in the impact of capital investment projects within Local Government. A report was published by Audit Scotland in March 2013 entitled "Major Capital Investment in Council's" to examine 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 The report recommended actions councils should take to help them improve performance in managing their capital investment programmes and projects. Based on the report's findings, the Accounts Commission developed a good practice guide and checklist to help councils improve how they manage and scrutinise capital projects

3.3 A report was submitted to Members in May 2013 highlighting not only the key messages and recommendations contained within the March 2013 report, but also how these related to West Dunbartonshire Council.

3.4 In the follow up report Audit Scotland based their views, as expressed in the report, on:

- An update on the 15 projects worth £919m reviewed in the 2013 report;
- A review of 13 new major projects from 8 council's in progress worth £261.8m; and

- Published good practice in project and programme management.

4. Main Issues

4.1 The report finds that Councils have taken a range of actions in response to the 2013 report's recommendations, however the 2016 follow up report highlights that they need to increase the pace of improvement and make further progress. Appendix 2 details the extent to which councils have implemented the recommendations and provides a position statement for West Dunbartonshire Council.

4.2 The 2016 report provides a comparison of council's capital investment strategies against the 2013 good practice guide for the 12 councils that have a capital investment strategy and also for all 32 councils. Appendices 3 and 4 detail the extent to which councils comply with the good practice guide and provide a position statement for West Dunbartonshire Council.

5. People Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 There are no direct financial or procurement 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 insufficient processes, monitoring and scrutiny arrangements. While the evolution of the capital planning and monitoring process within the Council since 2013/14 has improved, there remains a number of areas where the planning process could be improved. Management recognises the recommendations within the Audit Scotland report and will implement these in future capital planning processes.

8. Equalities Impact Assessment (EIA)

8.1 No equalities impact assessment was required in relation to this report.

9. Consultation

9.1 Consultation has taken place with legal and finance.

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.

Stephen West
Strategic Lead - Resources

Date: 24 May 2016

Person to Contact: Jennifer Ogilvie, Section Head (Capital and Treasury)
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Appendices: Appendix 1 - Audit Scotland Report – Major Capital Investment in Council's Follow Up (January 2016)
Appendix 2 - Councils' actions to implement recommendations from the 2013 report
Appendix 3 - Comparison of councils' capital investment strategies against the 2013 good practice guide (12 Councils)
Appendix 4 - Comparison of councils' capital investment strategies against the 2013 good practice guide (32 Councils)

Background Papers: Report to Audit and Performance Review Committee (May 2013): *Audit Scotland Report - Major capital investment in councils*

Audit Scotland Report – Major Capital Investment in Council's (March 2013)

Wards Affected All Wards

Major capital investment in councils

Follow-up

ACCOUNTS COMMISSION

Prepared by Audit Scotland
January 2016

The Accounts Commission

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

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

Our work includes:

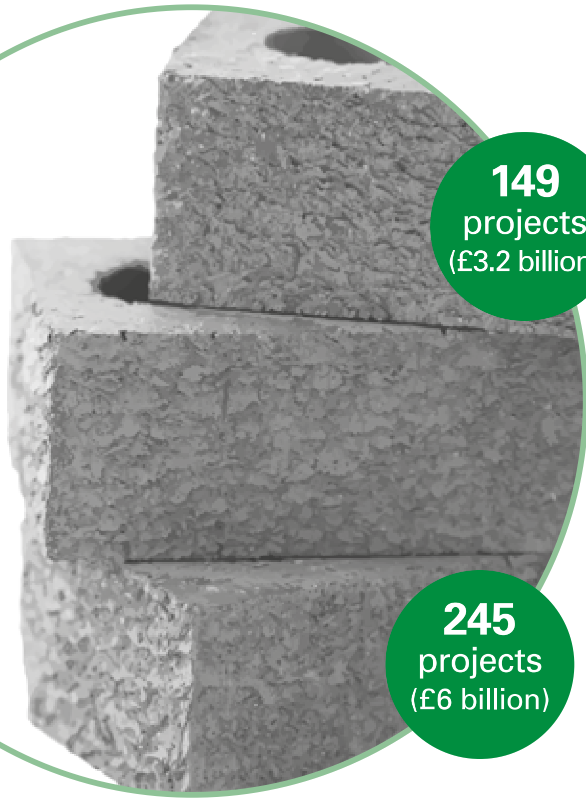
- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils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

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

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

Contents

Key facts



£7 billion

The total value of councils' capital investment between April 2012 and March 2015

149 projects (£3.2 billion)

The number and cost of major capital projects that councils completed between April 2012 and October 2015

53 per cent

Councils' capital spend as a proportion of total public sector capital spend between April 2012 and March 2015

245 projects (£6 billion)

The number and estimated cost of major capital projects that councils were progressing as at October 2015

Summary

Key messages

1 Between 2012/13 and 2014/15, councils spent £7 billion on capital investment. They have taken a range of actions in response to the recommendations in the 2013 report. This included implementing revised structures to help them manage and monitor capital investment activity more effectively. There are examples of councils displaying aspects of good practice but, overall, they need to increase the pace of improvement to comply fully with the 2013 good practice guide.

2 Councils need to improve the quality of their capital investment strategies and plans. The strategies which exist demonstrate how planned capital investment is expected to contribute to councils' overall strategic priorities. But only just over a third of councils have a long-term capital investment strategy in place and these do not identify opportunities for collaboration with other bodies. All councils have a capital plan outlining expected programme and project costs. The plans do not set out the rationale for prioritising and progressing major projects, and the expected benefits of these projects. Some councils choose to not have a separate capital investment strategy and plan. Instead they combine the features of both in a single document but these rarely demonstrate how capital investment contributes to councils' strategic objectives.

councils have improved their management of capital investment but they need to increase the pace of improvement

3 There are some examples of where councils have improved their structures and processes to help them manage and monitor capital investment activity more effectively. But they need to do further work to comply fully with the 2013 good practice guide, such as developing processes to routinely revisit and review business cases throughout the life of every capital project. Similarly, most councils are not carrying out formal mid-term reviews of projects, or post-project evaluations. Those that do are not doing so regularly or in a consistent manner. This limits councils' ability to identify areas of good practice, share lessons learned and identify the benefits that individual projects have realised.

4 Elected members are not able to scrutinise the performance of capital programmes effectively because they are not receiving adequate information on capital investment. The majority of councils' progress reports to elected members on major capital projects focus on reporting capital spending in the current financial year. Some councils do not report cumulative capital spending, covering several years, against the total capital budget for individual projects. Councils do not routinely report to elected members project risks or non-financial information, such as the benefits realised from capital investment

activity. Councils provide some training to elected members on capital investment matters but no council has a continuing programme of training in place on capital issues.

Recommendations

As already recommended in the 2013 report, all councils should have a long-term capital investment strategy. These should demonstrate to elected members and service users how planned capital investment will help achieve councils' long-term strategic priorities as defined in corporate plans and Single Outcome Agreements (SOAs). Councils should also ensure that their capital investment strategies and plans follow good practice as set out in the 2013 good practice guide.

Councils should ensure that they:

- prepare business cases that comply with good practice for every capital project
- revisit and monitor business cases throughout every capital project
- regularly carry out post-project evaluations to help establish whether planned benefits are realised and to identify good practice or lessons learned
- consider how best to review projects at key stages, using independent experts as necessary, to help provide assurance about project progress and to identify any potential problems
- are proactive in sharing lessons learned from projects, both, successful ones or those that ran into significant difficulties, within the organisation and with other councils.

Councils should ensure that they provide elected members with regular, appropriate and accurate information to allow them to scrutinise properly capital investment activity. Within this, councils should ensure that they:

- develop their capital monitoring reporting to include:
  - cumulative spending against total capital budget and the progress of each significant project against its key milestones
  - reasons for and consequences of slippage, or delays, of capital projects and any changes in the timing of capital spending
  - clear outlines of the benefits that individual projects have realised, and how these compare with the expected benefits outlined in business cases
  - updates of the risks associated with capital projects and programmes, including their financial and non-financial implications.
- provide elected members with regular training on capital investment to enable them to scrutinise effectively capital investment activity.

Background

1. Public sector capital investment is essential for delivering high quality, effective public services and for improving wellbeing of people in Scotland. Councils' capital investment is spending on property and other assets such as schools, social housing, roads and community centres. This includes spending on new buildings as well as maintaining and repairing existing assets.

2. In March 2013, the Accounts Commission reported on major capital investment in councils.[1] The audit focused on major capital projects over £5 million and assessed how well councils directed, managed and delivered capital investment. It also examined how well councils managed their investment spending as a programme, and their performance in delivering major capital projects against time and cost targets.

3. The audit found that councils' early estimates of the expected costs and timetables were often inaccurate, although this improved as projects progressed. It also found that councils had weak processes for developing and using business cases, and that they did not provide enough monitoring information to elected members.

4. The report recommended actions councils should take to help them improve performance in managing their capital investment programmes and projects. Based on the report's findings, the Accounts Commission developed a good practice guide and checklist to help councils improve how they manage and scrutinise capital projects.

About this audit

5. This targeted follow-up audit assesses to what extent councils have improved performance in managing their capital investment programmes and projects since the 2013 report. This includes councils' actions to strengthen monitoring, their use of the checklists and whether they have applied lessons learned to their latest capital projects.

6. The audit does not review funding of capital projects in detail. Aspects of this were covered by the Accounts Commission's ***Borrowing and treasury management in councils*** [PDF], published in March 2015.

7. The audit draws on baseline assessments performed by councils' external auditors during 2014/15. We performed a more detailed evaluation at a sample of eight councils (Angus, City of Edinburgh, Dundee, East Ayrshire, Fife, Highland, Inverclyde and South Lanarkshire), selected for the targeted follow-up on the basis of the:

- value and type of their major capital projects
- level of capital spending and financing requirement.

8. During the audit we:

- collated, reviewed and analysed external auditor assessments to identify common issues in councils
- interviewed representatives (senior officers and elected members) and reviewed business cases for a sample of 13 major capital projects from the eight councils reviewed in detail (Appendix 1)
- reviewed council documents and other published documents as appropriate.

9. The report has two parts:

- Part 1 outlines how councils' capital spending has changed between 2011/12, the last financial year captured in the 2013 report, and October 2015.
- Part 2 reviews to what extent councils have implemented recommendations from the 2013 report.

Councils have taken a range of actions in response to the 2013 report's recommendations but they need to increase the pace of improvement

10. Councils have taken a range of actions in response to the 2013 report's recommendations but they need to make further progress. The majority of councils have either developed an action plan based on the report's recommendations or progressed recommendations without preparing a formal action plan. The extent of planned action varies across councils. Overall, many councils display aspects of good practice but they need to do further work to comply fully with the 2013 good practice guide. Exhibit 1 (page 9) provides an overview of how councils have responded to the 2013 report. Some of the findings are based on all 32 councils and some on the sample of eight councils reviewed in detail. Appendix 2 outlines good practice examples of managing capital investment in the eight councils reviewed in detail.

Exhibit 1

Councils' actions to implement recommendations from the 2013 report

Councils have made more progress in implementing some recommendations than others and they need to take further action.

Recommendations from the 2013 report – councils should:	The extent to which councils have implemented the recommendations	
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.	**Limited progress**	A third of all councils have a long-term capital investment strategy in place and only two cover a period of over ten years. The majority of these set out the needs and constraints for local capital investment. But councils need to improve them further to include other features of good practice such as providing clear links between individual projects and wider programmes. Councils consult with stakeholders, such as service users and suppliers, although the extent of this varies by the council. (Paragraphs 47, 55 and Exhibit 7)
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.	**Limited progress**	A third of all councils have a long-term capital investment strategy in place. Two-thirds of these assess funding methods and consider how councils might use them. But councils need to improve them further to include other features of good practice such as coordinating investment requirements from across each service area. (Paragraph 47 and Exhibit 7)
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.	**Limited progress**	Councils told us that they were actively exploring opportunities for joint working but this is often not reflected in their capital investment strategies. Evidence of successful joint projects or sharing staff resources is limited. (Paragraphs 48 – 50 and Exhibit 7)
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.	**Partially**	All eight councils reviewed in detail have clear procedures for preparing outline and full business cases. But they do not routinely revisit and review business cases throughout the life of projects. Based on the detailed review of eight councils, about a third of them do not routinely report cumulative spending on a project-by-project basis. (Paragraphs 59, 60 and 64)
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.	**No**	The detailed review of eight councils shows that councils do not carry out mid-term reviews of projects or post-project evaluations regularly or consistently. This limits councils' ability to identify areas of good practice, share any lessons learned and monitor benefits realised from the investment activity. (Paragraphs 61 and 62)

Cont.

Exhibit 1 (continued)

Recommendations from the 2013 report – councils should:		The extent to which councils have implemented the recommendations
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.	**Limited progress**	• The vast majority of councils report annual capital spending against budget. • Based on the review of eight councils, about a third of them do not routinely report cumulative spending against total capital budget on a project-by-project basis. • The eight councils reviewed in detail provide limited information to elected members on project risks and overall capital programme risks. • Business cases identify intended benefits but monitoring reports do not outline benefits that individual projects have realised. (Paragraphs 63 – 67)
Carry out early assessments of risk and uncertainty to improve the accuracy of early-stage estimating of the cost and timescale of projects.	**Partially**	Officer-led project boards of the eight councils reviewed in detail are primarily responsible for managing risks. While officers may alert elected members to specific risks, they often provide them with information on project risks and overall capital programme risks on an ad hoc basis. (Paragraph 66)
Consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary.	**No**	The detailed review of eight councils shows that councils provide members with a variety of training opportunities on capital investment matters but no council has a continuing programme of training on capital issues in place. (Paragraph 69)

Source: Audit Scotland

Part 1

Capital investment in councils since the 2013 report

Key messages

1 Between 2012/13 and 2014/15, councils spent £7 billion on capital investment. This represented over a half of the total public sector capital spend during the period. Councils decreased their annual capital spending from £2.5 billion in 2011/12 to £2.2 billion in 2014/15. As at October 2015, they were planning to spend a further £2.6 billion on capital projects in 2015/16.

2 Councils continue to fund their capital spending through a variety of means, including capital grants from the Scottish Government and borrowing. Between 2011/12 and 2014/15, councils borrowed less and funded more capital spending from capital grants. The availability of the Scottish Government capital grant increased in 2014/15 to compensate for earlier reductions. The proportion of funding from capital grants increased from 28 per cent in 2011/12 to 43 per cent in 2014/15. Borrowing reduced from 54 per cent to 33 per cent over the same period.

3 Between April 2012 and October 2015, councils completed 149 major capital projects and had a further 245 in progress as at October 2015. In line with the findings of the 2013 report, schools projects continued to perform better to cost and time targets.

councils spent £7 billion on capital investment between April 2012 and March 2015

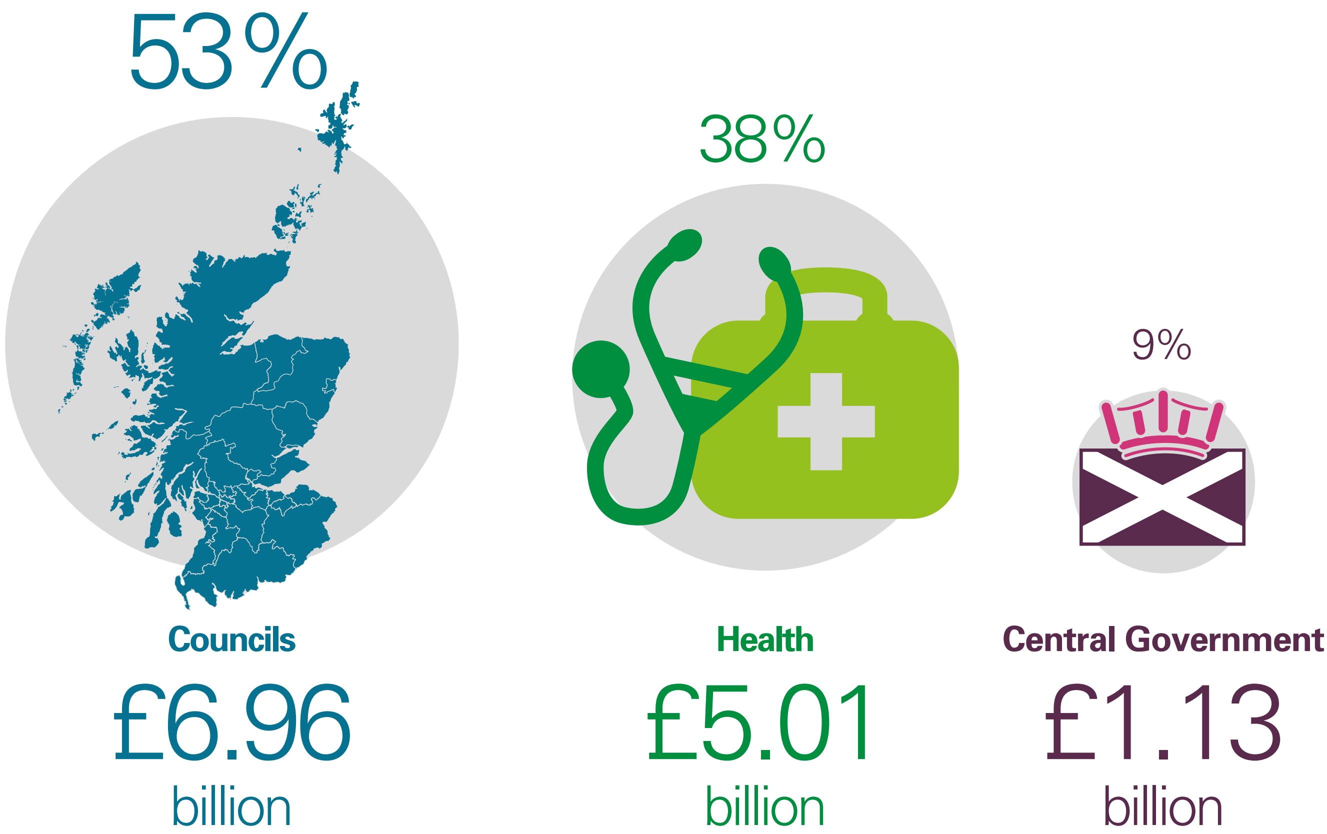
Councils spent £7 billion on capital investment between 2012/13 and 2014/15

11. In 2013, the Accounts Commission reported that councils had spent £24 billion between 2000/01 and 2011/12 on capital investment projects, including new schools, care homes and sports facilities.[2] Between 2012/13 and 2014/15, they spent another £7 billion (the equivalent of £6.4 million a day), at 2014/15 prices, on capital projects. This represented just over a half (53 per cent) of total public sector capital investment during the period (Exhibit 2, page 12). Seven councils (Aberdeenshire, City of Edinburgh, Fife, Glasgow, Highland, North Lanarkshire and South Lanarkshire) were responsible for half of this expenditure. Individual councils spent between £44 million and £795 million each, at 2014/15 prices, over the three years from 2012/13 to 2014/15.

Exhibit 2

Public sector capital spend from 2012/13 to 2014/15, at 2014/15 prices

Between 2012/13 and 2014/15, councils spent almost £7 billion on capital investment, just over a half of total public sector capital investment spend during the period.



Source: Audit Scotland

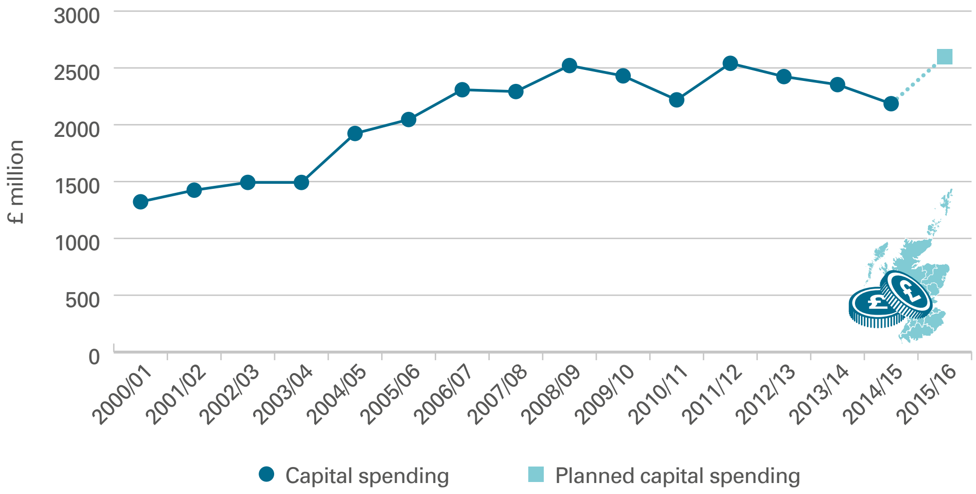
12. Councils decreased their annual capital spending in the last three years, from £2.5 billion in 2011/12 to £2.2 billion in 2014/15 (Exhibit 3, page 13). In 2014/15 councils' capital spend represented 11 per cent of their total spend of £20.9 billion. Councils' spending on services remained constant over the same period at about £18.5 billion a year. As at October 2015, councils were planning to spend a further £2.6 billion on capital investement in 2015/16.

13. Council's capital investment over the years has made a significant difference to the condition of their assets. For example, in April 2014, 83 per cent of schools were in satisfactory condition, compared to only 61 per cent in April 2007.[3] Councils rebuilt or substantially refurbished 526 schools between 2007 and 2014, 123 of which were completed in 2012/13 and 2013/14.[4]

Exhibit 3

Councils' capital spending from 2000/01 to 2014/15, at 2014/15 prices

After several years of growth, councils' annual capital spending fell from £2.5 billion in 2011/12 to £2.2 billion in 2014/15. As at October 2015, they were planning to spend £2.6 billion in 2015/16.



Note: 2015/16 capital spending (dotted line) as planned by the councils at the time of the audit (October 2015).

Source: Audit Scotland

Councils use a variety of funding sources for capital investment

Councils are borrowing less and funding more capital investment from capital grants

14. Over the four years from 2011/12 to 2014/15, councils funded an increased proportion of their capital spending from capital grants (from the Scottish Government and others such as other central government bodies, National Lottery and EU). Capital grant funding increased from £720 million in 2011/12 to £925 million in 2014/15 (at 2014/15 prices).

15. The Scottish Government provides the vast majority of capital grant funding to councils (an average of 80 per cent of total grant funding to councils over the four years from 2011/12 to 2014/15). The Scottish Government rescheduled its capital allocations as part of its 2011/12 Spending Review. It moved capital grant funding of £120 million and £100 million, originally due to councils in 2012/13 and 2013/14, to the following two years. This allowed the Scottish Government to provide additional funding to those sectors that can't borrow, for example to the central government sector. It hoped that councils would work with the Scottish Ministers and use their ability to borrow to supplement capital spending and so contribute to local economic recovery.[5]

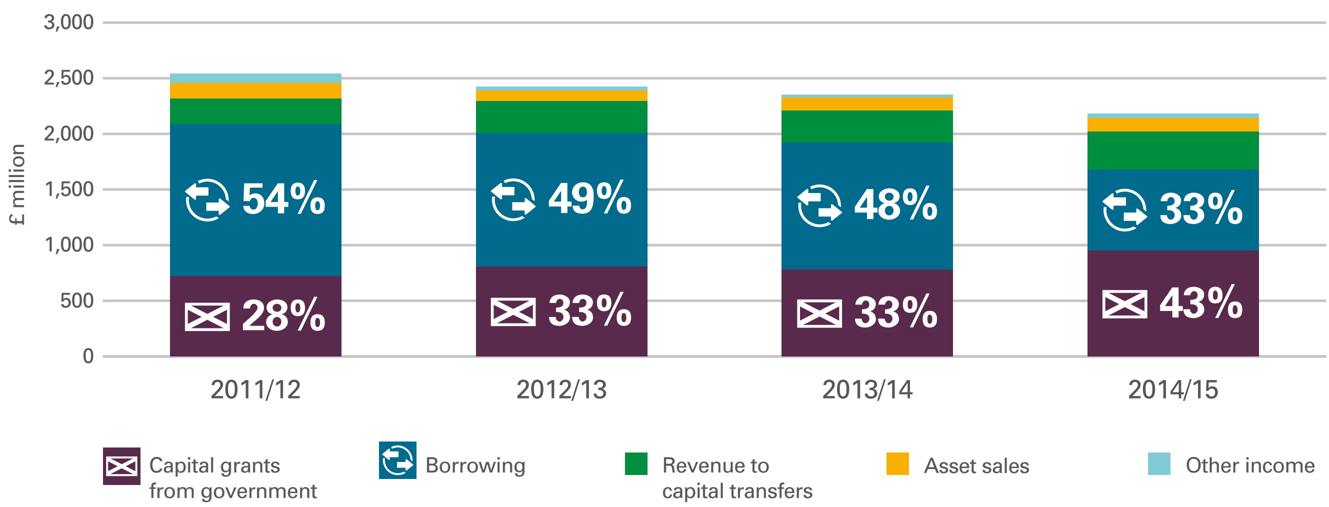
16. Rescheduled capital grant funding meant that the Scottish Government increased its capital allocations to councils by £120 million in 2014/15 and £94.2 million in 2015/16. The increase in 2015/16 does not match the reduction in 2013/14 due to the transfer of responsibility for policing from local to central government.[6] The Police and Fire Reform (Scotland) Act 2012 created a new structure for providing police services in Scotland. It brought together the eight police forces, the Scottish Police Services Authority and the Scottish Crime and Drug Enforcement Agency into two new national bodies: the Scottish Police Authority and the Police Service of Scotland (Police Scotland). The new structure became operational on 1 April 2013.[7]

17. Councils' funding sources for capital spending have changed. Over the four years from 2011/12 to 2014/15, the proportion of funding from capital grants increased from 28 per cent to 43 per cent, and borrowing for capital investment reduced from 54 per cent to 33 per cent. In 2014/15, councils used more capital grants than borrowing to pay for capital projects, the first year they have done so since 2008/09 (Exhibit 4).

Exhibit 4

Sources of funding councils' capital spending, 2011/12 to 2014/15

Funding from capital grants increased as a proportion of total capital investment funding, from 28 per cent in 2011/12 to 43 per cent in 2014/15. Borrowing for capital investment reduced from 54 to 33 per cent over the same period.



Source: Audit Scotland

Councils are using alternative funding mechanisms for capital projects

18. As well as using borrowing or Scottish Government capital grants, councils have also funded capital projects in partnership with private sector investors. These partnerships include the private finance initiative (PFI) and the non-profit-distributing model (NPD). Under these models, the private sector investor pays the upfront building costs and ongoing maintenance costs of an asset. The council pays an annual charge from its revenue budget for using the asset before gaining ownership of the asset at the end of the contract. Under the NPD model, there is a limit on how much of the profits the private sector operator may retain. Any surplus profit is returned to the public sector.

19. Councils have also increasingly used the hub programme, a Scotland-wide initiative for delivering new community facilities through private finance. The hub programme operates across five geographical territories: South East, East Central, West, South West and North. In each territory, the participating public bodies such as health boards, councils, police and fire and rescue services, have teamed up with a private sector development partner to form a joint venture company known as a hubCo. Each hubCo takes a strategic approach to delivering local services. While projects are mostly new buildings, they can include refurbishment and management of existing buildings. They include many schools in the Scottish Government's Schools for the Future programme which aims to rebuild or refurbish schools.

20. The hub and Schools for the Future programmes are led by the Scottish Futures Trust (SFT), an independent company established in 2008 by the Scottish Government. Its aim is to 'improve the effectiveness and efficiency of infrastructure investment in Scotland by working collaboratively with public bodies and industry leading to better value for money and ultimately improved public service'.[8]

21. Councils reported they had 50 revenue-funded projects as at October 2015. Of these, 39 were operational PFIs and four were operational NPD projects. Councils are involved in a further seven projects with a total capital value of £0.25 billion, signed through hub contracts in the three years from 2012/13 to 2014/15. Two of these seven projects are complete and the other five are currently in construction. Another 14 revenue-funded hub projects are still in development. Since 2012/13, all council revenue-funded projects have been procured through the hub route.

22. Between 2012/13 and 2014/15, councils paid £1.5 billion (at 2014/15 prices) of annual charges relating to non-hub revenue-funded projects. They have not yet made any such payments for revenue-funded hub projects. Councils will have to continue to pay significant charges for all types of revenue-funded projects and this represents a significant long-term commitment on their future revenue budgets.

23. In March 2015, the Accounts Commission reported that almost all councils had reduced staff numbers to help make savings.[9] This has affected all areas of councils' operations, including how they manage their capital investment programmes and projects. Councils are increasingly using the hub programme and seeking the expertise of the SFT to collaborate, gain access to additional funding and supplement their in-house skills and experience. There are also examples of councils sharing staff resources but these are not yet widespread (paragraph 50).

24. Councils are considering other funding methods to supplement direct funding of their capital projects, or as alternatives to established forms of revenue funding. These are at relatively early stages of development and so it is unlikely that, in the short-term, they will provide a significant proportion of councils' available capital funding. They include:

- Tax Incremental Financing (TIF)
- Growth Accelerator Model (GAM)
- City Deal
- UK Green Investment Bank (UKGIB).

Appendix 3 provides more information about each of these funding models.

25. The use of these alternative funding models varies greatly among councils. While PFIs, NPDs and procurement using the hub initiative are widely used, individual councils' circumstances influence how they use other funding methods. For example, the City of Edinburgh Council and Dundee City Council are currently proceeding with, or considering, GAM projects, which are only open to Scotland's seven cities.

26. Similarly, while some councils are progressing with TIF models, others have expressed concerns about their viability. While we have not audited the current TIF pilot projects, the risk of not attracting enough private sector investment is a risk to all of them. For example, Inverclyde Council told us that it is concerned that any potential TIF initiative would not attract enough further private sector investment to generate the additional local taxes necessary to repay associated borrowing.

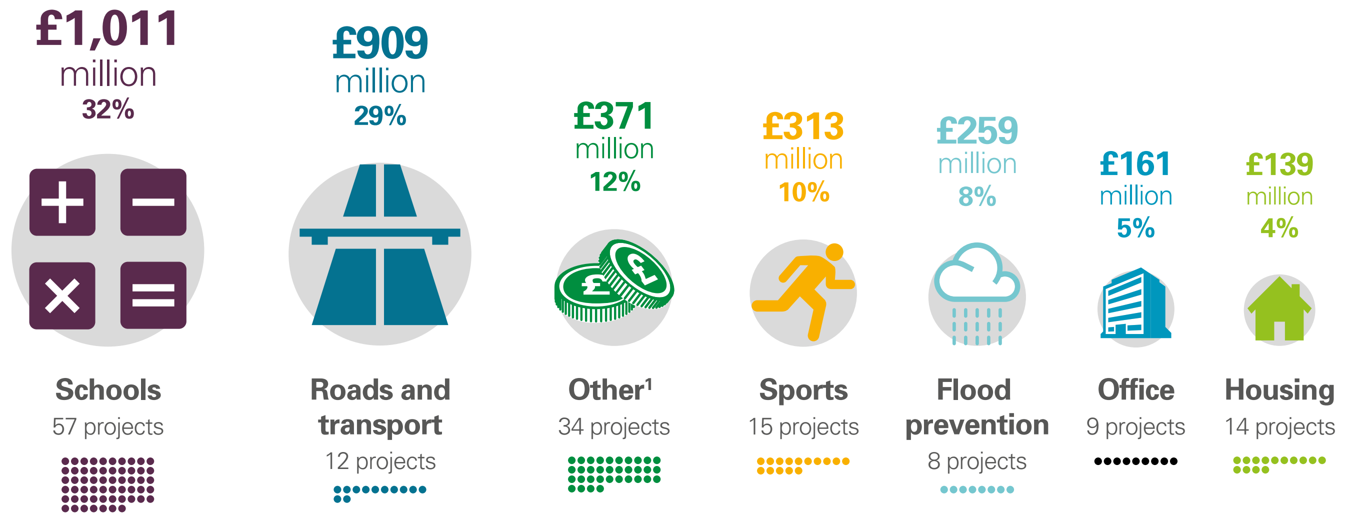
Councils completed 149 major capital projects between April 2012 and October 2015 and had 245 in progress as at October 2015

27. The 2013 report outlined that councils were progressing 203 major capital projects, each costing over £5 million. They have completed 149 major capital projects worth £3.2 billion between April 2012 and October 2015. As at October 2015, councils reported they had 245 projects worth about £6 billion under way, with over 40 per cent of these schools. This reflects Scottish Government policy, such as the Schools for the Future programme (announced in 2009), and councils' own strategic priorities.[10]

28. The largest of all major capital projects in progress is the £745 million Aberdeen Western Peripheral Route (AWPR), with Aberdeen City and Aberdeenshire Councils each contributing 9.5 per cent of this cost (£71 million each). Other areas of significant capital spending in councils include roads and transport, flood prevention and office accommodation (Exhibits 5 and 6, page 17). This is broadly similar to the findings of the 2013 report.

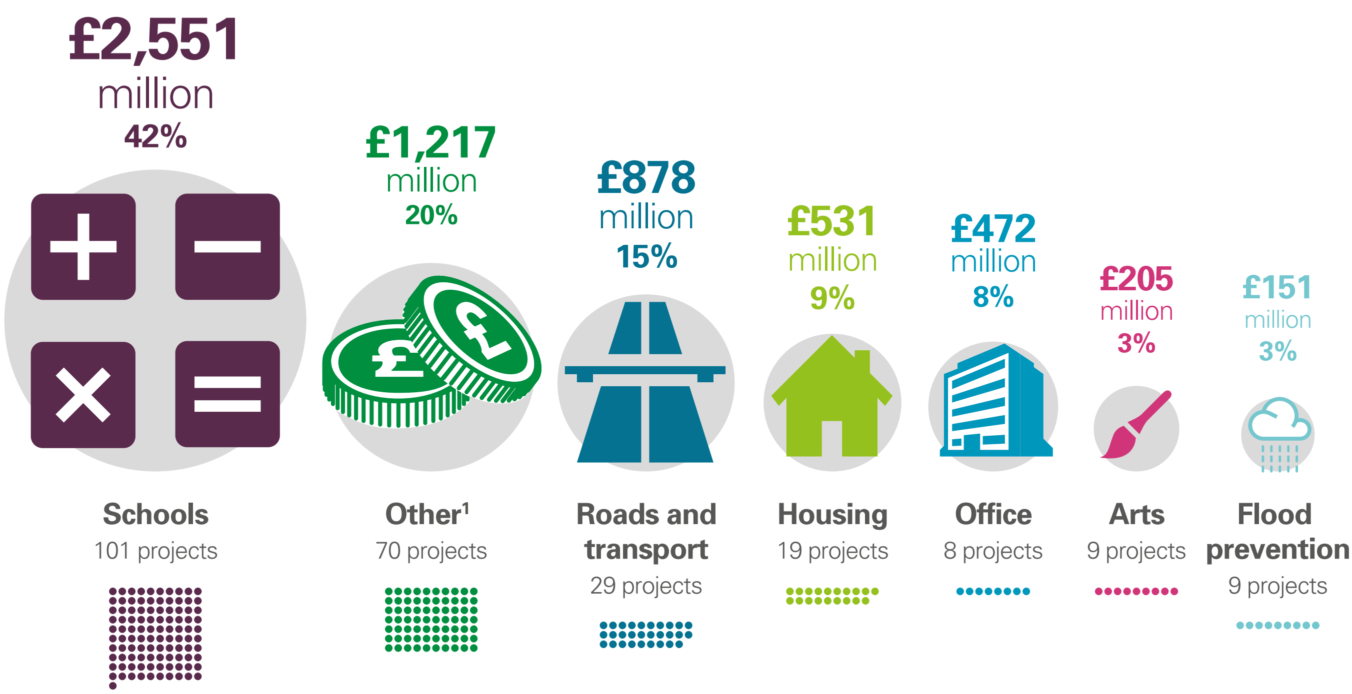
29. The 2013 report highlighted that, overall, schools projects performed better to cost and time targets. The review of major capital projects that councils completed between April 2012 and October 2015 found that schools projects continue to perform better. Councils completed over 80 per cent of schools projects on time, compared to two-thirds of non-school projects. Similarly, councils delivered over two-thirds of schools projects to cost targets, compared to just over a half of non-school projects.

Exhibit 5
Completed major capital projects between April 2012 and October 2015
Councils completed 149 major capital projects worth £3.2 billion between April 2012 and October 2015.



Note: 1. These projects include day care centres, harbour improvements, land regeneration and others.
Source: Audit Scotland

Exhibit 6
Major capital projects in progress as at October 2015
As at October 2015, councils were progressing 245 major capital projects worth about £6 billion.



Note: 1. These projects include day care centres, harbour improvements, land regeneration and others.
Source: Audit Scotland

Nine out of the 15 capital projects reviewed in the 2013 report were complete as at October 2015

30. Of the 15 capital projects reviewed in the 2013 report, and in progress at that time, nine were complete and five were still under way as at October 2015. The Scottish Borders Council waste treatment project has been cancelled (Appendix 4). The final costs of the completed projects were £497 million, £30 million (7 per cent) more than the original budgets.

31. Councils delivered six projects at a total cost of £47 million under their original budget but overspent on three projects by a total of £77 million (49 per cent). Four projects were completed on schedule and five overran by between eight months and almost four years. The three projects that were overspent were also delayed by at least eight months. Councils reported varied reasons for overspends and delays, from planning and procurement delays to changes in scope and adverse weather. This data suggests that some councils still need to do more to deliver major capital projects to their initial time and cost estimates. Councils also need to ensure they are proactive in sharing lessons learned from successful projects or those that ran into significant difficulties.

32. One of the projects outlined in the 2013 report was the Dunfermline flood prevention scheme. Case study 1 (page 19) provides a high-level update of the project, largely based on the findings of Fife Council internal audit's review of the scheme, reported to the council's Executive Committee in August 2015. Internal audit concluded that the council acted appropriately throughout the project. Poor design work and construction supervision enabled the contractor to seek contract variations, leading to cost increases. The council is currently seeking £10 million compensation from the design consultant.

McClelland's report on the Victoria and Albert Museum of Design project made a number of recommendations to Dundee City Council

33. The Victoria and Albert (V&A) Museum of Design project in Dundee was not part of the sample of projects reviewed for this report. But it has run into significant difficulties over the last few years and has been subject to considerable local and media interest. In January 2015, Dundee City Council's Policy and Resources Committee commissioned John McClelland CBE to carry out a review of the project after planned construction costs increased by £31.1 million between June 2011 and January 2015. The main focus of his review was to examine the reasons for costs increasing significantly, to identify any lessons learned and to make appropriate recommendations.

34. The main findings of the review, published in July 2015, included:

- The costs increased because of the complexity of the design, including the decision to build over water. Additional time required to revise cost plans and design caused delays to the project, and inflationary cost increases.
- There was a lack of investment in skilled and experienced in-house technical and project management staff, and not enough external professional help.
- Dundee City Council did not integrate the V&A Museum of Design project into its normal way of working in the same way it does with other construction projects. This led to uncertainties around responsibilities and reporting arrangements.[11]

Case study 1

Fife Council's flood prevention scheme in Dunfermline

The Accounts Commission's 2013 report outlined that Fife Council approved the design of the Dunfermline flood prevention scheme in December 2002 with an estimated cost of £3.75 million. The Scottish Government provided formal approval for the project in June 2004, and a month later the council awarded the design contract for the scheme. Based on the initial consultants' design work, the council approved the project with a revised estimated cost of £9.8 million in November 2005. In February 2007, it awarded the construction contract to a preferred bidder at a tendered price of £14.13 million, including £3 million consultants' fees. The Scottish Government intended to provide a grant of up to 80 per cent of the tendered price. The estimated completion date at that time was May 2009.

Delivery of the project was problematic. There were problems with its design and specialist nature, and conflicts between the contractor and the council. In January 2014, the council terminated the construction contract as it assessed that the contractor had performed poorly against it. It awarded the contract for the remaining work to another contractor who completed the project in December 2014, under the supervision of the council's roads and design construction team. At the time of publishing this report, the council was seeking compensation of about £10 million from the design consultant due to its alleged negligence during the project.

The final cost of the scheme was £34.5 million which is £24.7 million (252 per cent) above the outline business case estimate of £9.8 million. Any recovery from the design consultant will reduce the total completion cost. The Scottish Government provided a grant of £11.7 million to the council, £3.8 million of this directly and £7.9 million as part of the council's overall capital allocation. Fife Council reviewed the project after its completion and identified a number of areas for improvement such as the need to change the form of contract and the appointment process.

Source: Audit Scotland and Audit and Risk Management Manager's report to Fife Council's Executive Committee on 18 August 2015

35. The report made a number of recommendations that Dundee City Council's Policy and Resources Committee accepted in August 2015. The chief executive's covering report to the committee noted that the council had taken a number of steps since January 2015 to improve the structures, monitoring, communication and project management arrangements. This had included establishing a project board and providing additional expertise to help the operation of the board. The external auditor will continue to monitor developments and will report as appropriate as part of the annual audit process.

Office for National Statistics' review of revenue-funded capital projects

36. The Office for National Statistics (ONS) is responsible for assessing bodies and transactions against EU rules to decide how they should be treated in the Statistical National Accounts. HM Treasury uses the Statistical National Accounts to inform some aspects of guidance on UK fiscal budgets. In relation to public sector capital projects funded from revenue, the ONS can classify individual projects as being either under public sector control or private sector control. This depends on the balance of control over the special purpose vehicles (SPV), normally established to manage the delivery and operation of such projects. A privately classified project sees the debt classified to the private sector. In contrast, a project classified to the public sector counts towards the national debt. This can require budget cover to be provided over the construction period of the asset, rather than over the period in which it is used and maintained.

37. In July 2015, the ONS concluded that the public sector controlled the SPV associated with the AWPR. The AWPR is an NPD project and will incur annual unitary charges over the life of the contract. But the ONS decision means that an expense, equal to its construction cost, will be charged against the Scottish Government's capital budget. This will not be a cash payment but it will result in a reduced amount of budget available for spending on other capital projects. The ONS based its decision on the extent of the Scottish Government's influence over the SPV and on its share of the economic rewards from the asset.

38. To avoid any further charges against the Scottish Government's capital budget, the Scottish Government asked the SFT to look at how it could ensure that SPVs of other revenue-funded capital projects remained under private sector control. While the SFT considered available options, revenue-funded capital projects in the hub programme which were planned to reach financial close during 2015 could not do so. These included how best to reduce the public sector's influence over the SPVs associated with these projects.

39. In November 2015, the Deputy First Minister announced that the ONS had advised that, based on the current EU guidance, SFT's proposals would result in revenue-funded projects procured through the hub route being classified to the private sector. These changes will result in the establishment of SPVs which sit outside of the hub company corporate structure, known as Design, Build, Finance and Maintain Companies (DBFM Cos). Public sector ownership of the DBFM Cos will be reduced to 20 per cent, compared to 40 per cent under the previous SPV regime. Private sector ownership will remain at 60 per cent and the remaining 20 per cent will be owned by a newly established private sector charity.

40. The Deputy First Minister also advised in November 2015 that the two NHS projects and ten council school projects affected by the AWPR classification review, with a combined capital value of about £330 million, could proceed to financial close. The projects include schools such as Midlothian Council's £35 million Newbattle High School and Dundee City Council's £25 million Baldragon Academy. The SFT has confirmed that the delay in reaching financial close would lead to the cost of some projects increasing. This is largely due to the likely need to renegotiate the previously agreed contract prices of some projects. It is not possible to quantify by how much costs might increase until the negotiations are concluded.

41. The Scottish Government and the SFT continue to review options for potential changes to the AWPR project and similar revenue-funded projects. The Scottish Government is also discussing with HM Treasury the budgetary implications of the ONS' classification of the AWPR project. In the meantime, the Scottish Government has set aside £150 million from underspends in 2014/15 to meet any future charge on its capital budget. HM Treasury has also agreed to provide additional budget cover of £300 million. It is likely to be some time before the situation arising from the ONS' classification work is fully resolved. Audit Scotland will continue to monitor developments and report as appropriate.[12]

Part 2

Councils' management of capital investment programmes and projects

Key messages

1 Councils have taken a range of actions in response to the recommendations in the 2013 report. There are examples of councils displaying aspects of good practice but, overall, they need to increase the pace of improvement to comply fully with the 2013 good practice guide.

2 A capital investment strategy is an essential component of a council's capital investment management as it provides clear links between investment objectives and the council's wider strategic objectives and sets out a vision for major capital investment. Councils' strategies which exist demonstrate how planned capital investment is expected to contribute to councils' overall strategic priorities. But only just over a third of councils have a long-term capital investment strategy in place and these do not identify opportunities for collaboration with other bodies.

3 To support the long-term capital investment strategy, councils should also have in place a capital plan that outlines annual investment commitments and plans over the medium term. All councils have a capital plan but they need to develop them further. While the plans outline expected programme and project costs, they do not set out the rationale for prioritising and progressing major projects, and the expected benefits of these projects. The councils with a combined capital investment strategy and plan need to better demonstrate how capital investment contributes to their strategic objectives.

4 Councils have improved their structures and processes to help them manage and monitor capital investment activity more effectively. This included establishing a dedicated team to manage capital investment, or appointing a lead officer to oversee and develop the monitoring framework. They need to do further work to comply fully with the 2013 good practice guide, such as routinely reviewing business cases throughout the life of every capital project to ensure the effective monitoring of expected benefits.

5 Few councils are carrying out formal mid-term reviews of projects, or post-project evaluations. Those that do are not doing so regularly or in a consistent manner. They are more likely to formally evaluate projects that ran into significant difficulties. This limits councils' ability to identify areas of good practice, share lessons learned and identify the benefits that the investment activity realises.

councils have improved their management of capital projects but further progress is needed

6 Elected members are not able to scrutinise the performance of capital programmes effectively because they are not receiving adequate information on capital investment. The majority of councils focus on reporting capital spending in the current financial year. Councils could do more to provide reports to members that clearly outline cumulative capital spending for individual projects, project risks and non-financial information, such as the benefits that individual projects realise. Councils provide some training to elected members on capital investment matters but no council has a continuing programme of training in place on capital issues.

Almost all councils considered the 2013 report but they need to take further action to implement its recommendations

42. Thirty of Scotland's 32 councils considered the 2013 report at the full council or at a relevant committee meeting. The report was considered by officers only at Clackmannanshire and Dumfries and Galloway Councils. Thirty-one councils have either developed an action plan based on the report's recommendations, or progressed recommendations without preparing a formal action plan. Common actions include:

- making organisational changes, for example establishing a dedicated team to manage capital investment or appointing a lead officer to oversee and develop the monitoring framework
- developing internal project and programme management practices, for example reviewing and developing their business case requirements for capital projects or reviewing the format of capital reports to increase the effectiveness of scrutiny and monitoring.

43. Twenty-six councils distributed and used the 2013 good practice guidance to assess how well they were managing capital investment projects and a further three councils are planning to use it. About two-thirds of councils have also used the good practice checklist to help to develop their business case methodologies, or to review internal capital monitoring documentation.

44. As at October 2015, Comhairle nan Eilean Siar has taken no specific action in response to the 2013 report. It is planning to use the good practice guidance to help it review project management arrangements.

Councils need to improve the quality of their capital investment strategies and plans

45. In 2013 the Accounts Commission recommended that councils should have a clear capital investment strategy, covering the long term (over ten years), to direct and control their investment activities. A capital investment strategy is an essential component of a council's capital investment management as it provides clear links between investment objectives and the council's strategic objectives defined in corporate plans or Single Outcome Agreements (SOAs). SOAs are agreements on local service priorities between councils and their partners such as NHS boards, and the Scottish Government. A strategy should also set out a vision for major capital investment, and provide clear priorities for deciding on the level and nature of investment spending within available resources and the overall funding strategy.

46. To support the long-term capital investment strategy, councils should also have in place a capital plan that outlines annual investment commitments and plans over the medium term (typically 3-5 years). These plans should include the rationale for all of the main capital investment projects, forecasts of project costs and how they are to be funded. This allows officers and elected members to consider capital investment plans when assessing the affordability and design of long-term financial plans.

A third of councils have a capital investment strategy in place and none of these fully complies with good practice

47. Twelve councils have a capital investment strategy in place. Most of these cover a period of between five and ten years, with two covering a period of over ten years. Councils' strategies display some features of the good practice guide (Exhibit 7, page 25). These include setting out clearly how councils expect their planned capital investment to contribute to their strategic priorities. Elected members of all eight of the councils reviewed in detail considered that the links were particularly well set out for the councils' schools programmes. The review of capital investment strategies and 13 business cases of major capital projects across the eight councils confirmed this view. Councils need to improve their capital investment strategies further, for example by showing clear links between individual projects and wider capital investment programmes.

48. Councils told us they were actively exploring opportunities for joint investment in assets but this was often not reflected in their capital investment strategies. There are some examples of councils jointly procuring support services but little evidence of them investing in assets jointly with other public bodies. For example, councils in the Highlands and Islands (Argyll and Bute, Highland, Comhairle nan Eilean Siar, Orkney, Moray and Shetland) jointly procured engineering consultancy services but they terminated this agreement in March 2015. Angus Council is a member of Tayside Procurement Consortium which is shared with Perth and Kinross and Dundee City Councils, and with Tayside Contracts.

49. Joint procurement through the five Scottish hubs is becoming more widespread, with councils seeking to supplement their in-house skills and expertise. For example, Inverclyde Council procured St Patrick's Primary School jointly with East Dunbartonshire Council's Lenzie Primary School through the West hub. Other examples of joint hub projects include community hubs that comprise several local services such as schools, health centres and libraries.

50. There are also examples of councils sharing accommodation with other public bodies, particularly with Police Scotland or the NHS. This is a result of councils reviewing their offices to identify the most efficient way to use them, and selling some properties. For example, Angus Council shares office accommodation with Police Scotland and NHS Tayside. Police Scotland staff also operate from other council offices, for example in Highland and Fife Councils. Health and social care integration will require further joint working by councils.

51. Officers and elected members of the eight councils reviewed in detail stated there were a number of barriers to successful joint working and sharing resources. The main ones were differences in systems and processes between different organisations, for example some councils perceived that the approval process in the health sector can lead to time delays. Geographical barriers could, they added, also prevent successful joint working, particularly for councils in more remote areas.

Exhibit 7

Comparison of councils' capital investment strategies against the 2013 good practice guide

Capital investment strategies of the 12 councils that have them display some features of good practice although councils need to improve them further.

Good practice criteria for an investment strategy	Do capital investment strategies comply with good practice?	
Shows the council's consideration of its potential future service and community infrastructure needs and ambitions compared to the current position.	Partially	Two-thirds of strategies (8/12)
Shows how investment may be funded sustainably and outlines a method for choosing capital investment priorities within available resources and the overall funding strategy.	Partially	Two-thirds of strategies (8/12)
Provides clear links between investment objectives and the council's strategic objectives.	Yes	All strategies (12/12)
Identifies and coordinates investment requirements from across each service area.	Partially	Half of strategies (6/12)
Provides clear links between individual projects and wider programmes.	Limited progress	One-third of strategies (4/12)
Clearly outlines investment plans over a number of years, including contractually committed and uncommitted projects.	Partially	About 60 per cent of strategies (7/12)
Provides an assessment of the various funding options available to the council and how these may be used.	Partially	About 60 per cent of strategies (7/12)
Provides clear information on asset management activity and the overall condition of the council estate.	Yes	Over 80 per cent of strategies (10/12)
Identifies opportunities for collaboration with other councils, public bodies and the private sector.	Limited progress	Only a quarter of strategies (3/12)

Source: Audit Scotland

All councils have a capital plan in place although they need to develop them further

52. All councils have a capital plan in place. Two-thirds of capital plans cover between three and eight years, with the remaining ones covering ten years or more. Most plans outline annual capital programme and project costs for the period the plan covers but do not set out clearly changes in timing of capital spending between financial years. They do not provide details of slippage, or delays, between years and how this affects the delivery of the plan. Capital plans also do not outline the rationale for progressing major projects, the expected benefits of these or which projects are a council's priority (Exhibit 8, page 26).

Exhibit 8

Comparison of councils' capital investment plans against the 2013 good practice guide

Capital investment plans comply with some elements of good practice but councils need to develop them further.

Good practice criteria for a capital investment plan	Do capital investment plans comply with good practice?	
The rationale for all the main capital investment projects identified as priorities within the plan period, including the expected benefits and any options around the selection of projects.	**No**	Seven out of 32 capital plans explain the rationale for prioritising projects. Only one plan provides expected benefits of these projects and none provides options for project selection.
Includes details of the planned annual project and programme costs.	**Yes**	Most capital plans (29/32)
Details funding arrangements, including grant funding, borrowing, use of private finance.	**Yes**	Most capital plans (30/32)
Details any shortfalls or surpluses in available funding and actions to address these.	**Yes**	Most capital plans (30/32); councils also address this by linking their capital investment activity with treasury management functions.
Sets out clearly re-profiling of capital spending between years.	**Limited progress**	Less than a quarter of capital plans **(7/32)**
Provides details of project or programme slippage between years and how this affects the delivery of the plan.	**Limited progress**	Less than a quarter of capital plans **(7/32)**
Provides clear links between the overarching capital investment strategy and annual capital budget monitoring.	**Limited progress**	Only five out of 12 capital plans[1] **(5/12)**

Note: 1. Only 12 councils have a capital investment strategy in place (paragraph 47).
Source: Audit Scotland

53. It is important that the capital plans of the 20 councils that do not have a capital investment strategy in place demonstrate good practice features that a capital investment strategy would normally include. Two-thirds of capital plans do not demonstrate how councils expect planned capital investment to contribute to their strategic objectives. Three plans consider joint working and none provides clear information on asset management activity. These issues, especially a lack of clear links between councils' capital investment and their strategic objectives, are particularly concerning in the absence of a capital investment strategy. It is not clear how these councils demonstrate how planned capital investment is expected to contribute to delivering their strategic objectives.

54. Highland and Fife Councils both use scoring methodologies to prioritise planned capital investment and to demonstrate how it will contribute to achieving strategic priorities and outcomes. In Highland Council, the Capital Planning Officers Group scores each capital project against asset condition and performance, political priorities and financial implications. They attach a higher weighting to meeting the council's programme of priorities. Fife Council is planning to redevelop its scoring mechanism for 2016 to ensure it better takes into account qualitative factors such as expected benefits and risks.

55. All eight councils selected for detailed review have consulted with stakeholders, such as service users and suppliers, on their capital programme or individual projects, although this varies across councils. Some councils carry out formal consultations for higher-profile major capital projects, or for the overall capital programme. Consultations in other councils are more informal. Three councils are planning to improve how they consult with stakeholders. For example, East Ayrshire Council plans to prepare a communication plan at the start of each major capital project outlining how the council will communicate with the stakeholders it identifies. Angus Council will add capital investment to its existing budget consultation processes, and Fife Council is planning to expand consultation to non-school projects.

Councils have improved arrangements for management and monitoring of capital investment

56. Since the Accounts Commission published the 2013 report, four out of the eight councils selected for more detailed review have implemented revised structures to help them manage and monitor capital investment activity more effectively. This included establishing a dedicated team to manage capital investment, or appointing a lead officer to oversee and develop the monitoring framework. The remaining four councils already had a capital projects monitoring group or equivalent in place before the 2013 report.

57. In Angus Council the group's membership includes elected members, enhancing their ability to scrutinise capital investment programmes. The Policy and Budget Strategy Group (PBSG) and the Capital Projects Monitoring Group (CPMG) in Angus Council include seven and three elected members, respectively. The PBSG is responsible for setting the council's overall budget strategy. The CPMG is a sub-group of the PBSG and is responsible for overseeing delivery of the agreed capital programme. This means that elected members scrutinise both strategic and operational aspects of the council's capital investment.

58. The review of the eight councils identified that they were linking capital investment activity with their treasury management functions to ensure that cash is available when needed.[13] This is in line with the findings of the Accounts Commission's *Borrowing and treasury management in councils* [PDF], published in March 2015, and helps to ensure that capital plans are affordable and appropriately funded. All eight councils refer to capital investment activity within their treasury management strategies, and at least two have a single manager in charge of both areas to promote joined-up working.

Business cases for major capital projects identify expected benefits but councils do not routinely monitor them

59. In 2013 the Accounts Commission reported that councils had weak processes for developing and using business cases. All eight councils reviewed in detail have clear procedures for preparing outline and full business cases but they do not always apply them fully. The review found that the content of business cases is not consistent for all capital projects. Five out of eight councils do not routinely revisit and review business cases throughout projects and this limits their ability to identify benefits that individual projects have realised. Three of the eight councils are currently reviewing their practices for preparing business cases, including how they measure and monitor intended benefits.

60. The review of 13 major capital projects across the eight councils showed that most were based on sound business cases. In some councils business cases existed for the wider schools modernisation programme rather than for the individual projects. Twelve of the 13 business cases clarified timescales and project values, and clearly demonstrated how projects were expected to contribute to the councils' strategic priorities. The exception to this was Dundee City Council's Longhaugh Primary School, where the project was in the early stages of development and a detailed business case had yet to be prepared. The majority of projects had appropriate governance arrangements in place with roles and responsibilities clearly allocated.

Few councils are doing formal mid-term reviews of projects and post-project evaluations

61. Most councils do not carry out independent expert reviews of projects at key stages, known as gateway reviews. In contrast, South Lanarkshire Council has implemented a review process of the key stages of its long-term Primary Schools Modernisation Programme, which includes reviews of design, maintenance and servicing issues, contract management and community benefits. Similarly, the City of Edinburgh Council has established a council-wide Programme, Project and Change Management Community as an informal forum for officers involved in capital investment to share good practice and lessons learned. The community meets several times a year and any good practice or lessons learned are reflected in the council's approach to managing capital projects.

62. Councils do not routinely carry out post-project evaluations. They perform these on an ad hoc basis and their approaches can differ for individual projects. Councils are more likely to formally evaluate projects that ran into significant difficulties. For example, the City of Edinburgh Council completed a comprehensive post-project evaluation of phase one of its Water of Leith flood prevention project and used lessons learned in developing phase two of the project. It is important that councils evaluate all major capital projects on completion, not only the ones with one or more phases or those that did not go to plan. Failure to review projects can limit the ability of councils to identify areas of good practice, share lessons learned and monitor benefits that the investment activity realises.

Elected members are not receiving adequate information on capital investment

63. The 2013 report emphasised that elected members should be provided with regular, appropriate and accurate information to allow them to properly scrutinise councils' capital investment activity. The vast majority of councils currently provide elected members with capital monitoring reports that allow elected members to scrutinise total annual capital spending against budget. Most councils also provide capital spending on individual projects in the current financial year.

64. Councils often need to spend money on individual capital projects over a number of years. It is important for elected members to receive information on this cumulative capital spending. About a third of councils do not routinely provide information to elected members on cumulative spending against total capital budget on a project-by-project basis. There were varied views among the eight councils' elected members on the information they need for scrutinising capital investment effectively. Some felt that cumulative spending against total capital budget on a project-by-project basis should be reported to them. Others thought this information would be too detailed and they were content for the councils' officers to alert them to any issues as appropriate. There is a risk that not providing cumulative spending on a project-by-project basis limits the ability of elected members to scrutinise effectively the performance of the capital programme.

65. Some councils provide better information to elected members. For example, East Ayrshire Council presents cumulative capital spending on a project-by-project basis in its quarterly 'East Ayrshire Performs' report (Appendix 2). Members can also access annual spending information in supplementary papers to help them scrutinise capital investment. Similarly, Dundee City Council has recently revised the format of its capital monitoring report to ensure this reports total capital spending against total project budgets as well as project completion dates to elected members.

66. Officer-led project boards are primarily responsible for managing risks as councils see this as part of the operational management of capital projects. As a result, councils only provide limited information to elected members on project risks and overall capital programme risks. Elected members indicated that officers could alert them to significant risks earlier and, in some cases, also provide them with a better explanation of possible actions that could reduce the risks. Failing to provide information about significant risks to elected members does not allow them to oversee capital investment effectively.

67. Councils could do more to provide reports to members that clearly outline the benefits that individual projects realise. We found that, while business cases included expected benefits, these were not monitored or set out in the reports to members. Three out of the eight councils are currently developing performance measures to enhance how they evaluate their overall capital programme. Members of some councils indicated that they wished to be involved in shaping councils' capital programmes much earlier in the process.

68. Overall, councils need to improve scrutiny of capital investment. The Accounts Commission reported the same finding for councils' borrowing and treasury management in its March 2015 report. Like treasury management, capital investment is a complex and technical subject, and officers need to provide councillors with better information through clear, good-quality reports.

Councils provide elected members with a variety of training opportunities

69. Councils provide members with a variety of training opportunities on capital investment matters. They largely provide one-off training and are willing to organise further training if elected members ask but no council has a continuing programme of training in place on capital issues. A limited number of councils have recently provided training in response to the 2013 report and the recent Accounts Commission's report on borrowing and treasury management in councils.[14] This included training on treasury management, capital finance and scrutiny training that highlighted elected members' responsibilities.

Endnotes

1 *Major capital investment in councils* [PDF], Accounts Commission, March 2013.

2 The 2013 report used 2011/12 as the last year for the analysis of capital spending figures.

3 *Summary Statistics for Schools in Scotland*, Statistical Bulletin (Education Series), Scottish Government, February 2015.

4 2013/14 is the latest year for which information is available.

5 *Scottish Spending Review 2011 and Draft Budget 2012-13*, Scottish Government, September 2011.

6 *Local Government Funding: Draft Budget 2015-16 and provisional allocations to local authorities*, Financial Scrutiny Unit Briefing, November 2014.

7 *Police reform: Progress update 2013* [PDF], Audit Scotland, November 2013.

8 Scottish Futures Trust's Aim.

9 *An overview of local government in Scotland 2015* [PDF], Accounts Commission, March 2015.

10 *Building Better Schools: Investing in Scotland's Future*, Scottish Government, September 2009.

11 *Review of the Construction project for the Victoria and Albert Museum of Design*, John F. McClelland C.B.E., July 2015.

12 *ESA10: Classification of privately funded capital projects – Briefing paper* [PDF], Audit Scotland, October 2015.

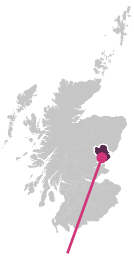
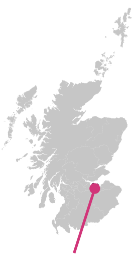
13 Treasury management includes managing cash to ensure enough is available to meet day-to-day expenses like paying salaries or electricity bills, and for building new assets, such as a new school, or improving existing ones, such as roads. It also involves ensuring that any temporary surplus cash is safely invested.

14 *Borrowing and treasury management in councils* [PDF], Accounts Commission, March 2015.

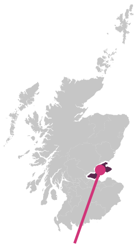
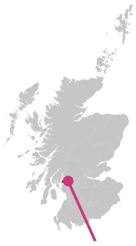
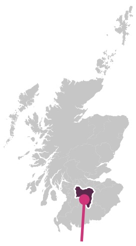
Appendix 1

Councils selected for the targeted follow-up

We performed a more detailed evaluation of capital investment at a sample of eight councils.

Council	Capital spending between 2012/13 and 2014/15, at 2014/15 prices (£m)	Planned capital spending in 2015/16 as at October 2015 (£m)	Number and value of projects in progress at the council	Thirteen major capital projects selected for a business case review
 **Angus**	124.0	55.0	4 projects £62.8 million	Brechin Community Campus (£26.2 million)
 **City of Edinburgh**	794.7	201.2	11 projects £233.7 million	Water of Leith flood prevention scheme (phase 2) (£25 million)
 **Dundee**	248.3	75.1	7 projects £197 million	Harris Academy (£32.4 million) Longhaugh Primary School (£16 million)
 **East Ayrshire**	160.7	46.1	6 projects £135.2 million	Bellfield and Kirkstyle Primary School merger (£12.4 million) Knockroon Learning and Enterprise Campus (£63.5 million)

Cont.

Council	Capital spending between 2012/13 and 2014/15, at 2014/15 prices (£m)	Planned capital spending in 2015/16 as at October 2015 (£m)	Number and value of projects in progress at the council	Thirteen major capital projects selected for a business case review
 Fife	506.3	265.9	19 projects £482.2 million	Dunfermline Museum and Art Gallery (£12.7 million) Kirkcaldy East High School (£26.2 million)
 Highland	397.9	178.3	16 projects £285.1 million	Wick new Noss Primary School (£16.7 million) A862 Muir of Ord Railway Bridge (£5.4 million)
 Inverclyde	107.9	30.0	3 projects £23.1 million	St. Patrick's Primary School (£7 million) Ardgowan Primary School (£6.2 million)
 South Lanarkshire	472.4	143.0	4 projects £425.9 million	Halfmerke Primary School (£12.1 million)

Source: Audit Scotland

Appendix 2

Good practice examples in managing capital investment

The eight councils reviewed in detail displayed the following good practice in managing capital investment.

Area of managing capital investment	Good practice examples
Linking capital investment with councils' strategic objectives	Highland and Fife Councils both use scoring methodologies to prioritise planned capital investment and to demonstrate how it will contribute to achieving strategic priorities and outcomes. In Highland Council, the Capital Planning Officers Group scores each capital project against asset condition and performance, political priorities and financial implications. They attach a higher weighting to meeting the council's programme of priorities. Fife Council is planning to redevelop its scoring mechanism for 2016 to ensure it better takes into account qualitative factors such as expected benefits and risks. (Paragraph 54)
Membership of capital projects monitoring group	In Angus Council the group's membership includes elected members, enhancing elected members' ability to scrutinise capital investment programmes. The Policy and Budget Strategy Group (PBSG) and the Capital Projects Monitoring Group (CPMG) in Angus Council include seven and three elected members, respectively. The PBSG is responsible for setting the council's overall budget strategy. The CPMG is a sub-group of the PBSG and is responsible for overseeing delivery of the agreed capital programme. This means that elected members are involved in both strategic and operational aspects of the council's capital investment to help them scrutinise. (Paragraph 57)
Mid-term reviews of capital projects	South Lanarkshire Council has implemented review process of the key stages of its long-term Primary Schools Modernisation Programme, which includes reviews of design, maintenance and servicing issues, contract management and community benefits. (Paragraph 61)
Sharing good practice and lessons learned	The City of Edinburgh Council has established a council-wide Programme, Project and Change Management Community as an informal forum for officers involved in capital investment to share good practice and lessons learned. The community meets several times a year and any good practice or lessons learned are reflected in the council's approach to managing capital projects. (Paragraph 61)
Post-project evaluations	The City of Edinburgh Council completed a comprehensive post-project evaluation on phase one of its Water of Leith flood prevention project and used lessons learned to develop phase two of the project. (Paragraph 62)
Provision of good-quality information to elected members	East Ayrshire Council presents cumulative capital spending on a project-by-project basis in its quarterly 'East Ayrshire Performs' report. Members can also access annual spending information in supplementary papers to help them scrutinise capital investment (page 35). Similarly, Dundee City Council has recently revised the format of its capital monitoring report to ensure that this reports total capital spending against total project budgets as well as project completion dates to elected members. (Paragraph 65)

Example of a good-quality capital monitoring report provided to elected members

East Ayrshire Council presents cumulative capital spending on a project-by-project basis in its quarterly 'East Ayrshire Performs' report. Members can also access annual spending information in supplementary papers to assist them with their scrutiny of capital investment.

The council's quarterly performance report provides performance information in a range of key areas, including finance. The range of information provided includes: current financial position, progress against expenditure reduction measures, performance against treasury indicators, progress of the capital programme, absence management rates, numbers of complaints received, health and safety issues, and risk management. Presenting the capital programme information with other performance themes gives wider operational context to members.

The report also advises members that additional supporting information is available on the Members' Portal, and that Depute Chief Executives and Heads of Service are available to discuss any aspect of performance. Additional information available on the Members' Portal includes:

- summarised revenue information by department
- capital programme monitoring report
- employee statistics
- health and safety performance report
- council performs: key statistics
- corporate risk register.

An executive summary provides an overview of all areas of performance. In respect of capital projects, this includes information on individual projects covering:

- the type of project and its purpose
- latest progress against the timetable and description of the recent stages
- reasons behind any delays
- the estimated financial impact of identified changes and variances
- any proposals for amendments to a project, together with the reasons for this
- funding sources for any additional costs
- any additional budget requests.

The executive summary ends with a list of recommendations for members. The list refers to individual paragraphs and asks members to note, agree and approve specific points and changes for the outlined projects. It also has contact details for the responsible council officer and a list of background papers.

The report then goes into more detail about individual projects, presented in a series of tables covering each of the council's main service areas. Cumulative spending and forecast spending for each project are shown against the approved budget, with delivery status indicated using colour coding to ease interpretation of performance.

The council's colour coding system uses the following classifications to highlight performance.

Significantly off target
+/– 2% or more budget, or £0.500m, whichever is less

Slightly off target
+/– 0.5% to 2% of budget, or £0.125m, whichever is less

Broadly on target
Within +/– 0.5% of budget

An example of how this information is presented is shown below.

Project	Budget allocation (£m)	Cumulative expenditure to date (£m)	Forecast expenditure (£m)	Current milestone	Delivery status
Project 1	5.000	0.075	5.000	Design	
Project 2	2.500	1.250	2.700	Development	
Project 3	1.500	0.033	1.500	Tender	
Project 4	10.250	10.200	10.250	Complete	
General Projects	4.422	2.850	2.850	N/A	N/A

Below each service table, the report provides further information on individual projects including:

- current stage of the project and main activities undertaken during the period
- anticipated works start and completion dates
- explanations for budget and time variances
- highlighted risks and planned responses
- early indications of changes that might be required
- estimated financial impact of the changes
- details of discussions with internal and external stakeholders
- description of upcoming work stages
- recommendations for members.

Appendix 3

Alternative funding methods

Councils are considering alternative funding methods to supplement direct funding of their capital projects, or as alternatives to established forms of Public Private Partnerships.

City Deal

Agreement between the Scottish Government, the UK Government and councils to stimulate the economy in Scottish cities and their regions. The UK and Scottish Governments provide specific capital grants to city regions over ten to 20 years for infrastructure and economic development projects. The councils borrow further funds to supplement government grants. In August 2014, the two governments agreed to provide £500 million funding each, over 20 years, to the Glasgow and Clyde Valley City Deal, the first deal of its kind in Scotland. Eight councils across Glasgow and Clyde Valley are expected to provide an additional £130 million to improve transport infrastructure and public transport, and provide new sites for housing and employment. Several other councils have submitted or are currently preparing bids for further City Deals, including the City of Edinburgh Council, Fife Council, Dundee City Council and Highland Council. The councils are mainly doing this in collaboration with their neighbouring authorities.

Growth Accelerator Model (GAM)

Similar to TIF, the GAM model involves public sector investment that promotes further private sector investment. This is expected to result in additional local tax income, which councils use to repay their borrowing. The GAM scheme attaches specific conditions to creating the circumstances for the private sector to invest, including job creation targets, training opportunities and a share of any private sector profits. GAM is currently available in Scotland's seven cities. An example is the St James Quarter in Edinburgh, with an estimated value when finished of approximately £850 million. Of this, City of Edinburgh Council is planning to invest about £61 million in enabling infrastructure, such as improvements to public transport, pavements and cycle facilities. It will also invest in building a sustainable energy centre that will provide power, heating and cooling to the new development.

Tax Incremental Financing (TIF)

A new financial model that combines public and private sector investment in local infrastructure to deliver economic growth. Councils use borrowing to fund investments in public infrastructure with the aim of attracting further private sector investment. As a result of this, councils are expected to receive higher local tax income which they use to repay their borrowing. Six councils are currently piloting TIF schemes in Scotland: Argyll & Bute, City of Edinburgh, Falkirk, Fife, Glasgow and North Lanarkshire. The councils are expected to borrow about £350m under this scheme to fund enabling infrastructure such as improvements to local roads and railway links.

UK Green Investment Bank (UKGIB)

UKGIB invests in environmentally friendly areas with the aim of attracting further private sector investment into green projects. In particular, it helps to fund new energy and waste infrastructure across the UK to achieve environmental targets, such as reducing the amount of waste sent to landfill. UKGIB investments in Scotland so far include Scottish wind farms, low-energy street lighting through the bank's green loans scheme, recycling and waste plants, and community renewables. Councils told us that the UK Green Investment Bank is currently not a popular choice for funding capital projects since interest rates on borrowing are usually higher than other sources of borrowing.

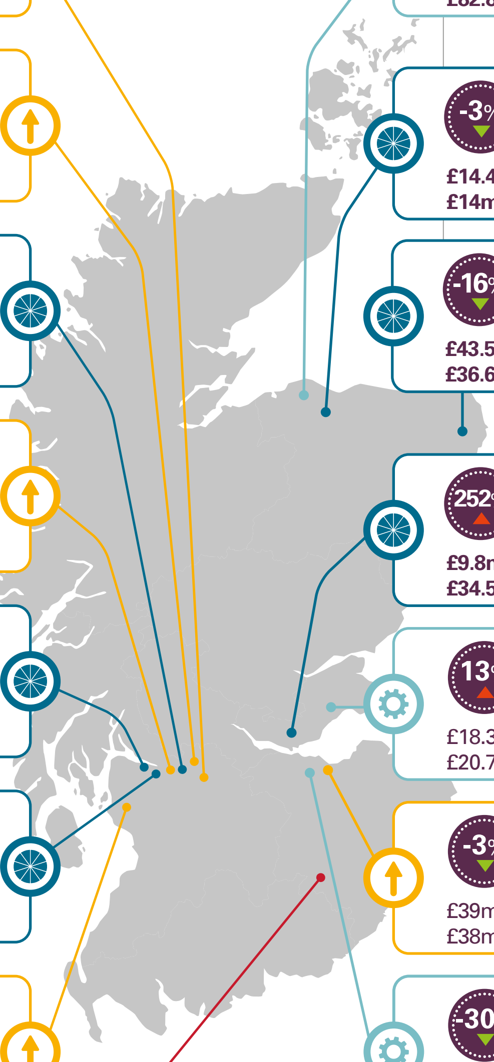
Appendix 4

Update on the 15 projects reviewed in the 2013 report

Of the 15 capital projects that were in progress at the time of the 2013 report, nine were complete, five were under way and one had been cancelled as at October 2015.

Percentage change from initial cost estimate

Change in timescale from initial estimate



Ravenscraig Regeneration Site
North Lanarkshire
N/A | N/A
Initial: £73m | 2018
Completion/estimate: Not known | Not known

Council House New Build
North Lanarkshire
0% | 0 months
Initial: £150m | 2020
Completion/estimate: £150m | 2020

Pre-12 Schools strategy
Glasgow
39% | +8 months
Initial: £128m | Dec 12
Completion/estimate: £178m | Aug 13

Care homes
Glasgow
29% | +28 months
Initial: £71.2m | Mar 15
Completion/estimate: £91.8m | Jul 17

Linwood Sports Hub
Renfrewshire
-7% | +1 month
Initial: £24.1m | Jan 13
Completion/estimate: £22.3m | Feb 13

Park Mains High School
Renfrewshire
-14% | -1 month
Initial: £33.7m | Aug 12
Completion/estimate: £29.1m | Jul 12

Garnock Academy
North Ayrshire
-2% | +16 months
Initial: £43m | Aug 15
Completion/estimate: £42m | Dec 16

Waste Treatment
Scottish Borders
N/A | N/A
Initial: £18.2m | Oct 12
Completion/estimate: £2.4m | N/A

Elgin Flood Alleviation Scheme
Moray
0% | +38 months
Initial: £83m | Jun 12
Completion/estimate: £82.8m | Aug 15

New Council House Build
Moray
-3% | 0 months
Initial: £14.4m | Mar 13
Completion/estimate: £14m | Mar 13

Ellon Academy
Aberdeenshire
-16% | +2 months
Initial: £43.5m | May 15
Completion/estimate: £36.6m | Jul 15

Dunfermline Flood Prevention
Fife
252% | +45 months
Initial: £9.8m | Mar 11
Completion/estimate: £34.5m | Dec 14

Bankhead Depot Rationalisation
Fife
13% | +34 months
Initial: £18.3m | Feb 13
Completion/estimate: £20.7m | Dec 15

Portobello High School
City of Edinburgh
-3% | N/A
Initial: £39m | Not known
Completion/estimate: £38m | Aug 16

Edinburgh International Conference Centre Extension
City of Edinburgh
-30% | +47 months
Initial: £112.2m | Jun 09
Completion/estimate: £79m | May 13

Completed — Operational with final costs to be confirmed — In progress — Cancelled

Reasons for overspends and delays:

Bankhead Depot Rationalisation

Fife Council revised the budget in February 2012 to take account of additional design works and extended the construction programme. The installation of a biomass boiler was subject to planning delays but this did not delay the use of the facility. The council is still to complete sub-metering that will detail energy use in different locations, a small element of the project with the estimated cost of £0.07 million.

Dunfermline Flood Prevention

Phase 1 was delayed significantly because of contractual disputes, and design and site supervision failures. The council terminated the contract in January 2014 due to problems with the contractor’s performance and delays in project delivery. This led to additional costs and significant professional fees for recovering costs but any recovery from the design consultant will reduce the total completion cost (Case study 1, page 19).

Pre-12 Schools Strategy (Phase 4)

As reported in the 2013 report, the movements in cost were due to problems with identifying a site and with planning approval, changes to design requirements and unforeseen additional ground works. The council increased the budget to £178m in November 2012. Delays were mainly due to adverse weather, unforeseen ground conditions and additional structural works in one of the existing buildings. There were also delays in procurement and in agreeing changes to the project's scope.

Edinburgh International Conference Centre extension

The project was delayed significantly because the original contractor withdrew in 2007 and because the council reappraised the project's scope with a reduced budget of £84.6 million. The revised budget included £71 million for the main construction phase and £15 million for development costs and the lease of the land. The council delivered the construction phase at £64 million, £7 million under the revised budget.

Ravenscraig Regeneration Site

In September 2015 Ravenscraig Ltd, the joint venture company overseeing the development of the former Lanarkshire steelworks site, announced its intention to update the Ravenscraig regeneration plan. As a result, the town centre element of the original plan was temporarily put on hold. Between 2006 and 2015 Ravenscraig Ltd. invested over £200m in the project and is now working with North Lanarkshire Council to finalise a revised plan for the site.

Reason for project cancellation:

Waste Treatment facility

The Scottish Borders Council cancelled the project due to project-specific issues. In particular, the council failed to demonstrate the project's technical viability and was therefore unable to secure funding for the project. External auditors are satisfied that it followed appropriate procedures in relation to this decision.

Source: Audit Scotland's analysis of supporting documentation

Major capital investment in councils

Follow-up

This report is available in PDF and RTF formats, along with a podcast summary at:
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Appendix 2

Councils' actions to implement recommendations from the 2013 report

Recommendations from the 2013 report – councils should:	The extent to which councils have implemented the recommendations (this is the view of Audit Scotland regarding the level of progress made by local authorities - 5 observations are based on the 8 local authorities reviewed in detail)		Has WDC implemented recommendations from the 2013 report? (this is the view of officers regarding the level of progress made by WDC)	
	Progress Status	**Position Statement**	**Progress Status**	**Position Statement**
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.	Limited	A third of all councils have a long-term capital investment strategy in place and only two cover a period of over ten years. The majority of these set out the needs and constraints for local capital investment. But councils need to improve them further to include other features of good practice such as providing clear links between individual projects and wider programmes. Councils consult with stakeholders, such as service users and suppliers, although the extent of this varies by the council.	Partial	The council has had a long term approach to investment planning since 2013/14 and has recently refreshed and extended the planning period to 2025/26, however for future development of this there is a need to improve how the council consults with stakeholders
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.	Limited	A third of all councils have a long-term capital investment strategy in place. Two-thirds of these assess funding methods and consider how councils might use them. But councils need to improve them further to include other features of good practice such as coordinating investment requirements from across each service area.	Partial	The long term capital plan identifies a number of funding sources to deliver the projects within the plan. As far as possible the council aims to minimise borrowing by funding 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 considers alignment of any revenue savings generated as a result of the capital investment to funding the revenue impact of the borrowing. Officers regularly consult with Treasury advisors on the most cost effective method of financing capital expenditure and future capital planning reports will advise Members of this advice.
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.	Limited	Councils told us that they were actively exploring opportunities for joint working but this is often not reflected in their capital investment strategies. Evidence of successful joint projects or sharing staff resources is limited.	Partial	Improvements have been made in relation to joint working opportunities through engagement with the Scottish Futures Trust, using the hub programme for a number of projects , being part of the City Deal arrangement and joint working at Queens Quay. The Council will continue to seek joint working opportunities where appropriate

Councils' actions to implement recommendations from the 2013 report

Recommendations from the 2013 report – councils should:	The extent to which councils have implemented the recommendations (this is the view of Audit Scotland regarding the level of progress made by local authorities - 5 observations are based on the 8 local authorities reviewed in detail)		Has WDC implemented recommendations from the 2013 report? (this is the view of officers regarding the level of progress made by WDC)	
	Progress Status	**Position Statement**	**Progress Status**	**Position Statement**
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.	Partial	All eight councils reviewed in detail have clear procedures for preparing outline and full business cases. But they do not routinely revisit and review business cases throughout the life of projects. Based on the detailed review of eight councils, about a third of them do not routinely report cumulative spending on a project-by-project basis.	Partial	The reporting of capital programmes and projects has improved and evolved since 2013/14 in light of the 2013 Audit Scotland report. Updates are regularly reported to Council and relevant service Committees; the Strategic Asset Management Group (SAMG); and the Performance and Review Group (PRG) . Updates are provided on a project by project basis and detail provided includes: □ comparison of actual project spend against budget for both the current year and cumulatively; □ planned and forecast project lifecycle dates; □ main issues and reasons for variance; □ mitigating action (to address main issues and/or variances where relevant); and □ the anticipated outcome of either the mitigating action or the project (where no mitigating action is required) Currently the process requires committee approval of business cases for significant capital projects and these will be reviewed by project boards on a regular basis. Overall the standard of reporting has improved however officers will continue to review this in light of the elements which are identified in the Audit
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.	No	The detailed review of eight councils shows that councils do not carry out mid-term reviews of projects or post-project evaluations regularly or consistently. This limits councils' ability to identify areas of good practice, share any lessons learned and monitor benefits realised from the investment activity.	No	The early analysis and consideration of risk forms part of the development of business cases for investment projects. The approach to planning and review of projects has evolved since 2013/14 and a pilot programme of post project reviews is underway which covers this aspect of the process, as a number of major projects have recently been completed. It is expected that these will be reported to the appropriate committees commencing in 2016/17.

Appendix 2

Councils' actions to implement recommendations from the 2013 report

Recommendations from the 2013 report – councils should:	The extent to which councils have implemented the recommendations (this is the view of Audit Scotland regarding the level of progress made by local authorities - 5 observations are based on the 8 local authorities reviewed in detail)		Has WDC implemented recommendations from the 2013 report? (this is the view of officers regarding the level of progress made by WDC)	
	Progress Status	**Position Statement**	**Progress Status**	**Position Statement**
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.	Limited	The vast majority of councils report annual capital spending against budget: □ Based on the review of eight councils, about a third of them do not routinely report cumulative spending against total capital budget on a project-by-project basis. □ The eight councils reviewed in detail provide limited information to elected members on project risks and overall capital programme risks. □ Business cases identify intended benefits but monitoring reports do not outline benefits that individual projects have realised.	Partial	Reports provided to Members provide: □ annual financial performance against the capital budget □ project and programme level performance against cost and time in each budgetary control report □ risk reporting including information on potential finalical and time impacts and any available mitigations are provided in each budgetary control report □ business cases provided to approving committees provide an assessment of intended benefits. The process which has started in terms of post-project review will provide information as to whether intended benefits have been realised.
Carry out early assessments of risk and uncertainty to improve the accuracy of early-stage estimating of the cost and timescale of projects.	Partial	Officer-led project boards of the eight councils reviewed in detail are primarily responsible for managing risks. While officers may alert elected members to specific risks, they often provide them with information on project risks and overall capital programme risks on an ad hoc basis.	Partial	Early assessment of risk takes place in business cases and these are reported to appropriate Committees for approval. On an ongoing basis, Officer-led project boards manage risk and each project board contains a highlight report detailing risks. Project issues that cannot be dealt with at board level are raised at the Strategic Asset Management Group, the minutes of which are passed to the Performance and Monitoring Review Group. Any issues which cause a project to be deemed red or amber status are detailed in budgetary control report updates which are regularly presented to Members at Council/Committee meetings.
Consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary.	No	The detailed review of eight councils shows that councils provide members with a variety of training opportunities on capital investment matters but no council has a continuing programme of training on capital issues in place.	Partial	The training needs of elected members in relation to capital issues forms part of the ongoing consideration of members training plans and most recently a members seminar on capital and treasury took place in August 2015

Comparison of councils' capital investment strategies against the 2013 good practice guide (12 Councils)

Good practice criteria for an investment strategy	Do capital investment strategies comply with good practice? (this is the view of Audit Scotland regarding the level of progress made by the 12 local authorities that have a capital investment strategy)		Does WDC capital investment strategy comply with good practice? (this is the view of officers regarding the level of progress made by WDC)	
	Progress Status	**Position Statement**	**Progress Status**	**Position Statement**
Shows the council's consideration of its potential future service and community infrastructure needs and ambitions compared to the current position.	Partial	Two-thirds of strategies (8/12)	Partial	Investment strategies link to the approved asset management plans and strategies, e.g. vehicles, operational buildings, schools estate, ICT, Housing. This may not be totally clear in the capital budget reports for approval for General Services, and officers will review going forward.
Shows how investment may be funded sustainably and outlines a method for choosing capital investment priorities within available resources and the overall funding strategy.	Partial	Two-thirds of strategies (8/12)	Partial	Resources are categorised as being funded by: - general capital grant - ring fenced capital grant - match funding - capital receipts (general and linked to specific named projects) - revenue contributions - prudential borrowing (general and funded by the revenue efficiencies generated by named projects). The revenue implications of the draft capital plan are provided to Council to allow consideration of affordability and sustainability to be considered when agreeing to the investment strategy (capital plans). In this way the council seeks to maximise sustainability and minimise the level of prudential borrowing that is general in nature (i.e. prudential borrowing that is not funded by project efficiencies).
Provides clear links between investment objectives and the council's strategic objectives.	Yes	All strategies (12/12)	Yes	Prior to discussion at the SAMG or being included in recommended project lists all capital bids are scored and weighted against the strategic objectives of the Council and then ranked from highest to lowest.
Identifies and coordinates investment requirements from across each service area.	Partial	Half of strategies (6/12)	Yes	The General Services process for developing capital plans pulls together options from across all service areas and these are ranked together in the ranking process described above.
Provides clear links between individual projects and wider programmes.	limited	One-third of strategies (4/12)	Limited	Where individual projects are part of a wider programme then these are detailed e.g. schools estate, Housing
Clearly outlines investment plans over a number of years, including contractually committed and uncommitted projects.	Partial	About 60 per cent of strategies (7/12)	Partial	The investment plan for GS and HRA (capital plans) provides Council and Members with plans for approval for 10 and 5 years respectively and future reports to Council will identify committed projects.

Appendix 3

Comparison of councils' capital investment strategies against the 2013 good practice guide (12 Councils)

Good practice criteria for an investment strategy	Do capital investment strategies comply with good practice? (this is the view of Audit Scotland regarding the level of progress made by the 12 local authorities that have a capital investment strategy)		Does WDC capital investment strategy comply with good practice? (this is the view of officers regarding the level of progress made by WDC)	
	Progress Status	**Position Statement**	**Progress Status**	**Position Statement**
Provides an assessment of the various funding options available to the council and how these may be used.	Partial	About 60 per cent of strategies (7/12)	Partial	Officers do consider appropriate funding sources and these are reported in the capital plan proposals, however the options not recommended are currently not reported. Officers regularly consult with Treasury advisors on the most cost effective method of financing capital expenditure and future capital planning reports will advise Members of this advice.
Provides clear information on asset management activity and the overall condition of the council estate.	Yes	Over 80 per cent of strategies (10/12)	Partial	The Housing capital plan clearly links investment plans to asset management strategy and the condition of the estate. The General Fund capital plan is less clear, though there are indications in terms of spends linked to asset management strategies and plans e.g. Operational buildings, ICT, vehicles, roads, though these could be more clearly described.
Identifies opportunities for collaboration with other councils, public bodies and the private sector.	Partial	Only a quarter of strategies (3/12)	Partial	Where such opportunities exist then these are reported to Council e.g. City Deal, Queens Quay, Clydebank Community Sports Hub, SPTE, etc. Future reports will include a section on collaborative opportunities that have been considered and identified.

Appendix 4

Comparison of councils' capital investment strategies against the 2013 good practice guide (32 Councils)

Good practice criteria for an investment strategy	Do capital investment strategies comply with good practice? (this is the view of Audit Scotland regarding the level of progress made by all 32 local authorities)		Does WDC capital investment strategy comply with good practice? (this is the view of officers regarding the level of progress made by WDC)	
	Progress Status	**Position Statement**	**Progress Status**	**Position Statement**
The rationale for all the main capital investment projects identified as priorities within the plan period, including the expected benefits and any options around the selection of projects.	No	Seven out of 32 capital plans explain the rationale for prioritising projects. Only one plan provides expected benefits of these projects and none provides options for project selection.	Limited	New capital projects that are recommended for approval are ranked accordingly and the ranking is included in the report to Council. While there is some narrative re the rationale behind the project the benefits and options could be clearer.
Includes details of the planned annual project and programme costs.	Yes	Most capital plans (29/32)	Yes	Full details over the forthcoming planning period are included in the capital plan.
Details funding arrangements, including grant funding, borrowing, use of private finance.	Yes	Most capital plans (30/32)	Yes	The resources section of the capital plan includes details on anticipated funding arrangements and prudential borrowing (separately identifying that which can be funded from revenue efficiencies related to specific named projects)
Details any shortfalls or surpluses in available funding and actions to address these.	Yes	Most capital plans (30/32); councils also address this by linking their capital investment activity with treasury management functions.	Yes	The capital plan shows total recommended capital spend and total anticipated resources and clearly shows the anticipated gap in each year and the conclusion that the gap will be filled by prudential borrowing, however projects could removed by Members if they wished to reduce the potential burden. There is a clear link to the annual treasury management strategy report which is presented at the same council meeting as the capital plan refresh.
Sets out clearly re-profiling of capital spending between years.	Limited	Less than a quarter of capital plans (7/32)	Limited	The annual refresh of the capital plan provides an updated spend profile but does not clearly show how this has changed from the previously approved plan.
Provides details of project or programme slippage between years and how this affects the delivery of the plan.	Limited	Less than a quarter of capital plans (7/32)	Limited	The capital plan refresh report that is presented to Members in February each year details the anticipated level of slippage as that date, however this will differ from final slippage levels calculated at the year end. These final levels of slippage are detailed in summary within the annual accounts but are not detailed on a project by project basis.
Provides clear links between the overarching capital investment strategy and annual capital budget monitoring.	Limited	Only five out of 12 capital plans (5/12)	Yes	Both current year and project life analysis is included in the ongoing capital budget monitoring reports that are presented to Members.

ITEM 10

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Regulatory

Committee: Audit & Performance Review Committee

Subject: Data Protection Act Enforcement Notice from Information Commissioners Office (ICO)

1. Purpose

1.1 To update the committee on an Enforcement Notice from the Information Commissioner's Office (ICO) which followed an investigation into the Council's compliance with the Data Protection Act 1998.

2. Recommendations

2.1 For the Committee to note this report.

3. Background

3.1 In July 2014, the Council self-referred to the ICO after Legal Services had been advised by HSCP that the car of one of their employees had been broken into and a document including personal data which was contained in a bag had been stolen from the boot of the car along with other personal items.

3.2 On 26th April 2016, the Council received an Enforcement Notice from the ICO which followed an investigation into the Council's compliance with the Data Protection Act 1998, following a security breach within HSCP on 21st July 2014. The areas noted by the ICO were:

- *There is a mandatory data protection training programme for all staff (including news starters) and refresher training on an annual basis;*
- *Completion of such training is properly documented and monitored to ensure training is completed within an appropriate timeframe;*
- *A home working policy is implemented to provide sufficient guidance for staff working remotely. A risk assessment should also be incorporated in the home working procedure to cover security of equipment.*

3.3 Since the data breach incident was reported in 2014, there have been numerous contacts between the Council and the ICO before the Enforcement Notice was issued in 2016. During this time period, the ICO has requested responses and supporting evidence to a large number of questions that it has posed to allow them to investigate the breach further.

3.4 When the Enforcement Notice was received by the Council, there was a 28 day appeal period contained within to allow the Council to consider its position but the ICO released a press statement within two days of the notice without asking the Council for a response.

3.5 Part of the Enforcement Notice stated that "*there is a mandatory training programme for all staff*. This is in contrast to Legal Service's response at the time of the audit which was for a "*needs based' approach which is dependent on identifying the relevant staff that handle personal data as a large part of their job*". This approach is comparable to most other local authorities and is the preferred option rather than embarking on a tick box exercise.

3.6 The Council is currently considering its position in relation to the appeal process and as well as taking in-house legal advice. The Data Protection Officer is also talking to other Scottish Local Authorities with a view to ensuring that the Council's position is comparable to peers within the public sector.

3.7 It is anticipated that procedures for handling personal information and ICT security when working remotely or flexibly will be incorporated into guidance that OD are currently developing.

3.8 It should be noted that the Enforcement Notice was issued instead of a monetary penalty which could have been imposed with a sum of £500,000 being the maximum penalty.

4. Main Issues

4.1 The Enforcement notice followed enquiries dating back to the initial data loss in July 2014, but also referred to follow up from the Consensual Audit of Data Protection compliance which the Council underwent in January 2013, and which resulted in a finding by the Information Commissioner of "reasonable assurance" which is seen as being a very good outcome, despite the terminology.

4.2 In the response to the initial recommendations from the ICO Audit, the Council was very specific that its delivery would be targeted at specific staff - '*A needs based' data protection, information management and information security training will be delivered via the Council's e-learning platform. This will be included as part of the induction process and a central log will be kept of all employees taking part. Specific awareness training will also be delivered council wide as required".*

4.3 Following the original *recommendations*, Legal Services began a process of compulsory Data Protection and Security training for all new staff through the induction process, and also identified staff groups through selective and discussion with the relevant services.

4.4 Examining the correspondence from the Information Commissioner's office, the first reference to an apparent expectation that the Council would be providing Mandatory Training for all staff came in an email in July 2015, where the case officer enquired:-

Is your data protection training a mandatory requirement for all staff and is refresher training provided periodically?"

The Council's response was: **"***The initial aim has been to prioritise front facing staff who handle personal data as well as staff whose duties include handling high volumes of personal data."*

4.5 It is the belief that whilst the Council was undoubtedly at fault for the loss of the data, as the Council are responsible for the actions of its employees, the terms of the Press Release gave a materially false impression, in that it suggested that the Council have been repeatedly told over years that there was to be mandatory training for each employee of the Council and that the Council have failed to address that demand.

5. People Implications

5.1 There will undoubtedly be resource implications associated with the proposed changes to delivery and uptake of training. These will be quantified once it is determined the frequency; however a universal approach will inevitably mean loss of productivity to services during attendance.

6. Financial Implications

6.1 There are no financial implications from the ICO in relation to this data breach however; there will be costs incurred by loss of productivity as staff who are identified as handling personal data are provided with time to review the data protection training via the e-learning platform. This will increase substantially if all staff are required to be subjected to this training.

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Date: **18 May 2016**

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Appendices:	**None**
Background Papers:	**N/a**
Wards Affected:	**None**