The Accounts Commission for Scotland

Agenda

Meeting on Thursday 13 December 2012,
in the offices of Audit Scotland, 18 George Street, Edinburgh

The meeting will begin at 10:00 am

1. **Apologies for absence**

2. **Declarations of interest**

3. **Decisions on taking business in private:** The Commission will consider whether to take items 12 to 15 in private.

4. **Minute of meeting of 15 November 2012**

5. **Minutes of meeting of the Financial Audit and Assurance Committee of 29 November 2012**

6. **Chair's introduction:** The Chair will report on recent activity and issues of interest to the Commission.

7. **Update report by the Controller of Audit:** The Commission will consider a report from the Controller of Audit on significant recent activity in relation to the audit of local government.

8. **Welfare reform:** The Commission will consider a briefing paper by the Assistant Auditor General.

9. **Shetland Islands Council:** The Commission will consider a progress report by the Controller of Audit.

10. **The 2011/12 audit of the City of Edinburgh Council:** The Commission will consider a report by the Controller of Audit.

11. **Any other business**

The following items are proposed to be considered in private:

12. **Shetland Islands Council:** The Commission will consider the action it wishes to take on the report.

13. **The 2011/12 audit of the City of Edinburgh Council:** The Commission will consider the action it wishes to take on the report.

14. **Statutory performance information: 2012 Direction:** The Commission will consider a report by the Controller of Audit.

15. **Local Government and Regeneration Committee: Inquiry on Public Services Reform and Local Government: Strand 3 – Proposed response:** The Commission will consider a report by the Controller of Audit.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of the meeting of the Commission of 15 November 2012	AC.2012.10.1
Agenda Item 5: Minutes of the meeting of the Financial Audit and Assurance Committee of 29 November 2012	AC.2012.10.2
Agenda Item 7: Report by the Controller of Audit	AC.2012.10.3
Agenda Item 8: Briefing paper by Assistant Auditor General	AC.2012.10.4
Agenda Item 9: Cover note by Secretary and Business Manager	AC.2012.10.5
Agenda Item 10: Cover note by Secretary and Business Manager	AC.2012.10.6
Agenda Item 14: Report by Controller of Audit	AC.2012.10.7
Agenda Item 15: Report by Controller of Audit	AC.2012.10.8

AGENDA ITEM 4
Paper: AC.2012.10.1

ACCOUNTS COMMISSION

MEETING 13 DECEMBER 2012

MINUTES OF PREVIOUS MEETING

Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 15 November 2012, at 10am

PRESENT:

John Baillie (Chair)
Michael Ash
Alan Campbell
Sandy Cumming
Colin Duncan
Jim King
Bill McQueen
Christine May
Colin Peebles
Linda Pollock
Graham Sharp
Douglas Sinclair

IN ATTENDANCE:

Barbara Hurst, Director of Performance Audit (PAG) [Item 15]
Fiona Kordiak, Director, Audit Services
Fraser McKinlay, Controller of Audit and Director of Best Value and Scrutiny Improvement (BVSI)
Paul Reilly, Secretary and Business Manager
Antony Clark, Assistant Director, BVSI [Items 8 and 9]
Elaine Boyd, Senior Audit Manager, Audit Services [Item 10]
Martin Walker, Assistant Director, BVSI [Items 11 and 14]
Lesley McGiffen, Portfolio Manager, (BVSI) [Items 11 and 14]
Tommy Yule, Project Manager, (BVSI) [Items 11 and 14]
Carol Calder, Portfolio Manager, Best Value, (BVSI) [Item 13]
Jim Lakie, Project Manager, BVSI [Item 13]
Ronnie Nicol, Assistant Director, PAG [Item 15]
Cathy McGregor, Project Manager, (PAG) [Item 15]
Mark Roberts, Portfolio Manager, PAG [Item 15]
David Martin, Chair, Society of Local Authority Chief Executives Scotland [Item 13]
Mark McAteer, Director of Governance and Performance Management, Improvement Service [Item 13]

Item No	Subject
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 18 October 2012
5.	Minutes of meeting of the Performance Audit Committee of 1 November 2012
6.	Chair's introduction
7.	Update report by the Controller of Audit
8.	Audit of community planning partnerships and outcomes: update
9.	Shared risk assessment: update
10.	Clyde Valley shared services proposals
11.	Best Value audit (follow-up) – Comhairle nan Eilean Siar
12.	Any other business
13.	Statutory performance information - update
14.	Best Value audit (follow-up) – Comhairle nan Eilean Siar
15.	Performance audit – Protecting consumers

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1. Apologies for absence

There were no apologies for absence received.

2. Declarations of interest

The following declarations of interest were made:

- Christine May, in item 10, as a consultant in relation to waste management issues.

- Douglas Sinclair, in items 11 and 14, as a former employee of Comhairle nan Eilean Siar, and in item 15, as Chair of Consumer Focus Scotland.

3. Decisions on taking business in private

It was proposed that items 13 to 15 should be taken in private as they include draft reports and confidential issues.

4. Minutes of meeting of 18 October 2012

The minutes of the meeting of 18 October 2012 were submitted and approved.

5. Minutes of the meeting of the Performance Audit Committee of 1 November 2012

The minutes of the meeting of the Performance Audit Committee of 1 November 2012 were submitted and approved.

6. Chair's introduction

The Chair reported that—

- On 23 October, he attended a meeting of auditors in relation to a range of public audit issues, including planning the external audit process.

- Also on 23 October, he attended a meeting in the Scottish Parliament of the National Group on Community Planning.
- On 24 October, he attended a meeting of the Audit Scotland Board to discuss its strategy.
- On 25 October, he and Douglas Sinclair met with John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth and Derek MacKay, Minister for Local Government and Planning, to discuss progress with the audit of community planning partnerships and outcomes, which was to be discussed further at this meeting.
- On 7 November, he – along with Sandy Cumming and Christine May – met with representatives of Midlothian Council to discuss the Best Value audit of the Council, which was published on 7 June.
- Also on 7 November, he – along with Douglas Sinclair and Jim King – met with representatives of SOLACE to discuss progress with their benchmarking project, which was to be discussed further at this meeting.

7. <u>Update report by the Controller of Audit</u>

The Commission considered a report by the Controller of Audit providing an update on significant recent activity in relation to the audit of local government.

During discussion the Commission agreed to note advice from the Controller of Audit that he provide further information on the plans by Aberdeen City Council to set up a special arm's length company to run services for older people.

Thereafter the Commission agreed to note the report.

8. <u>Audit of community planning partnerships and outcomes: update</u>

The Controller of Audit provided a verbal update on the progress of the audit of community planning partnerships and outcomes.

The Commission agreed to note the update.

9. <u>Shared risk assessment: update</u>

The Controller of Audit provided a verbal update on the shared risk assessment process.

The Commission agreed to note the update.

10. <u>Clyde Valley Shared Services Proposals</u>

The Commission considered a paper by the Director of Audit Services which provided an update on the current position relating to the Clyde Valley shared services proposals.

During discussion the Commission agreed that the Director of Audit Services and the Controller of Audit produce a paper for the Performance Audit Committee in relation to:

- how to investigate the experience so far in Scottish local government – and perhaps in the wider public sector – in relation to shared services

- experience in the private sector
- experience beyond Scotland.

Thereafter the Commission agreed to note the report

11. Best Value audit (follow-up): Comhairle nan Eilean Siar

The Commission considered a report by the Controller of Audit on the Best Value audit of Comhairle nan Eilean Siar and seeking direction on how to proceed.

During discussion, the Commission:

- Noted advice from the Controller of Audit that the cover of the report erroneously included the word ‘draft’.
- Sought clarification and further explanation from the Controller of Audit and the audit team on a number of points in the report.

The Commission agreed to note the report and to consider in private its findings.

12. Any other business

The Commission noted that there was no other business to be considered.

13. Statutory performance information – update [in private]

The Commission agreed that this item be held in private because it would involve discussion of options open to the Commission in relation to performance information.

The Commission considered a report by the Controller of Audit setting out:

- the current position with the Society of Local Authority Chief Executives (SOLACE) benchmarking project
- an evaluation of the existing statutory performance indicators
- the findings from work undertaken in conjunction with Consumer Focus Scotland
- recommendations for the Commission’s 2012 Direction.

The Chair welcomed David Martin, Chair, Society of Local Authority Chief Executives (SOLACE) Scotland, and Mark McAteer, Director of Governance and Performance Management, Improvement Service, to the meeting. They gave a presentation on the ongoing benchmarking project, led by SOLACE. They answered questions from members and then left the meeting, with the Chair thanking them for their presentation.

Following discussion the Commission agreed to:

- Endorse the SOLACE benchmarking project, subject to SOLACE providing assurance that the resourcing of the project would allow it to sustain benchmark indicators in the future.
- Note that the auditor’s duty to ensure adequate arrangements for collection and recording information, and for publishing it, will continue.
- Continue with SPIs 1 and 2 which cover a broad range of corporate and service areas and provide the Commission with the assurance that councils

will include these key service issues in their public performance reporting (PPR), while at the same time acknowledging that councils have primary responsibility for selecting the information they choose to present in their reporting framework.

- Note that current auditor guidance would be amended to clarify the auditor's duty including reporting requirements on councils' PPR arrangements.
- Delete the 25 specific SPIs from the 2012 Direction.
- Use the foreword to the 2012 Direction to emphasise that:
    - the Commission will continue to use SPI 1 and 2 and the SOLACE benchmark indicators to review and report on the quality and comprehensiveness of individual councils' PPR reports
    - a review of audit requirements around PPR will take place
    - consideration will be given to a report on PPR, for example as part of the Commission's *How Councils Work* series
    - the Commission reserve the right to reconsider its position in relation to specified indicators if sufficient progress in PPR and the SOLACE benchmarking project does not materialise.
- Delete reference to performance indicators for police and fire services in the 2012 Direction, as a result of the Police and Fire Reform (Scotland) Bill.
- Agree that Audit Scotland be represented on the SOLACE project board as an observer, to oversee the benchmark project and to influence the direction of travel.
- Ask Audit Scotland to further evaluate the work undertaken with Consumer Focus Scotland, consult with other interested parties, and report back to a future Commission meeting on potential performance indicators.

Thereafter the Commission agreed to note the report.

14. <u>Best Value Audit (follow-up) – Comhairle nan Eilean Siar [in private]</u>

The Commission agreed that this item be held in private to allow it to consider actions in relation to its findings.

Following discussion, the Commission agreed to make findings as contained in the report to be published in early course.

The Chair thanked the audit team for its work.

15. <u>Performance Audit report – Protecting Consumers [in private]</u>

The Commission considered a report by the Director of Performance Audit seeking approval of the draft report and key messages in relation to the performance audit of consumer protection services.

Following discussion, the Commission agreed:

- That the Director consider, in conjunction with the performance audit sponsors, Mike Ash and Christine May, how to best promote the report, including:
    - liaising with CoSLA

    - the use of press articles.

- To approve the draft report, subject to consideration being given to a number of points raised in discussion and to further consultation with performance audit sponsors.

Action: Director of Performance Audit

AGENDA ITEM 5
Paper: 2012.10.2

ACCOUNTS COMMISSION

MEETING 13 DECEMBER 2012

MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 29 NOVEMBER 2012

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 29 November 2012, at 10.30am.

PRESENT:	Bill McQueen (Chair) John Baillie Sandy Cumming Colin Duncan Linda Pollock Graham Sharp Douglas Sinclair
IN ATTENDANCE:	Russell Frith, Assistant Auditor General Fiona Kordiak, Director, Audit Services Fraser McKinlay, Controller of Audit Paul Reilly, Secretary and Business Manager Gordon Smail, Portfolio Manager, Best Value and Scrutiny Improvement (BVSI) [Item 5] Peter Worsdale, Project Manager, BVSI [Item 5] Gary Devlin, Director, Grant Thornton [Item 7]

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 20 September 2012
4. Current audit issues in councils
5. Local government overview report 2012 - update
6. Accounting and auditing developments
7. Annual audit in focus – a firm's perspective
8. Any other business

1. Apologies

It was noted that there were no apologies for absence.

2. Declarations of interest

It was noted that no declarations of interest were made.

3. Minutes of meeting of 20 September 2012

The minutes of the meeting of 20 September 2012 were approved, subject to

- The revision of the list of those present to exclude Sandy Cumming and Graham Sharp, both of whom had submitted their apologies for absence from the meeting.

- In paragraph 4, first bullet point, deleting "committees" and adding "and scrutiny committees, particularly in relation to the political composition of the committee membership and chair, and how this relates to the political administration of the council".

4. Current audit issues in councils

The Committee considered a report by the Director of Audit Services outlining emerging issues, recurring themes and individual issues of interest in Scottish councils and joint boards.

During discussion it was agreed:

- In relation to remuneration reports and exit costs, to note advice from the Controller of Audit that the following issues will be considered as part of the joint report in this regard being drafted by him and the Auditor General:
  - Quality and detail of advice in this regard given to elected members.
  - How workforce planning issues featured in local authorities' consideration in this regard.
  - Terms of contracts of senior officers.

- In relation to the make-up of audit committees:
  - That the Controller of Audit clarify what guidance in this regard is currently available to councils.

    Action: Controller of Audit
  - That the Commission consider at its next meeting how the issue be brought to the attention of councils.

- To note advice from the Chair that he had requested that future such reports include information on councils' revenue budget and staff establishment.

  Action: Director of Audit Services

- To note advice from the Chair that he had requested that the Director ensure more consistency in the detail and quality of information being provided in the report by auditors.

  Action: Director of Audit Services

- In relation to Dundee City Council, that further information be provided on the ownership of Dundee Energy Recycling Limited.

Action: Controller of Audit and Director of Audit Services

- In relation to Scottish Borders Council, that further information be provided on any procurement issues in relation to the recent data loss case.

Action: Controller of Audit and Director of Audit Services

- That further thought be given to issues surrounding the implications for the public audit model of the increasing use by local authorities of arm's length external organisations for delivery of services.

Action: Assistant Auditor General

5. Local government overview report 2012 - update

The Committee considered a report by the Controller of Audit providing an update on the local government overview report and emerging key messages.

Following discussion the Committee:

- Approved the emerging messages as the basis for a draft report, subject to consideration being given to points raised in discussion

Action: Controller of Audit

- Agreed that thought be given to using the overview report as a basis for engaging in dialogue with the public about issues affecting local government

Action: Controller of Audit and Secretary and Business Manager

- Noted the report and endorsed the timeline proposed therein.

6. Accounting and auditing developments

The Committee considered a paper by the Assistant Auditor General providing information of recent accounting and auditing developments affecting the public sector and particularly local government in Scotland.

Following discussion the Committee:

- Noted advice from the Assistant Auditor General that he was considering how audited bodies can be encouraged to consider brevity in published accounts
- Noted advice from the Assistant Auditor General that he was considering how to consider the issue of different auditing and ethical standards for listed companies and public interest entities, which would involve him seeking the formal view of the Commission
- Noted the report.

7. Annual audit in focus – a firm's perspective

The Chair welcomed Gary Devlin, Director, Grant Thornton, who did a presentation on his perspective of issues in relation to the annual audit. In his presentation, he covered:

- A summary of Grant Thornton's work in England as a result of the changes to the public audit model.
- A summary of the issues arising from the annual audit in the three councils in Scotland for which Grant Thornton has current responsibility (namely Inverclyde, Midlothian and Stirling councils).
- Wider issues arising from the audit from the perspective of Grant Thornton.

Following discussion, the Chair thanked Gary Devlin for attending the meeting.

8. Any other business

It was noted that the next meeting would be on 28 February 2013 at 2.00pm.

AGENDA ITEM 7
Paper: AC.2012.10.3

ACCOUNTS COMMISSION

MEETING 13 DECEMBER 2012

REPORT BY THE CONTROLLER OF AUDIT

UPDATE REPORT

Introduction

1. The purpose of this regular report is to provide an update to the Commission on significant recent activity in relation to the audit of local government.
2. It is intended to complement the intelligence reports to the Financial Audit and Assurance Committee, which provide a more detailed update on issues arising in local government.
3. The most recent such report was at the Committee meeting of 29th November 2012.

Local government issues

Audit of Accounts

4. All audit certificates on council accounts were signed on time with the exception of Highland Council where additional time was granted to the Council to resolve a capital accounting issue. The Northern Police Joint Board missed the certification deadline for the same reason.

5. All 88 local authority bodies received an unqualified audit opinion, this is comprised of:

   - 32 councils
   - 11 pension funds
   - 45 other local authority bodies (including police and fire joint boards, valuation joint boards, etc)

6. This is the second year where the pension fund accounts have been audited on a ‘standalone’ basis and the first year that they were required to be completed to the same time scale as councils. This accelerated time scale was achieved.

7. My team are concluding the review of annual audit reports for local authorities and have identified a number of potential areas for further consideration and possible reporting. Issues arising form audit reports also form a key part of the shared risk assessment process which is well underway. These, and other issues, will also inform the content of the Local Government Overview report.

Community Planning Partnerships audit

8. Audit teams are continuing to develop reports on the early audits of Community Planning Partnerships. Feedback and challenge events with the three CPP strategic boards took place in November to discuss emerging messages from the audits and the local improvement agenda. Those meetings were a useful opportunity to test our audit findings with the CPP Boards and assure ourselves that we are presenting a fair and balanced set of audit judgements supported by an appropriate and well targeted improvement agenda.

9. The quality and consistency review panel (QCRP) for the three draft audit reports took place on 22nd November. It was chaired by Fiona Kordiak, Director of Audit Services. Annette Bruton (Chief Executive, Care Inspectorate), Sally Hammond (Associate Director, Audit Commission) and David Martin (Chief Executive, Renfrewshire Council and SOLACE representative) were the three independent external members of the panel. The role of the QCRP is to offer challenge to the audit teams on the quality of the audit reports, the consistency of audit judgements and the extent to which the report recommendations are likely to add value and support improvement. It was a very positive and constructive event and I am grateful to the members of the panel for giving up their time to participate in this important part of the process.

10. The three draft audit reports are now in the final stages of the quality assurance process, with the aim of issuing the draft audit reports to the CPP boards before Christmas for factual accuracy checking. It is anticipated that the local audit reports and a summary national key messages report will be considered formally at the Accounts Commission's February meeting.

Shared Risk Assessment

11. Work on the latest round of shared risk assessments for councils is well under-way. Audit Scotland staff and scrutiny partners are reviewing the assessments made in previous years in relation to current intelligence on councils. As at 13th December, 27 of the 32 meetings of local area network groups will have taken place. The remaining meetings are taking place later this month and early in January. Meetings with councils to discuss potential changes to the risk assessments and the implications these may have on audit work and other scrutiny and inspection programmes are under-way.

Highlands and Islands Fire and Rescue Service

12. In October the Minister for Community Safety and Legal Affairs directed the Fire Service Inspectorate to undertake a follow-up inspection of Highlands and Islands Fire and Rescue Service in response to the very critical findings of the Accounts Commission Best Value audit of the service earlier this year. Audit Scotland staff offered support to the inspection team. The inspection took place during November and the inspection report is due to be presented to Ministers in December and will be published in early 2013.

13. On the 29th November Audit Scotland staff also met with Highlands and Islands Fire Board to facilitate a discussion about the key messages arising from the Accounts Commission's Best Value in Fire and Rescue Services overview report and the lessons that it offers for Highlands and Islands Fire and Rescue as it develops and takes forward its improvement agenda.

Current activity in local government

14. Many councils are reporting budget gaps of varying dimensions for the years 2013/14 onwards. Some are more advanced than others in proposing and consulting on a range of options to reduce expenditure.

15. Alistair Buchan returned as the Chief Executive of Orkney Islands Council (OIC) in November 2012 after completing his time as interim chief executive of Shetland Islands Council. Albert Tait, who was OIC's interim Chief Executive has retired.

16. The Improvement Service and CoSLA have launched a welfare reform implementation support programme for councils and CPPs. It will be a two year programme, with an initial focus on encouraging the sharing of information and good practice.

17. The Improvement Service has launched its fourth series of elected member master classes, to begin in January 2013. There will be eight topics in this year's series, including new ways of working, using information and data for decision making, using social media and meeting the expectations of the review of community planning and SOAs.

18. The Improvement Service is conducting a survey of all elected members who were elected in May 2012, with the aim of providing a comprehensive picture of elected members in Scotland. Similar surveys were carried out in 2003 and 2007. The survey will look at councillors' age, gender, educational level, employment status, household income and caring responsibilities. It will also explore wider issues such as why they stood for election and their training and development experiences since May.

19. New guidance for CPPs on the development of Single Outcome Agreements (SOAs) has been jointly published by Scottish Government and CoSLA. The new guidance emphasises the central role of community planning in public service reform and the importance of prevention in improving outcomes for local communities.

Parliament

20. On 28th November the Local Government and Regeneration Committee reported on strand two of its inquiry into public services reform - benchmarking and performance management. Some extracts from the report are included in today's Commission report on the SPI Direction 2012. On 9th November the committee called for written evidence on its inquiry on strand 3 - developing new ways of delivering services.This is the subject of a separate report on today's agenda.

Other Audit Agencies

21. The National Audit Office recently published its strategy for the period 2013 to 2016.

22. The Audit Commission has published a report into how councils in England have responded to the challenging financial climate. Based on the audits of 2011/12, the report concludes that councils largely delivered their savings plans and in many cases added to their reserves. However, auditors reported that some signs of financial stress were visible.

23. In Wales, the Auditor General reported on the local authority accounts for 2011/12, concluding that the preparation of the accounts had generally improved, but that many councils had not completed their whole of government accounts on time.

Conclusion

24. The Commission is invited to consider and note this report.

Fraser McKinlay
Controller of Audit
5 December 2012

AGENDA ITEM 8
Paper: AC.2012.10.4

Welfare Reform Update

AUDIT SCOTLAND

Prepared for the Accounts Commission
November 2012

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

Contents

Purpose

1. The purpose of this report is to provide an update on the UK Government's welfare reform agenda and the implications and risks for Scottish councils. This report details the various changes already implemented as well as those still to be introduced. Also included is information on some of the activities being undertaken by Scottish councils and the Scottish Government to prepare themselves and their stakeholders for the impact of the changes.

Background

2. The UK Government's Emergency Budget in June 2010 and the October 2010 Comprehensive Spending Review introduced a number of welfare reforms that were expected to save around £18 billion per annum by 2014. The Scottish Government has estimated that these welfare reforms may take £2.5 billion out of the Scottish economy.

3. The Welfare Reform Act received Royal Assent on 8 March 2012. The Act aims to improve work incentives, simplify the benefits system and to deliver planned savings. This is the biggest reform of the UK welfare system for 60 years, promises to change the lives of millions of households and also result in a number of significant changes to how councils deliver services.

Summary

4. Scottish councils are responding to the welfare reform agenda. However the amount of activity and progress varies across the country. Some councils have been very proactive with others less so.

5. There are a number of areas where the finer details of the various welfare reforms are still awaited. The full impact on councils and their local residents cannot therefore be fully predicted. This makes it difficult in some cases for councils to carry out detailed planning.

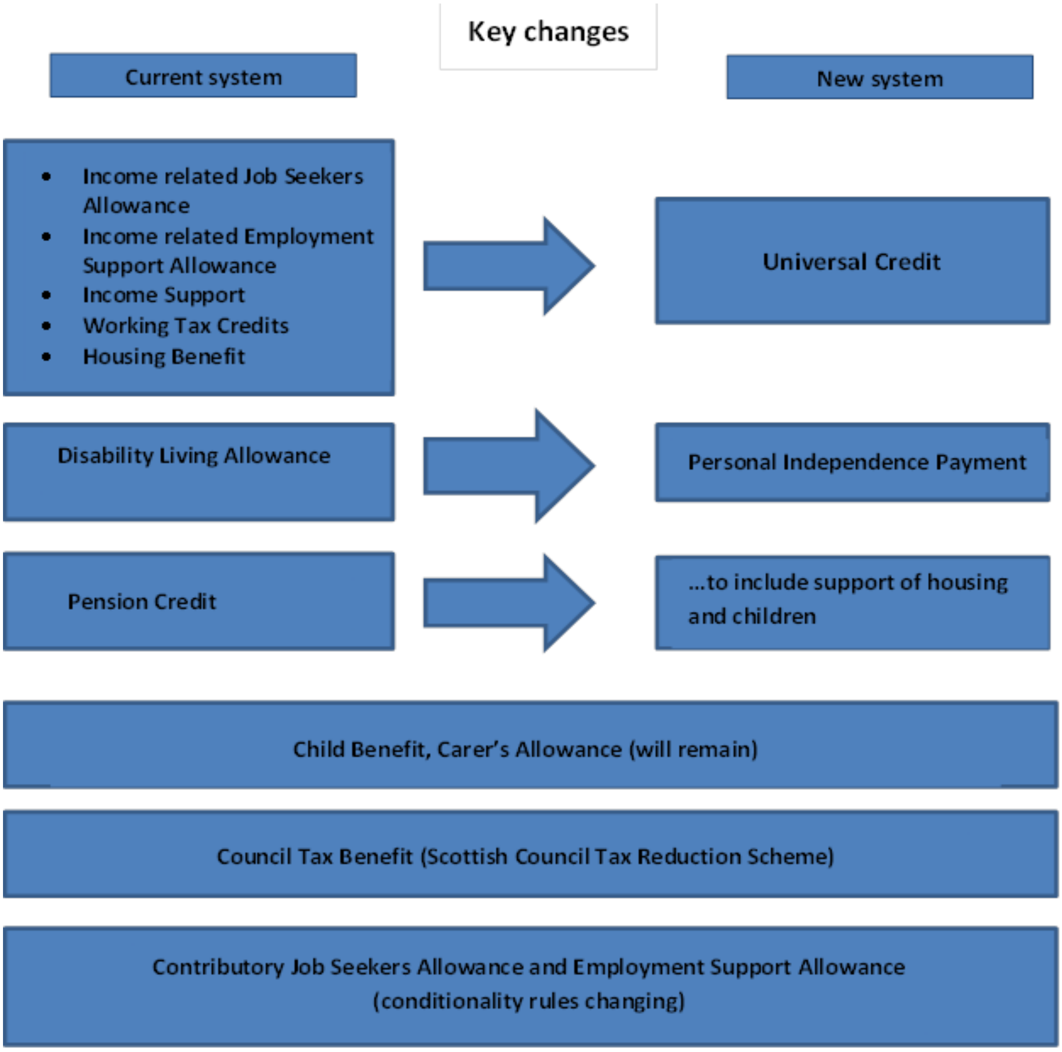
6. Councils cannot be complacent however, and must be actively assessing risks and taking appropriate mitigating action to plan for the changes. This includes establishing and maintaining effective communication with stakeholders and constantly reviewing developments. One of the best ways for councils to mitigate the impact of welfare reform is to work together both internally and with external partners.

Welfare reform change

Key changes

7. The Welfare Reform Act introduces various significant changes. The main elements of the changes are as follows:
   - The introduction of Universal Credit. This will replace six existing benefits (including Housing Benefit) and Tax Credits for people of working age.
   - The introduction of a Benefit Cap. This will limit the amount of benefit payments to households based on the median earnings after tax for working households. The limits initially will be £500 per week for couples and £350 per week for single benefit claimants.
   - Limiting Housing Benefit entitlement for working age claimants in the social rented sector to reflect family size. Benefit will be restricted if a dwelling is larger than what is needed.
   - The introduction of a new Council Tax Reduction Scheme to replace existing Council Tax Benefits. The Scottish Government are currently devising a national scheme for Scotland.
   - Responsibility for the Social Fund will be devolved to councils.
   - The introduction of Personal Independence Payments to replace Disability Living Allowance.
   - Modifications to Pension Credits to include an element for housing costs.
8. The Chancellor announced plans in his recent autumn statement to cut a further £10 billion from the UK welfare budget over the next four years. His plan is to target Housing Benefit for claimants under 25 years of age and payments for children.
9. A timeline detailing the changes already implemented is included at Appendix A. Appendix B contains changes introduced by the Act which have still to be introduced. Both appendices include the impact of the changes and the key issues and risks facing Scottish councils and their local residents.

Figure 1: Key changes



Definitions:

Income related Jobseekers Allowance: a means tested benefit paid to people who are out of work and looking for work.

Income related Employment and Support Allowance: a means tested benefit paid to working age people whose ability to work is limited by ill health or disability.

Income support: an income-related means-tested benefit for people who are on a low income.

Working Tax Credits: made to people who work and have a low income.

Housing Benefit: a means tested benefit that is intended to help meet housing costs for rented accommodation.

Universal Credit: a new single payment for people who are looking for work or on a low income.

Disability Living Allowance: a tax-free benefit for people under 65, including children, who have care needs or problems with getting about.

Personal Independence Payment: based on an assessment of individual need for eligible working age people aged 16 to 64.

Pension Credit: an income related benefit made up of 2 parts - Guarantee Credit and Savings Credit. Guarantee Credit tops up weekly income if it's below certain limits. Savings Credit is an extra payment for people who have saved some money towards their retirement, e.g. a pension.

Child Benefit: a social security payment paid to the parents or guardians of children.

Carer's Allowance: a taxable benefit paid to those caring for a person for at least 35 hours a week who is in receipt of certain benefits.

Council Tax Benefit: a means tested benefit that is intended to help meet the costs of council tax.

Council Tax Reduction: a means tested reduction to council tax bills.

Contributory Job Seekers Allowance and Employment and Support Allowance: as above although not income based but instead dependant on claimants having paid enough national insurance contributions.

Other welfare reform changes

Discretionary Housing Payments

10. The UK Government has increased Discretionary Housing Payment funding across the UK with £10 million additional funding allocated in 2011/12 rising to an additional £40 million each year between 2012/13 to 2014/15. In addition, an extra £75 million for claims relating to the Benefit Cap, £30 million for claimants affected by the new size criteria for social rented sector tenants, and £5 million for claimants in the Employment Support Allowance support group have been announced for 2013/14. COSLA however, has recently asked for verification of these budgets following recent debates in the House of Lords and the House of Commons where different figures were quoted by ministers.

11. The Department for Work and Pensions (DWP) has confirmed that there will be a single allocation of Discretionary Housing Payment to each council with no ring fencing for individual elements. Discretionary Housing Payment will therefore continue on a discretionary basis. The DWP, however, have the challenge of how to balance this with National Audit Office and ministerial requirements for monitoring and evidence to demonstrate the allocation was spent on the intended groups of claimants.

Subsidy

12. Council Tax Benefit will be abolished from 1 April 2013 with no overlap in entitlement with the new Council Tax Reduction Scheme. It is expected that both overpayments and underpayments of Council Tax Benefit will continue to be identified after 31 March 2013.DWP analysis suggests however, that the overall net impact on councils will be minimal. The DWP are proposing, on the grounds of simplicity, that councils do not complete subsidy claims for Council Tax Benefit expenditure in 2013/14. This would mean that councils would not receive subsidy where they pay out backdated benefit, but would also not have subsidy reduced where they identify overpayments after 31 March 2013. This could have the effect that councils may not process overpayments identified during 2012/13 but instead wait until after 1 April 2013 to process these overpayments.

13. The DWP propose to keep the funding of the Administrative Subsidy for 2013/14 at comparative levels to 2012/13. The subsidy will not be reduced for the ending of Council Tax Benefit. The funding will however take efficiency savings over the current Spending Review period into account. The amounts for the UK for 2013/14 will be £444 million plus an additional £22 million due to the economic downturn (£464.7 million plus £46 million in 2012/13). Individual council allocations have recently been announced with Scottish councils due to

receive £38.9 million in administration grant plus an additional £1.9 million due to the economic downturn.

14. Scottish Councils are looking for an agreement with DWP regarding subsidy over the longer term. Discussions have focused around the removal of Housing Benefit and the consequent impact on administration costs, and also around the new burdens for councils such as the provision of claimant support for Universal Credit.

Direct payments

15. UK Ministers have recently proposed that councils start paying Housing Benefit directly to working age social sector tenants as soon as possible. Ministers are concerned about the scale of change when Universal Credit is introduced, and that early direct payment could create a climate for people in this sector to take control of their finances. These proposals are not mandatory.

16. COSLA has responded on behalf of the Scottish Councils saying that until the direct payment demonstration pilots have been completed and evaluated any move to direct payments would be premature. In addition, the necessary amendments to Housing Benefit software would require to be funded. Concerns have also been raised regarding rent arrears rising earlier than previously predicted.

Passported benefits

17. The introduction of Universal Credit and Personal Independence Payments will require changes to the rules relating to passported benefits such as free school meals, clothing grants and Blue Parking Badges. Currently, recipients are entitled to these benefits due to their right of entitlement to another benefit such as Income Support. Due to the range of benefits and tax credits included in Universal Credit, not all recipients of Universal Credit will be entitled to passported benefits. Some form of means test will be required to establish eligibility for passported benefits going forward. This is likely to increase the administrative burden associated with passported benefits.

Data sharing

18. To allow accurate and timeous processing of various benefits and support mechanisms going forward, data sharing between councils, the DWP and other stakeholders such as HM Revenue and Customs will be vital. The Social Security (information sharing in relation to welfare services etc.) Regulations 2012 help with this. However, a number of data sharing issues have been identified and are being investigated by the Local Authority Data Sharing (LADS) Programme in the DWP.

Supported accommodation

19. UK ministers have recently agreed that rent for supported accommodation will sit outside Universal Credit and continue to be paid as Housing Benefit by councils. The DWP and councils are currently working through the implications of this including how to use Universal

Credit in Housing Benefit income assessments and the IT implications of keeping Housing Benefit for this group of claimants. Claimants in supported accommodation will be required to apply for both Universal Credit and Housing Benefit.

Temporary accommodation

20. The DWP intends to reform the way it provides housing support to people living in temporary accommodation on a cost neutral basis.

21. The majority of households living in temporary accommodation do so in accommodation procured from the private rented sector through lease or licensing arrangements. Housing Benefit is paid to these claimants based on Local Housing Allowance rates reflecting the size of the property (not the household size). All Housing Benefit claimants will continue on these rules until the claim migrates to Universal Credit. The rules will change under Universal Credit where claimants in temporary accommodation will receive housing support based on the size of the household rather than the property. This will result in the gap between housing support and rent widening for many claimants.

22. The latest information from the DWP suggests that for temporary accommodation, rent support will be included in Universal Credit payments paid direct to claimants with the management charge paid direct to councils.

The position in Scottish Councils

23. Scottish councils have been actively involved in various activities and initiatives in response to welfare reform issues and risks. A number of these are included below:

    - Several Scottish councils are involved in the piloting of various aspects of welfare reform. Glasgow City Council is part of a Single Fraud Investigation Service pilot. West Dunbartonshire, Dumfries and Galloway and North Lanarkshire Councils are taking part in a pilot looking at how councils can provide improved claimant support with a work focus once Universal Credit is introduced. One Aberdeenshire Council fraud investigator is currently working with the DWP administered Single Fraud Investigation Service.
    - City of Edinburgh Council is one of six councils across the UK piloting direct payments to certain benefit claimants in one housing association. The pilots also help claimants with budgeting. The first payments were made to claimants in August 2012. The early findings are that engaging and assessing the needs of claimants has proved to be more protracted and resource intensive than anticipated. A general lack of awareness of wider welfare reforms is evident from the tenants participating in these pilots.
    - One of the fraud and error initiatives being piloted by the DWP is a Mobile Regional Task Force. This is being piloted in Dundee and is a criminal investigation based, fraud intelligence team from DWP, HM Revenue and Customs and councils whose purpose is to target high risk welfare fraud in specific areas of the UK. It will follow the Single Fraud Investigation Service policies and procedures. The type of fraudulent activity being

investigated in the pilot includes living together, tenancy, working and claiming, collusive employers and collusive letting agencies fraud.

- Most Scottish councils participate in some of the various joint working groups looking at welfare reform issues. This includes the DWP Practitioner Working Group, and the COSLA Council Tax Benefit Replacement Officer Group, the COSLA Welfare Reform Group, the COSLA and Scottish Government joint Scottish Welfare Fund working group and the Benefits Software Suppliers Group.
- Welfare reform is included in many councils' strategic and operational risk registers along with the mitigating actions being taken to address the impacts upon councils and their local residents.
- Many councils have prepared welfare reform briefing papers, presentations and newsletters for elected members, local residents, council officers and other stakeholders such as landlords. Welfare reform training events have been held to ensure staff across council departments understand the implications of welfare reforms.
- Councils have been working with internal and external partners. Various councils have been in discussion with local credit unions to identify where they can work together to assist local residents. Some councils have set up dedicated cross service welfare reform teams to take forward the welfare reform agenda.
- Close joint working with housing associations and council housing departments has been taking place in a number of areas. This has included reviewing income collection and housing allocations strategies, looking at introducing additional income maximisation officers and looking to make it easier for tenants to exchange homes. Consideration is being given in some councils to schemes to help tenants to identify potential lodgers.
- Councils have also been working with housing associations to identify and contact claimants who will be considered over accommodated under the new accommodation size criteria rules. Despite Housing Benefit being restricted to the size of property from April 2013, many council housing departments continue to allocate properties larger than required by tenants. There are various reasons for this including allocation policies needing to be revised as well as a lack of smaller properties.
- Councils have also been working to identify claimants likely to be affected by the introduction of the Benefit Cap. Some, but not all, councils have contacted these claimants to advise the impact of these changes and to offer advice.
- Councils expect housing rent arrears to rise as the gap between benefit paid and rent widens for a number of tenants. Councils also have a duty to prevent homelessness. Many councils are considering the fact that they may have to progress debt management actions which could result in a tenant losing their home and becoming homeless. Councils are considering their options including whether they could reclassify the property in these cases as being a property held to house homeless persons. This may allow the council to make the resident technically homeless and then "re-house" the resident as a homeless person in the same property.

- At least one council is considering, as part of its housing capital programme, the conversion of blocks of 2 and 3 bedroom homes into one bedroom units to address the increased demand for this type of property.
- Many councils have yet to address staffing issues resulting from welfare reform. This is mainly due to not being able to clearly predict the services councils will be expected to provide and the number, skills mix and grades of staff required. At least one council has however started to retrain benefits officers with skills to enable them to carry out different roles either within the council or externally.

Scottish Government activity

24. The Scottish Parliament established the Welfare Reform Committee in January 2012 to review the passage of the UK Welfare Reform Act 2012 and monitor its implementation and its affect on welfare provision in Scotland. Relevant Scottish legislation, such as the Welfare Reform (Further Provision) (Scotland) Act 2012, and other consequential arrangements are also considered.

25. The Committee is currently looking into specific aspects of welfare reform including direct payments to claimants.

26. The Scottish Government established the Welfare Reform Scrutiny Group with COSLA and other key stakeholders to analyse information and give evidence to the Welfare Reform Committee. The group also considers the wider implications for services such as employability, health and support for families and young people. It is recognised however, that there needs to be a greater focus on developing a clear evidence base on which to base future activity.

27. The Scottish Government has set up various working groups to help support the Scottish councils and their partners to respond to the challenges presented by the UK welfare reform programme. The Scottish Government is working with partners such as COSLA and the DWP. COSLA and the Scottish Government have recently signed a joint statement setting out a shared commitment to work together to oversee and deliver a programme of work in response to the UK welfare reforms.

28. A Scottish Welfare Reform Corporate Management Board is in place to bring together key partners such as the Scottish Government, SOLACE, COSLA, councils, the NHS and the Improvement Service to take an overview of the welfare reform agenda. The Board looks at how value can be added to the work being carried out by the various working groups.

29. The successor arrangements for Council Tax Benefits are being progressed. Regulations for the Scottish Council Tax Reduction Scheme for working age claimants were laid before the Scottish Parliament on 9th November 2012. The regulations for people who have reached pension age are expected by the end of 2012.

30. The Social Fund Design Implementation Group is developing and overseeing the implementation of the new arrangements for the Scottish Welfare Fund. Draft guidelines for the new fund have been issued for consultation. The Scottish Government recently allocated an additional £9.2 million to the fund for 2013/14 bringing the total fund up to £33 million for 2013/14.

31. The Scottish Government has agreed to support further Universal Credit pilots in Scottish councils. These have yet to be announced but are likely to focus on the face to face delivery of Universal Credit.

32. The DWP is also working with the Scottish Government on a number of welfare reform areas including the qualification criteria for passported benefits and the implementation of Universal Credit.

Appendix A: Welfare Reform from 2010 to date

Changes already implemented

Date	Change	Impact, issues and risks
October 2010	The interest rate used to calculate support for mortgage interest payments changed from a fixed rate of 6.08% to the Bank of England's monthly average mortgage rate of 3.63%	This resulted in a reduction of income for claimants.
October 2010	Increase in cold weather payments to £25 per week.	This resulted in an increase in income for claimants.
January 2011	Health in pregnancy grant abolished.	This resulted in a decrease in income of £190 for claimants.
January 2011	VAT increased from 17.5% to 20%	This resulted in an increased cost of goods and services.
February 2011	Incapacity Benefit claimants started migrating to Employment Support Allowance or Jobseeker Allowance if considered fit for work.	This has resulted in a loss of benefit income for many Incapacity Benefit claimants and significant levels of appeals.
April 2011	Benefits uprated by the Consumer Price Index rather than the higher Retail Price Index.	This has resulted in a loss of benefit income for claimants.
April 2011	Capping of Local Housing Allowance at a 4 bedroom rate. The 5 bedroom rate was abolished.	This resulted in a weekly loss of income for claimants. This has been estimated as a weekly loss of £160 in one Scottish council. The gap between benefits received and rent payable increased for claimants. Housing Benefit services needed to ensure IT systems were updated to

Date	Change	Impact, issues and risks
		reflect this change.
April 2011	The calculation of the Local Housing Allowance is now based on the 30th percentile of market rents instead of the previous median or 50th percentile. Up to nine months transitional protection deferred the impact on claimants until between January 2012 and December 2012.	This brought the rent levels that are eligible for Housing Benefit in the private sector down. This reduced the number of properties which are affordable for Housing Benefit claimants. This change aimed to encourage claimants to move to areas they can afford to rent. However, there is now a wider gap between rents payable and benefits received for many claimants.
April 2011	Removal of the Local Housing Allowance top up of up to £15 a week.	This resulted in a loss of income for a number of tenants within the private rented sector. Housing Benefit services needed to ensure IT systems were updated to reflect this change.
April 2011	Non dependant deductions for Housing Benefit were uprated by 27% to reflect the growth in rent levels since 2001.	This reverses the previous freeze on non-dependant deduction rates since 2001/02 and resulted in a reduction in Housing Benefit and Council Tax Benefit for claimants. Housing Benefit services needed to ensure IT systems were updated to reflect this change.
April 2011	The introduction of an extra room rate for a non-resident carer for Local Housing Allowance claimants with a disability.	Housing Benefits payments are now calculated based on the rate for an additional bedroom for a non resident carer. This increased the Housing Benefit payment for claimants. Housing Benefit services needed to ensure IT systems were updated to reflect this change.
April 2011	The UK Government agreed to increase Discretionary Housing	Councils have advised that the extra money made little impact given the

Date	Change	Impact, issues and risks
	Payments across the UK by £10m for 2011/12 and by £40m in each year from 2012/13.	overall losses in Housing Benefits. Councils should ensure Discretionary Housing Payment policies have been reviewed and revised as appropriate to ensure they are fit for purpose. Workforce planning in councils needed to consider the increase in Discretionary Housing Payment applications being received.
April 2011	Various Tax Credit changes: • Second income for Tax Credits reduced to £40,000. • The 41% income taper rate for Tax Credits was introduced. • Removal of the baby element and increase of the child element by £180 for Tax Credits. • Tax Credit income disregard reduced to £10,000. • The Tax Credit 30 hour element was frozen for 3 years. • Working Tax Credit child care costs reduced from 80% to 70%. • Tax Credit savings credit frozen for 4 years. • People over 60 years of age can now claim Working Tax Credits if working 16 hours (previously 30 hours).	It is difficult to accurately calculate the impact upon total benefits received due to the close inter-relation between Tax Credits and other means tested benefits, especially Housing Benefit. Councils experienced a significant increase in the volume of change of circumstances from Housing and Council Tax Benefit claimants.
April 2011	Child Benefit frozen for 3 years.	A real terms reduction in benefit.
April 2011	The Sure Start Maternity Grant is now only available for the first child.	Reduction in grant income for claimants.
October 2011	Lone parents whose youngest child is aged 5 or more, now require to claim Job Seeker Allowance instead	Reduction in income for claimants. Councils experienced an increase in

Date	Change	Impact, issues and risks
	of Income Support.	change of circumstances for Housing and Council Tax Benefits claimants.
January 2012	The shared room rate is now used in the calculation of Local Housing Allowance for single people aged under 35 (previously 25 and under) as opposed to the higher one bedroom rate.	This resulted in a weekly loss of income for claimants. In one Scottish council this weekly loss was approximately £23. The gap between benefits received and rent payable increased for claimants. Councils experienced an increased demand for non self contained accommodation which many councils have identified as being in short supply. Councils needed to consider the impact upon local housing strategies. Housing Benefit services needed to ensure IT systems were updated to reflect this change.
April 2012	Various Tax Credit changes: • The second income threshold for Tax Credits was removed. • The 50 plus element of Working Tax Credit was removed. • The Tax Credit backdating period was reduced from three months to one month. • Couples with children must now work 24 hours a week between them with one partner working at least 16 hours a week in order to qualify for Working Tax Credit.	It is difficult to accurately calculate the impact upon total benefits received due to the close inter-relation between Tax Credits and other means tested benefits, especially Housing Benefit. However the April 2012 Tax Credit changes will reduce Tax Credit income for claimants. Councils required to update a significant volume of change of circumstances for Housing and Council Tax Benefit claimants.
April 2012	Discretionary Housing Payments increased across the UK by £40m for 2012/13.	Councils have advised that the extra money made little impact given the overall losses in Housing Benefits. Councils should ensure DHP policies

Date	Change	Impact, issues and risks
		have been reviewed and revised as appropriate to ensure they are fit for purpose. Workforce planning in councils needed to consider the increase in Discretionary Housing Payment applications being received.
April 2012	The abolition of youth Employment Support Allowance for new claimants. Existing claimants were able to continue claiming, but entitlement was limited to one year from the time entitlement began, disregarding time in the support group.	Reduction in benefit income for claimants. Councils required to process a number of change of circumstances for Housing and Council Tax Benefit claimants.

Appendix B: Welfare Reform from 2013

Changes still to be introduced

Date	Change	Impact, issues and risks
January 2013	Contributory Employment Support Allowance will be restricted to 12 months for claimants in the work related activity group.	Reduction in income for claimants. Councils will be required to update a significant number of change of circumstances for Housing and Council Tax Benefit claimants.
January 2013	Reduction in child benefit where at least one parent earns £50,000 or more. The reduction will be tapered at a rate of 1% for every £100 earned over £50,000.	A reduction in income for affected families.
April 2013	The introduction of a Single Fraud Investigation Service administered by the DWP. This will combine the fraud activity currently carried out by the DWP, councils and HM Revenues and Customs. Benefit fraud investigators will remain employed by councils at least in the short term but will work under Single Fraud Investigation Service policies and procedures from 2013. The service will be overseen by a Single Fraud Investigation Service management board. Benefit fraud investigation activity in councils will start to be branded as the Single Fraud Investigation Service from April 2013. Pilots commenced in 2012 and will continue with additional ones being introduced between April 2013 and March 2014. Full evaluation of the pilots and sign off of the final	Councils will need to ensure fraud policies in place are in accordance with DWP policies. Councils will need to be aware of and take appropriate workforce planning and asset management decisions regarding the transfer of fraud investigators to DWP. There will also be possible legal and financial impacts for councils. The Single Fraud Investigation Service will not investigate other council fraud such as fraud in the new Council Tax Reduction Scheme. The DWP have indicated however that they aim to work alongside councils and share information within legal boundaries. It is possible that a council could take a Council Tax reduction fraudulent claim for prosecution but

Date	Change	Impact, issues and risks
	design of the Single Fraud Investigation Service is planned by March 2014. The rollout of the final Single Fraud Investigation Service design is planned to take place between April 2014 and March 2015.	the Single Fraud Investigation Service does not take an associated fraudulent housing support claim for prosecution and vice versa. Regulations are currently being drafted to allow council staff to investigate Universal Credit fraud. The regulations are planned to be introduced from April 2013.
April 2013	The discretionary Social Fund will be abolished and the DWP will transfer funding for two elements, Crisis Loans for emergency general living expenses and Community Care Grants for independent living, to the Scottish Government. The Scottish Government and COSLA have agreed that councils will deliver the successor arrangements. The new system will be called the “Scottish Welfare Fund” and will be grant based unlike the present loans system. Claimants can be paid in cash, or in kind, for example, travel warrants, fuel cards, food vouchers, furniture etc.	Councils will need to consider workforce planning, asset management and customer service issues relating to the administration of the new Scottish Welfare Fund. Not all councils have agreed which service will administer these grants going forward. Benefits services predict difficulties with existing staffing levels to service these grants in addition to their existing Housing Benefits and Council Tax Reduction caseloads in 2013/14. A national application form is being developed. Councils are waiting on their individual budgets for the Scottish Welfare Fund.
April 2013	Council Tax Benefit will be abolished and replaced by a Local Council Tax Reduction Scheme but with a 10% reduction in subsidy from DWP. Scottish Government regulations for working age claimants were laid before parliament in November 2012.	The Scottish Government and COSLA have agreed to jointly fund the 10% reduction (estimated as £40million) in subsidy for 2013/14. This arrangement is only for one year. The Scottish Government is working on the new Council Tax Reduction Scheme. It is hoped this will be in place and all council IT systems

Date	Change	Impact, issues and risks
		amended prior to the financial year end to allow annual Council Tax billing to be completed. The Scottish Government has indicted that all current recipients of Council Tax Benefit will continue to receive a similar Council Tax Reduction for 2013/14. It is uncertain what will happen post March 2014. Possible scenarios include a 10% reduction in Council Tax support for everyone, or a higher reduction for certain groups. There is a need for councils and DWP to share data. Councils will need to have access to DWP information on claimants' DWP benefits including Universal Credit to allow them to calculate the appropriate Council Tax Reduction. There is some uncertainty as to how Universal Credit income should be treated for council tax support as Universal Credit does not specify the exact details of housing support costs which will be excluded from Council Tax Reduction calculations. There is a significant risk for councils if assumptions about the council tax base change due to, for example a large local employer going out of business and the council having to fund the additional Council Tax Reductions claims.
April 2013	Increased funding across the UK for Discretionary Housing Payments of £40 million plus an additional £75 million for claims relating to the	Councils have advised that the extra money may have little impact given the overall losses in Housing Benefits.

Date	Change	Impact, issues and risks
	Benefit Cap, £30 million for claimants affected by the new size criteria for social rented sector tenants, and £5 million for claimants in Employment Support Allowance support group.	Councils should ensure Discretionary Housing Payment policies have been reviewed and revised as appropriate to ensure they are fit for purpose. Workforce planning in councils needs to consider the likely increase in Discretionary Housing Payment applications being received. Councils predict the overheads associated with processing Discretionary Housing Payment applications to rise. Specifically councils expect to require more staff and new IT systems to monitor and control the increased volume of Discretionary Housing Payments.
April 2013	Housing Benefit for working age claimants living in the social rented sector will be restricted to the size of property required for the household. Eligible rent will be restricted if a dwelling is larger than needed. The reduction will be 14% for one extra bedroom and 25% for 2 or more bedrooms. This is estimated to be between £8 and £20 per week extra for claimants to pay. Claimant options include: • Pay the difference • Move home • Take in a lodger.	This will reduce the amount of Housing Benefit payable and widen the gap between benefit payable and rent levels. It is estimated that this will affect 80,000 claimants across Scotland with an average weekly loss in Housing benefit of £12. Councils predict an increased demand for smaller houses. The impact will need to be considered in local housing strategies. Councils and housing associations have identified that there are not enough smaller, in particular one bedroom, properties to allow tenants to move to affordable smaller homes. Housing Benefit services will need to ensure IT systems are updated to reflect this change.

Date	Change	Impact, issues and risks
		Councils expect housing arrears to increase as claimants struggle to make up the difference between the rent charge and benefit paid. One Scottish council has identified 20% of its housing tenants as being over occupied and is expecting housing rent arrears to increase by 40% as a result. Councils predict collection issues will initially be identified in rent collections but with less income and more rent to pay other income streams may also be affected eg council tax, sundry income and Housing Benefit overpayment recovery. Councils may have to revisit and potentially review housing allocation and arrears policies.
April 2013	Replacement of Disability Living Allowance with Personal Independence Payments for working age claimants. Removal of the Disability Living Allowance mobility component for people in residential care. The lower rates currently paid in Disability Living Allowance will not feature in Personal Independence Payments - the lower rate is currently £39 per week.	The government is looking to save 20% of the Disability Living Allowance budget (estimated as £260 million in Scotland). This is likely to result in an estimated 500,000 claimants across the UK including 55,000 in Scotland, losing entitlement to Disability Living Allowance. As Disability Living Allowance currently acts as a trigger for other benefits, this may also mean, for some claimants, the loss of Severe Disability Premium, Carers Allowance, Blue Badge parking permits and exemption from any non-dependant deductions that might otherwise be applied to Housing and Council Tax Benefit. Councils will be required to update a

Date	Change	Impact, issues and risks
		significant volume of change of circumstances in Housing and Council Tax Reduction systems. Councils are predicting a loss of income through charging for non-residential care services. Personal Independence Payments will be introduced on a phased basis starting with new claims in a limited geographical area (the North West of England) from April 2013. By March 2016, all current Disability Living Allowance claimants of working age should have been reassessed for Personal Independence Payments.
April 2013	The level of in year rises in income that will be disregarded from calculations of Tax Credit will decrease down to £5,000 from £10,000.	It is difficult to accurately calculate the impact upon benefits received due to the close inter-relation between Tax Credits and other means tested benefits, especially Housing Benefit. Councils will be required to update a significant volume of change of circumstances into Housing and Council Tax Reduction systems.
April 2013	Local Housing Allowance rates will be increased by the Consumer Price Index instead of changes in the rental market.	The increase in Housing Benefit rates may be less than actual rent increases resulting in a widening gap between benefit received and rent payable.
April 2013	The introduction of a Benefits Cap. The total Benefits Cap will initially be £500 per week for couples or £350 per week for single people. The average benefit reduction across the UK is £83 per week. The Cap will initially be applied by	A reduction in income for some claimants. The DWP will need to ensure effective systems are in place to notify councils of Housing Benefit claimants that require to have their benefit reduced. The councils may

Date	Change	Impact, issues and risks
	councils reducing Housing Benefit. Disability Living Allowance, Personal Independence Payments, War Widow Pensions, Attendance Allowance, Industrial Injuries Benefit, Employment Support Allowance Support Component and Working Tax Credit claimants will be exempt from the Cap.	have to deal with claimants who do not understand why their benefit has been reduced without having full details of all benefits the claimant receives. The DWP is currently working in partnership with its own IT suppliers, the local authority IT suppliers and local authority practitioners to design and deliver an IT solution for applying the Benefit Cap. Councils predict collection issues will initially be identified in rent collections but with less income and more rent to pay other income streams may also be affected.
October 2013	The introduction of Universal Credit. This will replace six existing in and out of work benefits including Housing Benefit and Tax Credits for working age people. One of the main impacts on councils will be when Housing Benefit is eventually abolished and replaced by Universal Credit. The Housing Benefit caseload will move incrementally from councils to the DWP from October 2013 over a four year period. Universal Credit will be delivered from a digital platform. The latest migration plan is as follows: • From October 2013-April 2014: New claims from those dropping out of employment (initially by district, building up to full UK coverage). • From April 2014 onwards:	The DWP will play a leading role in delivery of Universal Credit and there will be a diminished role for local authorities. There is a strong possibility however, that councils will still be involved in certain aspects of Universal Credit. For example dealing with homeless housing support, the provision of Discretionary Housing Payments and supporting people to make Universal Credit claims electronically. This will have implications for workforce planning, asset management and ICT strategies affecting social work, welfare rights and financial services in councils.

Date	Change	Impact, issues and risks
	New claims from anyone, whether in or out of work. • From April 2014-the end of 2015: A managed migration for existing claimants. • The end of 2015-October 2017: Closure of Housing Benefit provision in councils. This will be done on a geographical basis.	
October 2013	Direct payment of Universal Credit to the claimant. One monthly payment will be made to each household in arrears. It will be the claimant's responsibility to pay rent, bills etc. from the monthly payment. At present council benefit services pay most rents direct to landlords.	Councils and other landlords are predicting rent arrears and bad debts to increase. Councils also predict increased rent collection costs. There may be an increase in people presenting themselves as homeless to councils. A number of Universal Credit recipients will require assistance on budgeting and monitoring their financial income and outflows. Most housing rent systems are set up to charge rents on either a weekly or fortnightly basis and sometimes with "rent free" periods at Christmas and in the summer. Software suppliers and housing providers need to work together to resolve this issue to ensure the monthly Universal Credit housing support charge correlates to a monthly housing rent charge. This will be a significant and potentially costly piece of work for some councils.
From	Modifications to pension credit to	Reduction in Housing Benefit claims

Date	Change	Impact, issues and risks
October 2014-2017	include housing support. The migration of pension age Housing Benefits claimants is planned to be complete by October 2017.	for councils.
Between October 2012 and 2016	A £10 billion cut from the welfare budget targeting Housing Benefit for young people and payments for children.	Further change to council Housing Benefit IT systems, rules and regulations. An increase in change of circumstances for councils to process.

AGENDA ITEM 9
Paper: AC.2012.10.5

ACCOUNTS COMMISSION

MEETING 13 DECEMBER 2012

COVER NOTE BY SECRETARY AND BUSINESS MANAGER

SHETLAND ISLANDS COUNCIL

Purpose

1. The purpose of this report is to introduce a report by the Controller of Audit on the progress made by Shetland Islands Council against improvements previously set out by the Commission. The Commission is invited to consider the report and decide how it wishes to proceed.

Background

2. At its meeting on 20 January 2011, the Commission considered a report by the Controller of Audit on the 2009/10 annual audit of Shetland Islands Council. The Commission noted that, in previously making findings in August 2010 following a hearing, it had required a further report from the Controller of Audit in around 12 months' time on progress by the Council. The Commission noted and approved the Controller of Audit's proposal to report further in December 2011 so that further audit work could take account of milestones set out in the Council's improvement plan.

3. The Controller of Audit subsequently reported on this work to the meeting of the Commission on 15 December 2011. In its findings on the report, the Commission welcomed the prompt action and progress made by the Council with its improvement plan. The Commission also, however, emphasised the need for this positive direction and change to be sustained and consolidated, especially in the context of some considerable challenges to be faced by the Council in the near future. Consequently, the Commission requested that the Controller of Audit provide it with a further report in approximately 12 months' time, to enable the Commission to review the Council's progress in implementing actions and in maintaining the improvements it has made over the last 12 months. The attached report by the Controller of Audit is in response to that request.

The report

4. The report is made under section 102(1)(a) of the Local Government (Scotland) Act 1973 (as amended by various subsequent pieces of legislation including the Local Government in Scotland Act 2003). The report is also being sent to the Comhairle, which is obliged to supply a copy of the report to each member of the Comhairle and make additional copies available for public inspection.

5. The legislation enables the Controller of Audit to make reports to the Commission with respect to:

   a) the accounts of local authorities audited under the Act;

b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public.

c) the performance by a local authority of their statutory duties in relation to best value and community planning.

Consideration of the report

6. The Controller of Audit and members of the audit team from Audit Scotland will be present at the Commission meeting to answer questions.

7. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:

   a) direct the Controller of Audit to carry out further investigations;

   b) hold a hearing;

   c) state its findings.

8. If the Commission considers that it requires further information to proceed with its consideration of the report, it may direct the Controller of Audit to carry out further investigations. If the Commission is satisfied with the information which it has, it may wish to proceed to make findings unless members consider that a hearing is necessary.

9. The circumstances in which the Commission may wish to hold a hearing may include:

   - where the Commission has serious concerns about the performance of a local authority as demonstrated in the audit report; or
   - where there is a strong difference of opinion between the Controller of Audit and the local authority.

10. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.

Conclusion

11. The Commission is invited to:

   - consider the follow-up report by the Controller of Audit on the progress made by Shetland Islands Council against improvements previously set out by the Commission; and

   - decide how it wishes to proceed.

Paul Reilly
Secretary and Business Manager
30 November 2012

Shetland Islands Council

Statutory follow up report

JDIT SCOTLAND

Prepared for Accounts Commission by the Controller of Audit
December 2012

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

Contents

Commission's findings

Findings here

Introduction

1. On 15 December 2011 the Accounts Commission considered a report on Shetland Islands Council. The December 2011 report was the latest in a series of statutory reports:
   - In December 2009 a statutory report from the Controller of Audit advised the Accounts Commission that the council's financial statements had been qualified for the fourth consecutive year and highlighted concerns about working relationships, governance and accountability, and the strategic leadership in the council.
   - In light of the issues covered in the report, the Commission held a public hearing in Lerwick in June 2010 and published its findings in August 2010.
   - In January 2011 the Commission considered a statutory report on the 2009/10 audit which highlighted that the auditors had given a qualified opinion on the financial statements of Shetland Islands Council for the fifth consecutive year.
   - In December 2011 the Commission considered a statutory report on the progress the council had made on its improvement plan since the public hearing.
2. In its findings on the December 2011 report the Accounts Commission:
   - Welcomed the prompt action and progress made by the council with its improvement plan. The Commission was encouraged that the council had put in place many of the basic but essential building blocks of Best Value, including new political and management arrangements.
   - Emphasised, 'the need for this positive direction and change to be sustained and consolidated, especially in the context of some considerable challenges to be faced by the council in the near future. The Commission believes that these challenges include: a continuing need to address financial constraints; the need to appoint a new Section 95 officer; the longer term appointment of a chief executive; and forthcoming council elections.'
   - Noted, 'positive indications that the council is developing a culture of continuous improvement: this change needs to be continued and the council needs to ensure that it has the capacity to do this.'
   - Noted that, 'the council also needs to do more to demonstrate more effective strategic financial management and to improve the capacity of its finance function, for example to avoid similar difficulties that were experienced this year in the timely and accurate preparation of accounts.'
   - Noted that it, 'is seriously concerned to note that the auditors have given a qualified opinion on the council's financial statements, due to the omission of the Shetland Charitable Trust results from the group accounts. This is the sixth year in succession that there has been a qualification of those statements.' 'But the Commission notes that the council is committed in its improvement plan to addressing this situation during 2012.'

3. The Commission requested that the Controller of Audit provides it with a further report in approximately 12 months' time, to enable the Commission to review the council's progress in implementing actions and in maintaining the improvements it has made over the last 12 months. This report fulfils that requirement.

4. Members of the Accounts Commission also met with elected representatives and senior managers of the council in Lerwick on 31 May 2012 to discuss the findings on the statutory report published in January 2012.

Overall conclusions

The council has continued to make good progress on its improvement agenda. It has appointed a permanent chief executive and a chief financial officer and agreed a medium term financial plan which clearly sets out the challenges facing the council, together with actions to address these. The council's 2011/12 financial statements were of good quality and were not qualified. The council needs to continue to sustain its positive direction of travel and knows that it will need to take some difficult decisions to address the significant financial challenges it faces.

5. The council has continued to make good progress on its improvement agenda.

6. The council's financial management arrangements have improved significantly. For the first time in six years, the 2011/12 accounts were not qualified. The council still faces significant financial challenges but the improved quality of financial reporting means that the council is in a much better position to take clear, well informed decisions.

7. In terms of the key issues highlighted by the Commission in its last set of findings, the council has:
   - Appointed a new chief financial officer (section 95 officer)
   - Agreed a revised single outcome agreement (SOA), council action plan and a refreshed improvement plan
   - Agreed a Medium Term Financial Plan
   - Appointed a permanent Chief Executive and filled vacant Director posts
   - Consolidated many of the improvements to its governance and accountability arrangements including the political management arrangements and agreed a new code of governance.
   - Continued to develop a corporate culture of continuous improvement

8. Following the local government elections in May 2012 the council appointed a new political Leader and Convenor and 13 of the 22 elected members are new. A series of well attended induction training events for members were held following the elections. The Leader and the Convenor have been working well together and, with other members, are setting a clear direction for the council.

9. The council has made good progress on its improvement agenda, but needs to ensure that the wide ranging and ambitious improvement plans are prioritised and managed in a sustainable way so that it has the capacity to deliver on its objectives.

10. The council will need to take some difficult decisions if it is to deliver its medium term financial plan. This will be challenging for council staff and the residents of the islands who have been used to providing and receiving a high level and quality of services over recent years. It will

also be challenging for the political and managerial leadership of the council who, as a group, are relatively new to their various roles.

Summary of progress

The council has continued to sustain the improvement evident at the time of the last progress report. Elected members have shown clear leadership following the local government elections in May 2012, with a particular focus on the need to deal with the financial challenges facing the council. The council's financial management arrangements have improved significantly and the council has appointed a permanent chief executive.

The council still faces some significant challenges, not least in taking the difficult decisions which will be needed to deliver its medium term financial plan.

11. My last statutory progress report in December 2011 noted that the council had 'taken prompt action to address the issues highlighted in the audit reports and in the Accounts Commission's findings and has made good progress to date on implementing many important elements of its improvement plan.' This continues to be the case.

12. Over the last 12 months the council has sustained its improvement activity and has taken action to address some of the remaining areas identified as presenting risk. For example, the last report noted that financial management remained an area of significant concern. The council has taken steps to address this by appointing a new section 95 officer and strengthening the finance team. In September 2012 it agreed a five year medium term financial plan and the council's financial statements for 2011/12 were not qualified.

13. The council continues to move in the right direction and the clear commitment to improve evident at the time of my last report has been sustained. The council's self awareness continues to improve and it understands that it must continue to focus on its priorities and what still needs to improve for the future.

14. Exhibit 1 below illustrates some of the significant events which have taken place since the last statutory progress report considered by the Commission in December 2011.

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Exhibit 1

Timeline of key events since last statutory report

Month	Key events
December 2011	Accounts Commission considers statutory progress report.
January 2012	Accounts Commission findings published Chief financial officer (S95 officer) appointed
February	2011/12 budget approved
March	Council agrees a five year asset investment plan
May	Local Government Election Appointment of new council leader and convenor and appointments of committee chairs and members Clear messages from the council leadership about the challenges facing the council Induction and development programme for elected members begins
June	Council agrees approach to Health and Social Care Integration, reshaping care for older people and approves Community Health and Care Partnership (CHCP) agreement Directorate service plans start to go to committees Policies on organisational restructuring and redeployment agreed Asset management strategy agreed
July	Council agrees Single Outcome Agreement (SOA), Council Action Plan and revised Council Improvement Plan
September	Council agrees Blueprint for Education 2012 -2017 Council agrees Medium Term Financial Plan 2012 - 2017 Council agrees new Code of Corporate Governance and new Complaints Procedure Audited accounts signed off without qualification Permanent Chief Executive takes up post
October	Annual audit report to members and the Controller of Audit finalised
November	On-site audit work for this BV follow up report 2013/14 budget seminars held by each directorate

Source: Audit Scotland

Leadership, vision & strategic direction

The early indications are that the new political leadership is providing a clear strategic direction for the council. The interim chief executive's secondment has come to an end and the council has appointed a permanent chief executive.

15. In my last progress report I noted that the council has established new political management arrangements and a new management structure. I also noted that the interim chief executive had led the work on improving the council with considerable commitment and resilience, guiding the council through a series of important and difficult decisions, including decisions on the schools estate and the 2011/12 budget process.

16. There have been significant changes to the political leadership of the council following the local government elections in May 2012. 13 of the 22 members are new and former convenor, leader and some chairs/ vice chairs of committees did not stand for election.

17. The council has appointed a new political leader, and a new Convener. Since their appointment, the leader and convenor have been working in partnership to set a clear vision and priorities for the council, in particular the need to deal with the financial challenges that the council faces.

18. In a press release shortly after being elected, the leader said, 'The Council needs to develop mutual trust and respect with its staff, and involve the community as much as possible in future decisions which will affect everyone in Shetland. The Council is facing some tough challenges when it comes to spending, and it needs to be transparent and open in its decisions in the years ahead.' More recently the Convenor has stated, 'There is nothing caring about spending money we don't have. At the end of the day all we are doing is mounting up problems for our children and grandchildren'.

19. In July 2012 the council agreed the Shetland Single Outcome Agreement 2012/15 (SOA). The SOA describes how the objectives set out in the Shetland Performance Framework will be delivered through action by local agencies and partners under the umbrella of the Shetland Community Plan. Progress on the SOA is reported to the full council annually and to the Executive Committee on a bi-annual basis.

20. The council also agreed a Council Action Plan in July 2012 which drew together the key 2012/13 targets contained within its current savings plan, the Improvement Plan and the SOA. The aim of the Council Action Plan is to ensure that the council delivers the short-term objectives agreed by the previous council while the newly elected council reviewed its medium and longer term objectives. Quarterly progress reports are submitted to the Executive Committee to allow members to monitor the delivery and progress of the plan.

21. In September 2012 the council agreed a strategic 'Blueprint for Education' which will result in changes to the provision of education services across the islands. At a local level, it also recently decided not to provide funding to two village halls. These examples indicate that the

council is now more prepared, and better able to, take difficult political decisions than was the case in the past.

22. The council is currently reviewing its Corporate Plan and it is expected that an updated plan will be in place by February 2013.

Management arrangements, performance management and planning

The council has continued to improve its planning, budgeting and performance management arrangements.

23. In the last progress report I noted that the council has agreed a new management structure and has made significant progress in implementing the new arrangements.

24. Since then the council has made appointments to all of the Director posts and appointed a permanent chief executive. The new chief executive had only been in post for a matter of weeks when the on-site audit work was carried out. However, it was clear from the audit interviews that he already had a good understanding of the council and is working towards developing effective relationships with members and officers.

25. The corporate management team is led by the Chief Executive and includes the Directors, the section 95 officer and the monitoring officer are working well together and have a strategic corporate agenda.

26. The council's approach to planning and budgeting continues to improve, and it plans to further integrate its arrangements through the next budget process. In July 2012 the council agreed the Action Plan 2012/13 that *'sets out targets, timescales, responsibilities and monitoring arrangements for a demanding work programme over the early months of the new council'*. Progress on the Action Plan is reported to the Executive Committee and full council on a six monthly basis.

27. The council also continues to work on the development of its performance management arrangements as set out in the Planning and Performance Management Framework (PPMF). The PPMF details how the council's strategic and operational plans are linked and how progress against these plans will be monitored and reported.

Financial management and accountability

The council's financial management arrangements have improved significantly. The 2011/12 financial statements received an unqualified audit opinion for the first time in six years. The council has appointed a new chief financial officer who has been instrumental in improving financial management in the council.

28. In its findings on my last report, the Commission noted that the council needs to, 'do more to demonstrate more effective strategic financial management and to improve the capacity of its finance function, for example to avoid similar difficulties that were experienced this year in the timely and accurate preparation of accounts.' The Commission also expressed serious

concern about the successive qualified audit certificates as a result of the exclusion of the Shetland Charitable Trust's financial results from the council's group accounts.

29. In January 2012 the council made an appointment to the post of Executive manager - Finance who is the section 95 officer for the council. Since taking up the post he has been instrumental in improving the financial management arrangements in the council.

30. The council has improved the capacity of the finance department by making appointments to the team. This has improved the quality and clarity of financial reporting and the process of preparing the annual financial statements.

31. Exhibit 2 contains some key messages from the 2011/12 annual audit report to elected members and the Controller of Audit.

Exhibit 2

Key messages in annual audit report

We have given an unqualified opinion that the financial statements of Shetland Islands Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements. For the preceding six years, the council's financial statements had carried a qualification in relation to the non-consolidation of the Shetland Charitable Trust (SCT). It is a significant development in the council's financial reporting that the SCT has now been included in the group accounts and that, consequently the audit opinion is now unqualified.

This year the financial statements were submitted on time, to the expected quality and accompanied with working papers of a high standard. As a result of these significant improvements we were able to conduct our audit more efficiently.

Source: Annual Audit Report to Elected Members and the Controller of Audit 2011/12: Audit Scotland

32. In February 2012 the council agreed the 2012/13 revenue budget of £119.0 million (2011/12 £127.4 million). This included a savings target of £15.6 million and a draw on reserves of £17.1 million. In September 2012 the council reported a revised 2012/13 revenue budget of £125.6 million, requiring an additional draw on reserves of £5.7 million. The report highlighted the financial challenges facing the council:

- some planned savings would not be achieved which will result in a projected General Fund overspend of £2.603 unless alternative savings can be made
- the Harbour Account is projected to achieve £1.484 million less in income.

33. The report also noted that the Housing Revenue Account (HRA) is projected to be within budget.

34. For a number of years, the council has met budget deficits by drawing significantly on its reserves (£35.8 million was drawn from its reserves in 2011/12). The council recognises that this level of funding from reserves cannot be maintained in the long term. In his June report on 2011/12 unaudited out-turn to the Executive Committee, the chief financial officer stated clearly, 'the level of revenue spend is still running well in excess of the Council's incoming resources which is neither affordable or sustainable'.

35. In September 2012 the council agreed a five year medium term financial plan (MTFP) aimed at achieving financial sustainability and ensuring resources are properly aligned with its objectives and priorities. This sets out the council's plan to address the significant savings required to maintain a balanced budget while retaining a minimum level of reserve and aims to achieve total savings of £38.360 million over the period, while maintaining a minimum reserve balance of £125 million.

36. The financial plan sets out the council's budget arrangements for the next five years and each director is required to develop five year resourced directorate and service plans based on their target operating budgets.

37. A budget carry forward scheme has been introduced to encourage services to underspend against their budgets. Through the scheme, a service can carry 50% of any one-off underspend into the following financial year, assuming it has met its overall budget.

38. The council also has a 'spend to save' scheme in place that provides funding to a service in order to achieve savings at a later date, as long as they are achieved within three years.

39. The MTFP is a good example of the improvements made to financial reporting which is now clearer and less ambiguous. This is in marked contrast to the way financial matters were reported in previous years. Exhibit 3 contains extracts from the MTFP to illustrate both the financial position of the council and also the improved clarity of financial reporting.

Exhibit 3

Key messages in the medium term financial plan

Current Budget Gap

3.18 As a result of a widening disconnection between income received by the Council and the level of expenditure incurred by the Council over a number of years, a structural deficit has been created which resulted in expenditure being £35.6m higher than income during 2011- 12. This deficit was met in full by drawing funds from the Council's reserves.

Reserves Levels

3.20 The result of the Council's structural budget deficit is that the reserves have decreased from a value of £465m (in today's prices) in 2000 to the current value of £193m in 2012.

3.22 In the face of reducing income as explained above, lower returns on reserves and a current structural deficit of £35.6m per year, the Council's reserves will be zero by 2016/17 if no corrective action is taken.

Medium Term Financial Plan Reserves Policy

5.10 It is important to recognise that the "Tolerable Reserves Floor" set by the Council does not impact on the level of cuts required to deliver a balanced budget. Even if all reserves are utilised for the provision of services, the Council would then still have to cut expenditure to match its incoming resources in order to meet its statutory duty of setting a balanced budget.

5.11 Therefore the level at which Members decide to set the Tolerable Reserves Floor will only determine the speed of the cuts that are necessary to deliver a balanced budget and preserve a certain level of reserves for the future.

Addressing the budget gap

12.12 Directorates will be required to address the budget gap set out in 12.9 above, in order to deliver budget proposals that are within the Target Operating Budgets set in 12.9 above.

12.13 There are 2 options available to directorates to fill budget gaps; identifying savings and introduce or increase existing fees and charges. In practice a combination of both options will be adopted by directorates where there is scope to do so.

Source: Shetland Islands Council - Medium Term Financial Plan 2012 -2017

40. The management accounts for the period April to September 2012 stated that the total projected draw on reserves for 2012-13 is £27.5 million net of an underspend of £1.4 million on capital programmes. This is a substantial improvement from 2011-12 when there was a draw on reserves of £35.8 million, but the report to the Executive Committee recognises that this level of draw on reserves in a single year, 'is unsustainable and therefore officers should be encouraged to continue to find management/efficiency savings wherever possible to bring this down.'

41. The medium term financial plan sets out the path to a sustainable budget position which is to be achieved through staged reductions over the next four financial years. As part of the process for moving towards this position, the general fund target operating budget has been set at £110 million for 2013-14. The budget has been divided amongst the directorates to give Directorate Target Operating Budgets. Each directorate is planning its 2013-14 activity in line with the allocated budgets. A budget seminar for each directorate was held in November and members were invited to attend to hear budget proposals. These seminars were well attended by members.

Building capacity & sustaining improvement

The council continues to make good progress on its improvement plan and is building capacity by investing in training and development for members and officers. The council

should review its improvement activity to ensure that it is being prioritised and managed effectively, so that it can assure itself that it has the capacity to deliver its objectives.

42. In the last progress report I noted that the council had made good progress overall on its improvement plan. This continues to be the case.

43. The council has an extensive improvement agenda which is managed in a number of plans and reported to a range of forums.

44. The council's initial Improvement Plan was put in place to address the Commission's recommendations following the public hearing in 2010. The improvement plan has been reviewed and revised over time and the council approved a refreshed improvement plan in May 2012.

45. The Improvement Plan is structured along the lines of the corporate assessment framework used by Audit Scotland and other inspection agencies and the council uses it to inform its own self assessment. The plan is well structured, has clear lines of accountability and clear timescales. Each main area is led by a Director, who is supported by officers from other departments to improve corporate working. Delivery against the Improvement Plan also forms a core element of senior management performance management arrangements.

46. The Improvement Plan is considered by the council alongside its other key plans on a bi-annual basis and is reported and monitored by Corporate Management Team (through its 'Directors for Change' group) and the Executive Committee on a quarterly basis. The council also uses an Improvement Sounding Board of members and officers to manage improvement work. The most recent update report to full council in September 2012 indicates that the council is making good progress overall.

47. The council also has a large programme of reviews underway. Each review has a lead Director, who, as on the improvement plan, is supported by officers from other directorates.

48. The programme contains 50 reviews which vary in size and are at different stages. As at November 2012, five are in the early stages, 25 are in progress and six have been completed. However 14 have experienced some slippage and are categorised by the council as being overdue.

49. The council also has a number of smaller scale 'SOFIE' (Sussing Out Further Internal Efficiency) reviews. This programme is managed by the 'Directors for Change' group and is essentially a quick, focussed piece of peer review work from within the council.

50. Each component of the improvement work is well organised, has clear lines of responsibility and there are regular reports on progress and results. With such an ambitious and wide ranging improvement agenda it is important that the council is prioritising the most important areas and not spreading its capacity too thinly. It needs to ensure that it is making the best use of the capacity that it has and should review the various strands of improvement work to assure itself that the scale and ambition is not compromising its ability to deliver improvement.

51. Following the council elections in May 2012, the council delivered a comprehensive induction programme for all elected members. The council has also developed a wide ranging on-going development programme for councillors, half of whom now have draft personal development plan in place. Attendance at training and development events has been good over all. This has included 80 per cent attendance over-all across a ten day induction programme, 100 per cent attendance at a budget development seminar and 91 per cent attendance at a Blueprint for Education seminar.

52. The council is also making progress on training and developing its workforce. It has developed a HR/workforce strategy supported by a learning and development programme.

53. Both members and officers are also increasingly attending local government meetings, forums and networking events.

54. The senior management of the council is working corporately, for example through the cross departmental teams working on the improvement agenda. The council has also established a broader management forum 'Executive Plus' which brings together the Directors and Executive Managers.

55. Working relationships amongst members and between members and officers are constructive. It is important that this is sustained in order to tackle the challenges ahead.

Outlook

56. The council continues to move in the right direction and the clear commitment to improve evident at the time of my last report has been sustained. The council’s self awareness continues to improve and it understands that it must continue to focus on its priorities and what still needs to improve for the future.

57. In order to sustain this positive direction of travel the council the council will need to:

- Take the difficult decisions needed to deliver on the commitments contained in the medium term financial plan to put the long term financial position of the council on a sustainable footing.
- Review and prioritise its improvement activity to ensure it is sustainable.

AGENDA ITEM 10
Paper: AC.2012.10.6

ACCOUNTS COMMISSION

MEETING 13 DECEMBER 2012

COVER NOTE BY SECRETARY AND BUSINESS MANAGER

THE 2011/12 AUDIT OF THE CITY OF EDINBURGH COUNCIL

Purpose

1. The purpose of this report is to introduce a report by the Controller of Audit on the 2011/12 audit of the City of Edinburgh Council. The Commission is invited to consider the report and decide how it wishes to proceed.

Background

2. At its meeting on 29 November 2011, the Commission's Financial Audit and Assurance Committee considered its regular report on current audit issues in councils, from which the Committee noted that he was proposing to issue a report to provide the Accounts Commission with an update on matters in relation to City of Edinburgh Council in which the Commission has an interest. This report is attached.

The report

3. The report is made under section 102(1)(a) of the Local Government (Scotland) Act 1973 (as amended by various subsequent pieces of legislation including the Local Government in Scotland Act 2003). The report is also being sent to the council, which is obliged to supply a copy of the report to each member of the council and make additional copies available for public inspection.

4. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
    a) the accounts of local authorities audited under the Act;
    b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public.
    c) the performance by a local authority of their statutory duties in relation to best value and community planning.

Consideration of the report

5. The Controller of Audit and members of the audit team from Audit Scotland will be present at the Commission meeting to answer questions.

6. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:
    a) direct the Controller of Audit to carry out further investigations;
    b) hold a hearing;
    c) state its findings.

7. If the Commission considers that it requires further information to proceed with its consideration of the report, it may direct the Controller of Audit to carry out further investigations. If the Commission is satisfied with the information which it has, it may wish to proceed to make findings unless members consider that a hearing is necessary.

8. The circumstances in which the Commission may wish to hold a hearing may include:

   - where the Commission has serious concerns about the performance of a local authority as demonstrated in the audit report; or
   - where there is a strong difference of opinion between the Controller of Audit and the local authority.

9. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.

Conclusion

10. The Commission is invited to:

    - consider the report by the Controller of Audit on the 2011/12 audit of the City of Edinburgh Council; and
    - decide how it wishes to proceed.

Paul Reilly
Secretary and Business Manager
30 November 2012

REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION UNDER SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

THE 2011/12 AUDIT OF THE CITY OF EDINBURGH COUNCIL

Introduction

1. The Code of Audit Practice requires auditors at the conclusion of each year's audit to produce a report summarising the significant matters arising from the audit. For local authorities, these reports are addressed to elected members and the Controller of Audit.

2. I have received the annual audit report for City of Edinburgh Council for 2011/12. It provides an update on significant matters in which the Accounts Commission has an interest. I have therefore decided to use the reporting powers available to me[1] to bring the annual audit report to the Commission's attention.

3. In addition to providing the Commission with up to date information on significant matters based on recent audit work, my report also informs the Commission about arrangements for the current Best Value audit at the Council and how Audit Scotland is working to ensure risk-based, proportionate scrutiny.

Annual audit report 2011/12

4. The auditor's annual audit report on the City of Edinburgh Council is attached as Appendix 1. The report will be considered by the Council's Governance, Risk and Best Value Committee on 6 December 2012 and, in due course and in accordance with usual practice, it will be published on Audit Scotland's website along with the annual audit reports for all other local authorities.

5. I would draw the Commission's attention to the following points:
   - The auditor's opinion on the financial statements is unqualified.
   - Alternative Business Models. The Council decided not to pursue this approach to service provision in favour of in-house alternatives. The auditor's report contains more information about the Council's initiatives to address this. (Paragraph 146).
   - Trams. The auditor concludes that contractor relations are on a firmer footing and the project continues in line with the revised timetable and budget. However, as with other projects of this magnitude, risks remain. (Paragraph 86).
   - Statutory repairs service. An investigation has been on-going for about 18 months. The auditor highlights the challenge in restoring service reputation and the financial uncertainty in recovering amounts billed and unbilled. (Paragraph 26).
   - Operational governance arrangements. There are on-going, fundamental reviews of key aspects of governance. (Paragraph 84).
   - Overall financial position. The Council's useable reserves increased by £21.3 million (17%) during the year and totalled £144.3 million at 31 March 2012. Set against annual expenditure of £1.6 billion in 2011/12, revenue budgets for 2013/14 and 2014/15 show funding gaps of £4 million and £32 million respectively.

6. The auditor notes that the Council has already recognised the key issues set out in the annual audit report and that work is being undertaken to address them. Appendix B to the annual audit report sets out planned management action in response to the risks identified. The auditor will continue to monitor developments as part of the on-going audit work at the Council.

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[1] Section 102(1) of the Local Government (Scotland) Act 1973

Best Value audit 2012/13

7. The Shared Risk Assessment (SRA) process results in Assurance and Improvement Plans (AIPs) which provide an assessment of scrutiny risk across outcomes, services and corporate areas and summarise the resulting scrutiny activities. The most recent AIP for City of Edinburgh Council was published in May 2012[2] and identifies that, in the context of a range of scrutiny risks and uncertainties, a Best Value audit should take place in 2012/13.

8. The Best Value audit is underway. It will consider the Council's progress since the previous Best Value audit in 2007[3] and how the Council, along with its community planning partners, is responding to the challenges and delivering improving outcomes. The audit will also take account of developments since the publication of the AIP, including the impact of the change in political leadership following the council elections and current work to implement new governance and organisational structures.

9. The scope and depth of the audit has been influenced by a submission which the Council provided in advance of the Best Value audit. This demonstrates a good degree of self-awareness and provides a balanced picture, identifying the Council's assessment of good practice alongside actions and areas for improvement.

10. During the course of the Best Value audit, the Care Inspectorate is leading a multi-agency inspection of children's services. Audit Scotland will co-ordinate the Best Value work with the Inspectorate and draw on its findings in the Best Value audit report. The Best Value audit will also reflect other relevant inspection reports.

11. As indicated, the external auditor will continue to monitor the Council's response to the significant matters highlighted in the annual audit report and will report again to the Council and to me in due course. The Best Value audit will take account of the auditor's views on these matters to inform judgements about the council's performance in key aspects of best value, such as leadership and governance. However, the Best Value audit will not investigate these specific issues in detail.

12. I expect to make my report on the Best Value audit of City of Edinburgh Council to the Accounts Commission in April 2013.

Conclusion

13. The Commission is invited to consider this report.

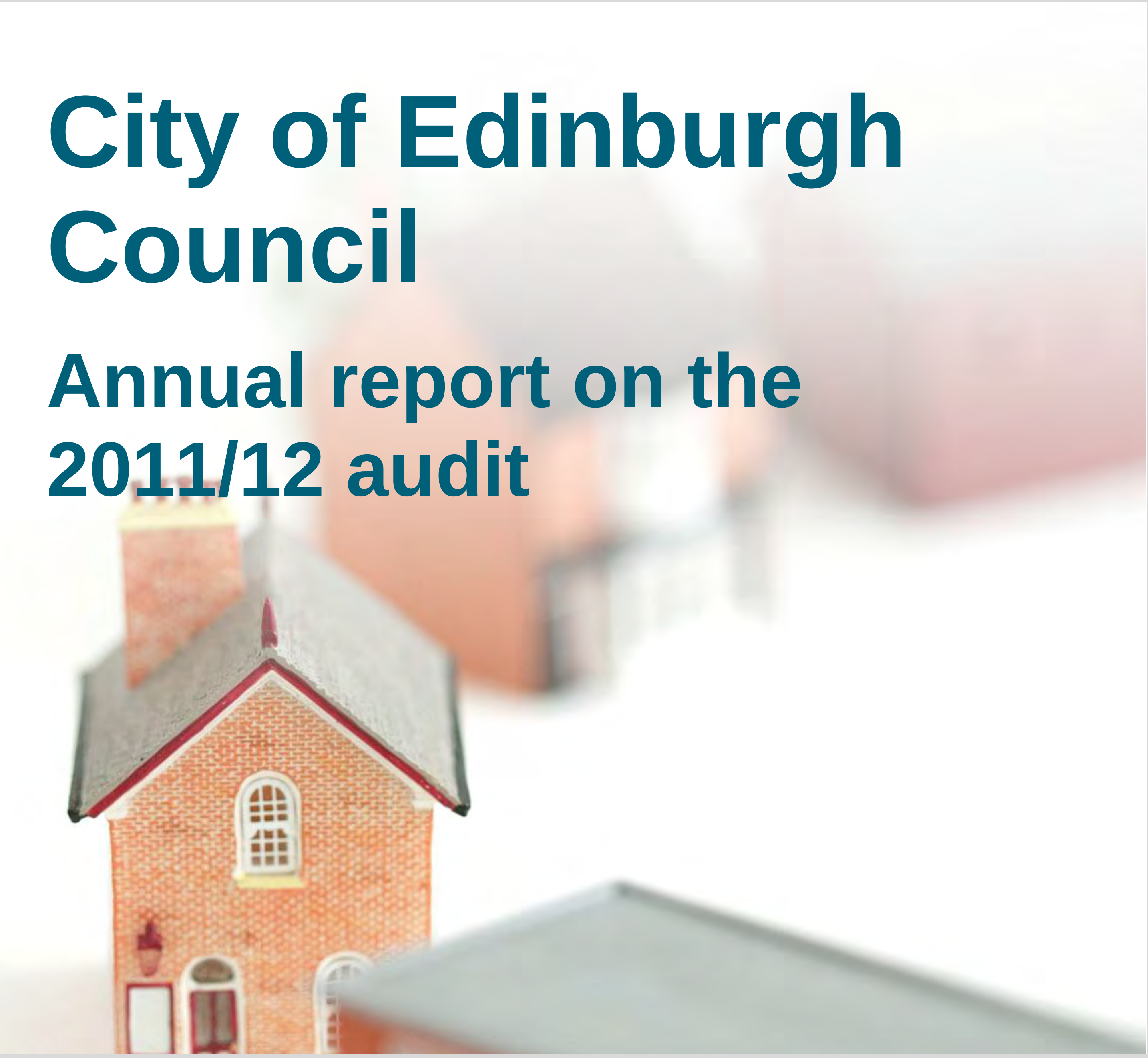
Fraser McKinlay
Controller of Audit
5 December 2012

[2] http://www.audit-scotland.gov.uk/docs/best_value/2012/aip_120516_edinburgh.pdf

[3] http://www.audit-scotland.gov.uk/docs/local/2006/bv_070227_edinburgh.pdf

City of Edinburgh Council

Annual report on the 2011/12 audit



AUDIT SCOTLAND

Prepared for Members of City of Edinburgh Council and the Controller of Audit

November 2012

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

Contents

Key messages

2011/12 audit findings

This report summarises the findings from our 2011/12 audit of City of Edinburgh Council ("the Council"). As part of the audit we assessed the key financial and strategic risks being faced by the Council. We audited the financial statements and reviewed the Council's financial position and aspects of governance, best value, the use of resources and performance.

This report sets out our key findings and this introductory section presents our summary view on the major events of the previous year and on the risks and challenges which these bring for the future.

We have given an unqualified opinion on the financial statements of the Council. However, our opinion draws attention to the failure of three significant trading operations (Refuse Collection (including Trade Waste), Direct Cleaning and Edinburgh Catering Services - Other Catering) to breakeven on a rolling three year basis.

Governance and Performance

City of Edinburgh Council is at a key stage in its organisational and service development. A new administration came into office in May of 2012. The Council has a relatively recently appointed Chief Executive and a substantially renewed management team who are working with the Council to develop new models of working and to address the wide range of current challenges which the Council faces. Those challenges are substantial. The Council's financial position, while currently in balance, faces the possibility of future deficit if it fails to deliver substantial savings on a recurring basis. This is not uncommon for Scotland's public bodies, but for the City of Edinburgh Council there are a number of current issues which add to this challenge.

The Council had been developing an Alternative Business Model approach to service provision. Considerable effort had been expended over a number of years to construct that model and to design it such that it delivered savings which the Council requires to ensure financial sustainability for the future. However, in 2011/12 the Council chose not to pursue that model, which would have entailed substantial use of external partnerships, and instead favoured the development of in-house alternatives. It is, of course, for the Council to make those choices, however it leaves a serious challenge for the organisation in ensuring that it can identify alternative savings. We are aware of a range of initiatives by the Council to address this and we will follow these developments with particular interest.

The issues of the Edinburgh tram system are well rehearsed. Our report discusses the issue in its wider context of the Council's service aims and its future financial challenges. The year under review has been one of significant developments for the tram programme. Early in 2011/12, a key development was the mediation process with the contractors which re-focussed the project after a particularly challenging period which had resulted in a stoppage on the project. The Council's decision making over the route and extent of the system did falter publicly later in the year, before the current route option was agreed. Since then the developments have been steadier. Tie limited no longer manages the project and Transport Scotland now takes a more active role. Contractor relations are on a firmer footing and the project continues in line with the - albeit revised - timetable and budget. However, risks remain, as with many projects of this magnitude. The revised budget has also resulted in £ 231 million of additional borrowing for the Council, and whilst not the most indebted of Scotland's Councils, this leaves the City of Edinburgh bearing a relatively high debt burden going forward.

The Council has also faced a difficult year for its service reputation, specifically in relation to its handling, over a number of years, of its statutory repairs and related functions. Allegations have come forward of mismanagement and fraud, resulting in several staff being dismissed and a separate police investigation. The service is now operating on an emergency only basis while steps are taken to re-design the service. A dedicated team has also been established to deal with outstanding complaints and unbilled works of £27 million. This not only gives the Council the difficult challenge of restoring its service reputation but, our report concludes, it also leaves a legacy of financial uncertainty in relation to the recoverability of much of the substantial cost incurred, although this financial uncertainty is mitigated, to an extent, through an impairment provision.

Overall, however, we have concluded that the Council's governance arrangements are adequate and we recognise that considerable work is underway to strengthen the Council's governance framework at both an operational and political level. This in itself is a challenging area, and our report comments on the fact that for a short period in 2012 the Council's Audit Committee was chaired by a member of the ruling administration, which is not in accord with good and appropriate practice. However, we recognise that plans have been implemented and this very important role is now fulfilled by an opposition group member. A significant change has been the merger of the Finance and Corporate Services Departments into one department under the Director of Corporate Governance. The Council has initiated a number of reviews in, for example, audit and risk management arrangements, IT, strategic project management, procurement activity and priority based planning.

The Council and its management are doing much to develop the organisation's performance. There is a systematic approach to performance management which has provided a basis on which to develop and establish outcome-focussed performance improvement across the organisation, and a new Performance Framework is being developed. Reports indicate that overall performance is good with 88% of indicators showing performance being maintained or improving. These areas will be reviewed in the context of our upcoming Best Value review, which is referred to below.

Financial Management

The preceding paragraphs set out the operating challenges for the Council, but it is essential to view these in the light of the financial resources, and their management, which will be fundamental to their resolution. Our full report makes these linkages clear.

In 2011/12, the Council spent £1.6 billion on the provision of public services, leaving a surplus on the provision of services of £16.5 million which after adjusting to the funding basis equates to some

£0.05 million. The unallocated general fund (funds held against the risk of unanticipated expenditure or reduced income arising in any particular year) was, as planned by the Council, unchanged at £13.0 million as at 31 March 2012. However, the Council's useable reserves have increased by £21.3 million (17%) during the year, which is a greater increase than most Scottish Local authorities. The Council needs to continue to ensure that the level of its reserves strikes a reasonable balance between meeting current obligations and preparing for future commitments or reductions in funding.

We have noted above the impact of the tram budget on increasing borrowing. At 31 March 2012, the Council had £1.4 billion of debt, an increase of £112 million compared to the previous year, and an increase of 30% since 2007/08. At 31 March 2012, the Council had borrowed £38 million in advance of need to take advantage of low interest rates, albeit this is reducing as part of its treasury management strategy. The Council therefore has a significant level of debt which needs to be monitored as part of its overall financial strategy. The annual cost of borrowing will continue to put pressure on the Council's budget setting process which is already seeking to deliver savings to meet future funding gaps.

Capital expenditure totalled £339 million during 2011/12, with slippage occurring of £62 million. Of this slippage, £11.3 million related to the tram project with the remainder relating to other Council services such as flood prevention and environmental projects. This project slippage is accompanied by shortfalls in capital receipts. Capital receipts in 2011/12, from asset sales (excluding Housing Revenue Account), were £5.2 million, a shortfall of £12.4 million on the budget. The Council is reviewing its approach to capital planning, including its assumptions on the availability of capital receipts, to ensure the most effective application of its limited capital resources.

Outlook

Scotland's public bodies continue to face increasing demand and cost pressures for their services and this is likely to continue in the future. An ageing population, the effects of the recession and the heightened expectations of the public, all increase the demand for public services. These, together with cost pressures and existing financial commitments, place an additional burden on the capacity of public bodies to provide efficient and quality services at a time when budgets are reducing.

The Local Government Settlement 2012/13 to 2014/15 confirmed allocations for 2012/13 and contained provisional figures for the following two years. The Scottish Government's decision that no authority should receive less than 85% of the Scotland-wide per capita average grant support has added approximately £22 million to the Council's allocation in each of the three years covered by the Settlement announcement. The Council's updated revenue budget shows a funding gap of £4 million for 2013/14 and £32 million in in 2014/15. The Council will need to identify savings through its long term financial plan to ensure that the funding gaps in 2013/14 and 2014/15 are closed.

The Council is taking forward a number of improvement plans following the decision not to pursue the Alternative Business Model as a means of generating significant savings. This is a crucial issue for the Council to resolve as the savings to be generated will be required to assist with financial sustainability going forward. The plans are at an early stage and full business cases (incorporating planned savings) are due to be presented to Council in November / December 2012. This process includes activities covered by those statutory trading organisations that failed to achieve a 3-year rolling break-even position in 2011-12.

It would be appropriate to note here that the Council had already recognised the key issues recorded in this report and that work is being undertaken to by the Council to address them. In particular, we refer to the developments set out in its report of 6 November 2012 to the Governance, Risk and Best Value Committee, on Operational Governance. This report provides an update on a number of key workstreams in respect of the Council's governance framework, procurement, internal controls and a wide range of corporate risk areas including trams, property conservation and financial position. We will follow these significant developments with interest.

In May 2012, we concluded our shared risk assessment and assurance and improvement plan (AIP) for the Council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. Following on from this work a Best Value 2 audit is planned for the end of the calendar year. An important element of the best value audit is an assessment of the Council's self-evaluation activity. This audit will look at the Council's overall progress in meeting its Best Value responsibilities including progress in dealing with risks identified in the AIP.

The co-operation and assistance given to us by Council members, officers and staff is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee on 19 April 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the Council.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Council officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with audit committees, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the Council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

6. The management of the Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income (except for local government bodies).

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the foreword, annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of the Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the Council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

11. We have, however, drawn attention to a failure to comply with the Local Government Scotland Act 2003. Three significant trading organisations (STOs) have failed to break-even, on a cumulative basis, over a three year period. The STOs are Refuse Collection (including Trade Waste), Direct Cleaning and Edinburgh Catering Services - Other Catering. It is important to emphasise that this does not affect the overall opinion on the accounts. Not included in this listing is BlindCraft which ceased trading during the year.

12. The Council reports that service improvements are being implemented for refuse collection which resulted in a surplus of £0.683 million in 2011/12. These improvements, which include new shift patterns and changes to routing are on-going and once fully implemented in 2012/13 are expected to bring additional savings. It is hoped that this will help the service move towards a sustained break-even position in future. Direct cleaning achieved a surplus of £0.607 million in 2011/12 and would have achieved surpluses in the two preceding years were it not for costs incurred in relation to equal pay. It is anticipated that surpluses will be achieved in future years and in the process will turn the rolling three-year period into a surplus position. Edinburgh Catering Services (other catering) produced a small surplus in 2011/12 (£0.014 million) for the first time in recent years.

13. While the STOs have achieved surpluses in the current year there is no guarantee that this position will be maintained in future years. Also, at the recent Audit Committee (27 September 2012) management asserted that plans have yet to be fully developed that will deliver improvements in these services, but that these are in progress.

Refer Action Point no. 1

Legality

14. Through our planned audit work we consider the legality of the Council's financial transactions. In addition the Acting Chief Financial Officer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Council's management team, the financial transactions of the Council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Annual governance statement

15. As part of our annual audit we review the disclosures in the Annual Governance Statement and the process for obtaining sufficient assurances to inform the content of the statement. Overall we are satisfied with the processes put in place to obtain assurances from service directors and the Chief Executives / Directors of Finance of group companies.

16. We also reviewed the Acting Chief Internal Auditor's annual assurance report presented to the Audit Committee on 27 September 2012. It concluded that 'reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control environment'.

17. The Annual Governance Statement (AGS), while complying with the minimum disclosure requirements set out in the code of practice on local authority accounting in the United Kingdom 2011/12 in relation to the system of internal financial control, in our view would have benefited from the inclusion of further contextual comment on the issues around statutory repairs and related services.

18. The Annual Governance Statement referred in outline to a number of areas where improvements are required including:

- the procurement activities of the Council
- the delivery of internal improvement plans
- the management of major projects through a dedicated programme office
- the control framework within a customer centred framework
- the scrutiny and governance arrangements of the Council Committees.

19. The improvements planned are comprehensive and ambitious. Internal Audit will be responsible for monitoring improvement actions identified in the governance statement and the new Governance, Risk and Best Value Committee will be responsible for monitoring progress against these areas.

Accounting issues

20. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). From our audit work, we are satisfied that the Council prepared the financial statements in accordance with the Code.

Accounts submission

21. The Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. Overall, the quality of working papers has continued to improve compared to previous years. The Acting Chief Financial Officer and his staff provided a comprehensive working paper package at the start of the audit. This enabled us to conclude the audit and certify the financial statements on 28 September 2012.The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

22. On conclusion of the audit, there were a number of presentational changes made to the accounts. Each year there are also a number of changes to the group accounts to reflect the audited results submitted by group companies in September.

23. A number of matters were identified during the audit and adjustments were made to the accounts. The most significant items related to:

- The increase in the statutory repairs bad debt provision of £1.9 million taking it from £5.3 million to £7.2million.
- Statutory repair debtor and bad debt provision balances relating to payments made to contractors but not billed to property holders of £27 million, of which some £11.3 million (41.8%) dates back to 2009) were all included within current assets. Based on the age of the amounts not yet billed to owners it was appropriate that a significant percentage of the debtor and bad debt balances were moved into long term debtors.
- The provision calculation spreadsheet for equal pay for 2011/12 contained a misstatement of £0.7 million.
- The percentages used to calculate the housing benefit overpayments bad debt provision were incorrect resulting in a mis-statement of approximately £0.3 million.

Post balance sheet events

24. The financial statements draw attention to the Police and Fire Reform (Scotland) Act 2012 which received royal assent on 7 August 2012. Responsibility for Police and Fire and Rescue services will transfer from local government to new central government bodies on 1 April 2013. The full impact of the reform process is currently being assessed.

25. New Edinburgh Limited, a 50% owned subsidiary of CEC Holdings Limited, was placed in administration on 9 July 2012. There was no financial impact on the value of the Council's investment in CEC Holdings Limited.

Statutory Repairs

26. An investigation has been on-going for approximately 18 months into alleged improper practices including poor service, overcharging and apparent gross mismanagement in the Council's statutory repairs service over a number of years. Complaints have been received from 883 owners covering 721 different projects. These cover a range of issues including the scope of work, costs, work quality, project management and communications. A Complaints Resolution Team has been appointed to investigate these complaints and report to an internal panel of senior officers on outcomes in each case. As reported to the Policy and Strategy Committee meeting on 7 August 2012, 58 complaints had been investigated with 45 agreed outcomes. Two appeal cases have also been received. There remains the risk of continuing reputational damage while complaints remain unresolved. The service is now restricted to emergency repairs only and is in the process of being re-designed.

27. A number of actions have been taken by the Council including disciplinary investigations and dismissal of staff as well as a separate police investigation. In addition, Deloitte were commissioned to undertake a review of the statutory repairs service. The Deloitte reports are not in the public domain due to on-going investigations. The total amount paid to Deloitte for their work on statutory repairs was £2.195 million in 2011/12.

28. The financial statements contain a total debtor balance of £39.7 million relating to statutory notices. The largest element of this balance is made up of work carried out by contractors but not yet billed to property holders of £27 million, of which some £11.3 million (41.8%) dates back to 2009. There is also £4 million of administrative costs to be billed to the owners, making a total of £31 million unbilled.

29. As part of our work on debtors, we have considered the collectability of outstanding debt in respect of statutory notice work. Prior to the current circumstances, recovery rates of approximately 95% for billed work were achieved. The financial statements contain a total bad debt provision for statutory notices of £5.3 million (13.3% of total debt). After discussions with the external auditors regarding the level of the bad debt provision, the Council revaluated the provision resulting in an increase of £1.9 million to £7.2 million. Although we believe the current increased provision is reasonable, based on the available information at the time, provisions by their nature are uncertain. Failure to recover the amounts anticipated will adversely impact on the Council's financial position going forward.

30. As outlined above, over several years a significant amount of unbilled work has been allowed to accumulate i.e. approximately £27 million (£31 million including £4 million of administrative fees attached to these bills). Preparatory work has been undertaken to understand the case histories of repairs bills prior to billing. We have been advised that priority is being given to finalising these accounts.

Refer Action Point no. 2

31. The Council is currently considering options for the new service based on consultation with homeowners and the legislative framework. The consultation period ends on 31 October 2012. Several options are being considered including:

- Property Factoring - homeowners would appoint a factor to provide property maintenance, repair and management services on their behalf.
- Edinburgh Stair Partnership - this was a service previously provided by the Council. It provided support and guidance to homeowners in taking a planned approach towards progressing repairs and required a 100% sign up.
- Tenement Management Scheme - this is a statutory provision through the Tenement (Scotland) Act that enables home owners to manage common repairs where their title deeds do not clearly define the maintenance of areas of common responsibility.

32. The Council plans to have a new service in place by spring 2013. Its introduction will require a complete re-design of the service including statutory powers, policy procedures, IT, financial systems and performance reporting. It is essential that good governance structures are put in place to support these changes. In the meantime, an interim service focused on emergency common repairs will be provided by Property Conservation.

Refer Action Point no. 3

Group subsidiary companies severance and bonus packages

33. The remuneration report discloses that the Directors of tie Ltd, a 100% owned subsidiary of the Council, were paid a total of £406,635 compensation for loss of office. Some of the Directors of tie Limited were also paid bonuses, totalling £35,019, in 2011/12. Also, the Directors of Lothian Buses plc, a company 91.01% owned by City of Edinburgh Council, were paid bonuses totalling £175,900. The Chief Executive of the Edinburgh International Conference Centre (EICC) was paid a bonus of £12,910, as disclosed in the remuneration report.

34. Whilst we have carried out our own review, we also asked the Section 95 Officer, in a letter of representation, about the appropriateness of these payments. The Council's Chief Financial Officer (S. 95 officer) confirmed that payments made for loss of office and bonus payments to Directors of Council owned companies have been made in accordance with relevant contractual obligations and approvals. The Council should continue to ensure the arrangements around bonuses paid in its subsidiaries accord with the Council's own vision of good governance, accountability and transparency. The Council has initiated a review of governance arrangements for its companies as part of the wider governance review.

Tram vehicles

35. The Council initially capitalised £6.3 million of expenditure relating to tram vehicles as vehicles, plant and equipment. Finance staff subsequently identified that this expenditure should have been treated as assets under construction as the tram vehicles are still at the commissioning stage and are not yet ready for use. We requested and received evidence considering the appropriateness of this re-classification of expenditure, and we concurred with this treatment. The financial statements were amended to include tram vehicles expenditure as assets under construction.

36. With the Council's decision to terminate the tram line at York Place only 14 trams will be operationally required from the 27 ordered. The Council is currently examining disposal strategies for the remaining fleet. Management anticipate that this will generate operational savings.

Refer Action Point no. 4

Heritage assets

37. The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 has a new section on heritage assets. This requires such assets to be recognised in the financial statements in accordance with FRS 30 heritage assets. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained principally for their contribution to knowledge and culture. Heritage assets include historical buildings, archaeological sites, civic regalia, museum and gallery collections and works of art.

38. In recognition of the difficulty in obtaining valuations for this class of assets, the Code permits value to be measured in any way which is appropriate and relevant. In accordance with this Code requirement, the Council has recognised assets to the value of £37.2 million based on a combination of internal valuations carried out under the direction of the Council's Property Management and Development section and insurance valuations as detailed in note 17 to the financial statements. Note 17 also discloses that heritage assets are based on historical values because the cost of obtaining recent valuations would be disproportionate to any benefits derived. In future, the value of heritage assets will be reviewed on a regular basis to ensure they remain appropriate. We are satisfied as to the approach adopted by the Council in the implementation of FRS 30 and that, as this is a change in accounting policy, the previous year's figures have been appropriately restated in accordance with IAS 8.

Heritage assets belonging to Common Good, Charities or Trusts

39. The notes to the financial statements disclose that it has not been practical or possible to split all heritage assets belonging to the common good fund, charities or trusts. The Council's balance sheet, therefore, may hold elements of heritage assets that belong to other entities. Whilst we have carried out our own review, we have asked the Section 95 Officer, in a letter of representation, about the appropriateness of these values. The Chief Financial Officer expressed the view that the value of assets belonging to other entities was not expected to make a material difference to the accounts.

Group accounts

40. ISA600 ‘Using the work of another auditor’ requires us to consider a number of matters relating to the audit of component entities included in the group financial statements of the Council. As part of this process we issue component auditor questionnaires to the auditors of all group entities and obtain audited accounts for all subsidiaries and associates. At the time of completing our audit work, we had yet to receive a completed component auditor questionnaire, or set of audited accounts, from the auditors of Transport Initiatives Edinburgh (tie) Ltd. A set of unsigned draft accounts incorporating a clean audit opinion has been

provided to external audit. The auditors have also since provided a completed component auditor questionnaire and confirmed that there were no matters which required to be amended in the Council's Group Accounts.

41. The accounts have not been signed by tie limited or its auditors as there are no tie limited employees left who are legally able to sign the accounts. The Council needs to resolve the issue to ensure the final accounts of tie limited can be signed off by the auditors.

Refer Action Point no. 5

Equal Pay Provision

42. As at 31 March 2012 there remain a number of claims registered with the Council from APT&C (Administrative, Professional, Technical and clerical) employees under the Equal Pay Act 1970 (replaced by the Equality Act 2010). It should be noted that the Council reached settlement with former APT&C staff in October 2012. The Council had made a provision for the potential costs of such claims and associated costs, amounting to £24 million. We note that there has been a considerable amount of work done by the Council in this area and the provision has reduced significantly from the previous year. We have reviewed this area and conclude that the provision is more robustly derived than in previous years, where we had indicated that it may have been over-prudent.

Financial position

43. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

44. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

45. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

46. In 2011/12, the Council spent £1.6 billion on the provision of public services, leaving a surplus on the provision of services of £16.5 million. The unallocated general fund (funds held against the risk of unanticipated expenditure or reduced income arising in any particular year) was, as planned by the Council, unchanged at £13.0 million as at 31 March 2012.

Budgetary control

47. A favourable net outturn of £0.05 million was achieved by the Council for 2011/12. All departments returned underspends against their revenue budgets for a third year. Services achieved a total underspend of £5.0 million as shown in the table below. Exhibit 1 demonstrates the move towards an underspend trend in the last five years.

Exhibit 1: Service (underspend)/overspend

Department	2011/12 £ million	2010/11 £ million	2009/10 £ million	2008/09 £ million	2007/08 £ million
Children and Families	(3.6)	(0.8)	(0.3)	2.3	4.1
City Development	(0.0)	(0.1)	(0.5)	0.7	0.6
Corporate Governance	(0.2)	(0.3)	(0.4)	(0.9)	(0.3)
Health and Social Care	(0.6)	(0.1)	(0.9)	(0.4)	5.0
Services for Communities	(0.6)	(0.5)	(1.7)	(1.6)	(0.8)
Total (underspend) / overspend	**(5.0)**	**(1.8)**	**(3.8)**	**0.1**	**8.6**

Source: Council's 2011/12 financial statements

Reserves

48. Included in the general fund balance is £88 million which has been earmarked for specific purposes, for example, equal pay and unspent grant income received in advance of planned expenditure. This leaves an unallocated balance of £13 million (2010/11: £13 million) to cope with risks and deal with unforeseen costs or losses. The Council had a strategy in place to maintain its free balances at £13 million during 2011/12. This was achieved. See Exhibit 2 for details of useable reserves.

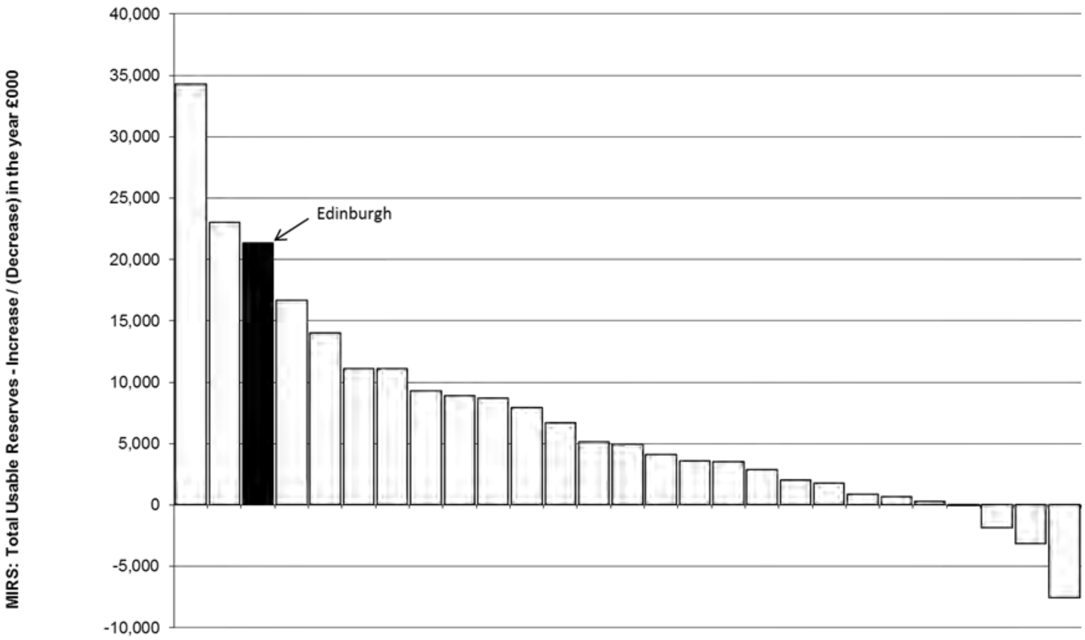
Exhibit 2: Reserves

Description	31 March 2012 £ million	31 March 2011 £ million
General Fund (unallocated balances)	13.0	13.0
General Fund (allocated balances)	88.4	76.7
Capital Fund	16.4	16.4
Capital Grants unapplied account	7.5	1.5
Renewal and Repairs Fund	19.0	15.4
Total	**144.3**	**123.0**

Source: City of Edinburgh Council's 2011/12 financial statements

49. The overall increase in total usable reserves in 2011/12 is broadly consistent with the picture across the majority of Scottish local authorities, although that of the Council lies above the median value, as demonstrated in exhibit 3 overleaf.

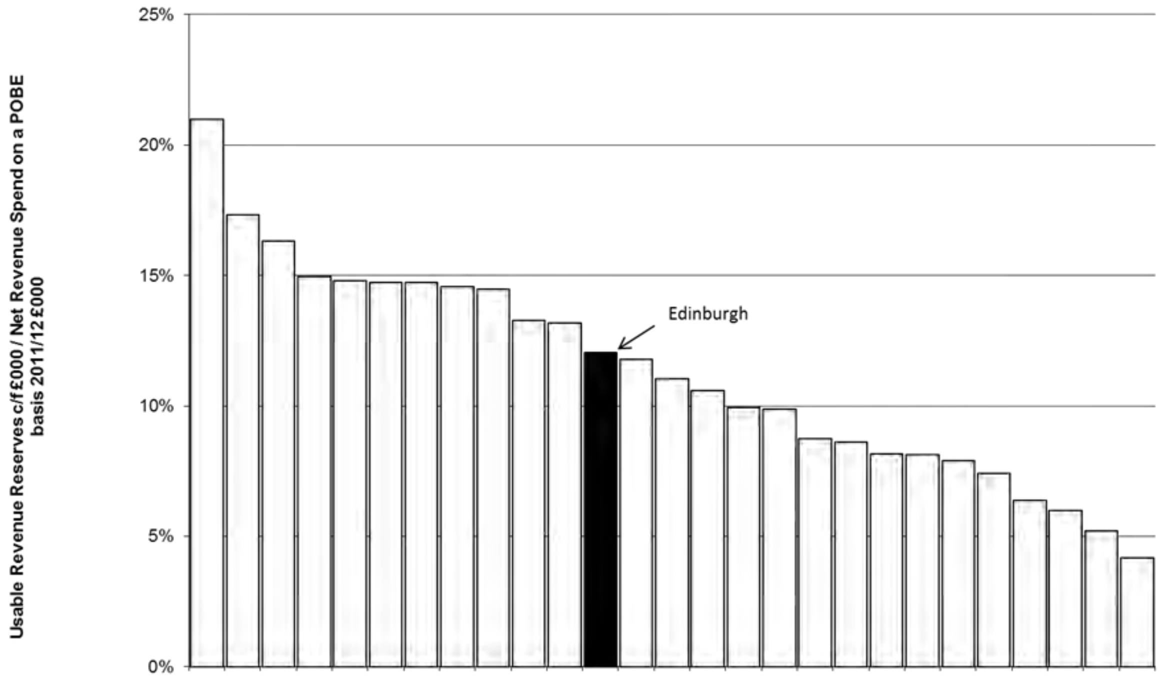
Exhibit 3: Movement in usable reserves in 2011/12



Source: Scottish Local Authority audited financial statements 2011/12

50. Exhibit 4 below presents the Council's usable reserves position in relation to net revenue spend for the year in comparison to other Scottish local authorities. The graph demonstrates that the Council lies at the median level in relation to this financial ratio. It should be noted, however, that the comparison between authorities does not take into account the reserves strategy and risks within each local authority. The Council will need to ensure that the use of earmarked funds is kept under review and if it is identified that they are not needed for their earmarked purpose, their use is reconsidered in future budgets, in the context of the Council's service priorities. The Council also needs to ensure that the level of its reserves strikes a reasonable balance between meeting current obligations and preparing for future commitments or reductions in funding.

Exhibit 4: Total usable reserves carried forward as a proportion of net revenue spend



Source: Scottish Local Authority audited financial statements 2011/12

Capital investment and performance 2011/12

51. The financial statements show additions to the Council's property, plant and equipment of £297 million (2010/11: £258 million), the majority of which relates to roads and other infrastructure including the tram project. For a number of years, the Council's practice has been to manage its capital programme by over programming projects in the knowledge that not all projects will proceed in accordance with plans. The Corporate Management Team is reviewing capital budget practices as part of the wider governance review.

52. The outturn capital monitoring report for 2011/12 indicates that the Council had a significant number of capital projects with slippage, that slippage ranging from £0.02 million to £12.96 million. The total capital programme slippage reported in the financial statements was £62 million (2010/11: £70 million). From a review of the outturn report the largest project slippage of £12.9 million is the Edinburgh International Conference Centre extension which has been delayed due to inclement weather, however, it is not expected that this will impact on the overall timescales for completion of the project.

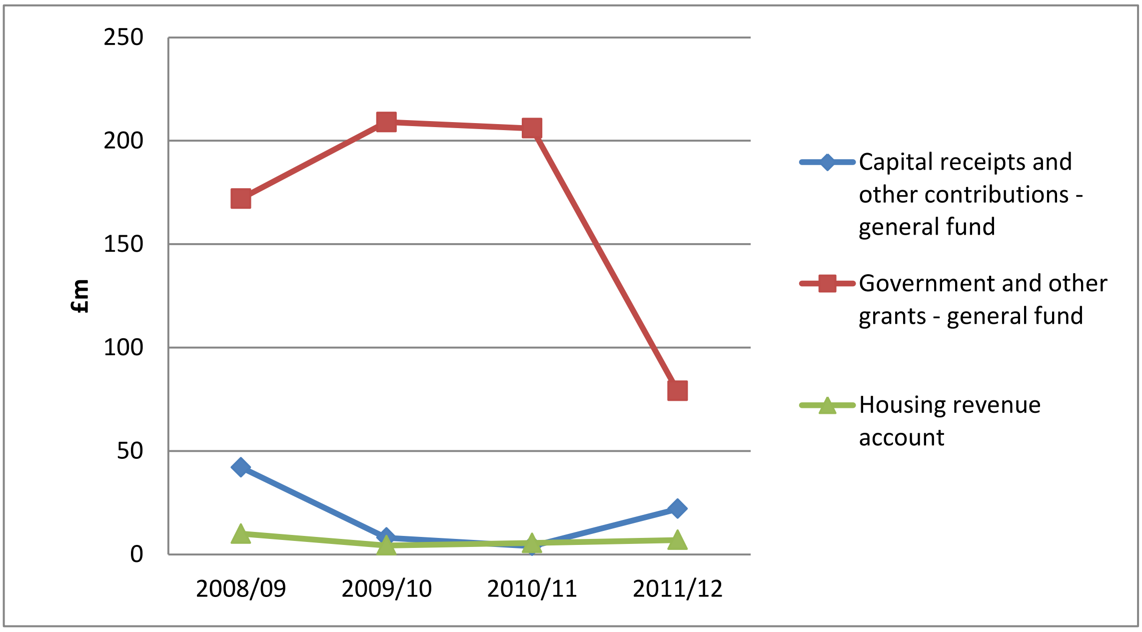
53. With the Council borrowing in advance of need to take advantage of low interest rates, combined with the capital programme slippage and reduced capital receipts, the result is a significant increase in investments and borrowing levels. The Council needs to consider whether the current process of over programming is appropriate or whether focusing on greater prioritisation and oversight of the capital programme will result in a more effective

approach. Management have advised that officers who work on capital monitoring (except the Housing programme) are being centralised within the Corporate Accounts Team in Finance and the entire process will be the subject of an internal review to identify best practice. This is intended to support a more accurate approach to capital receipts estimation and borrowing requirements for each financial year.

Refer to Action Point no. 6

54. In 2011/12, the Council had a capital funding budget of £116 million (excluding Housing Revenue Account) split between capital receipts, developers' contributions and government grants, with any balance between expenditure and funding obtained through borrowing. The trend in sources of funding for capital financing is reflected in Exhibit 5. It should be noted that government grants includes Transport Scotland's funding towards the tram project.

Exhibit 5: Sources of Capital Funding



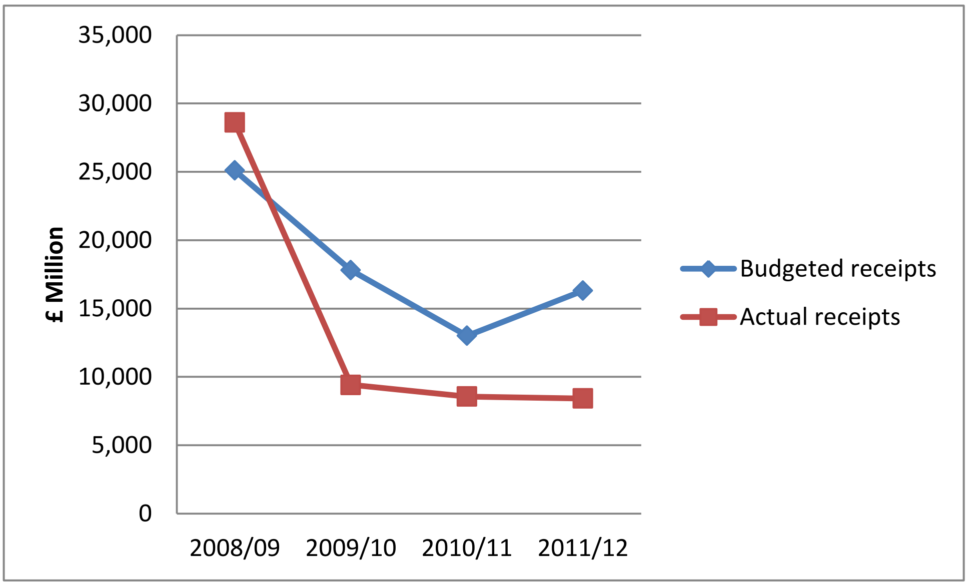
Source: City of Edinburgh Council's audited financial statements 2008/09 to 2011/12

55. The movements in exhibit 5 can be explained, in the main, by the funding requirements of the tram project. Government grants have been at a consistently high level as contributions from Transport Scotland (total contribution will be £500 million) have been received based on progress of the tram project. The reduction in 2011/12 reflects the revised payment schedules agreed following the mediation process to resolve the trams dispute. The £231m addition to the previous budget required to complete the tram project will be funded through prudential borrowing.

56. In common with other public sector bodies, the Council continues to face difficulties in generating the budgeted level of capital receipts. Capital receipts in 2011/12, from asset sales excluding those relating to the HRA, were £5.2 million, a shortfall of £12.4 million on the

budget. Exhibit 6 below shows the analysis of budgeted and actual capital receipts over the last four years.

Exhibit 6: Capital Receipts Budget vs. Actual



Source: City of Edinburgh Council's approved capital budgets2008/09 to 2011/12

57. Exhibit 6 highlights the reduction in both the budgeted receipts and the actual income from capital sales in the past four years. It also shows that a gap has remained between budgeted and actual income for the last three years which indicates that the Council is overestimating the level of capital receipts expected. The Council needs to ensure its budgeting of capital receipts is realistic as it impacts on the level of borrowing required each year, assuming the high level of capital programme slippage is also addressed through current plans.

Refer to Action Point no. 7

Treasury management

58. The Council's money is invested in the 'cash fund'. The cash fund encompasses a number of the organisations including Lothian Pensions Fund and Lothian and Borders Police and Fire and Rescue Boards. As at 31 March 2012, the Council's 'cash fund' held cash and temporary investments totalling £343 million of which £235 million related to the Council. For the Council this represents an increase in cash held at the year end of £17 million.

59. The Council continued its strategy of low risk investment to ensure the return of the principal sums invested. The average interest rate achieved on the cash fund for the year was 0.77% which outperformed the benchmark (LIBID, London Interbank Bid Rate) of 0.48%. This generated income of £2.1 million for 2011/12. The Council maintained this low risk strategy by investing with banking institutions in mostly on-call or near call accounts. It is difficult to secure an attractive rate of interest particularly in the current economic climate where interest rates are at an historic low.

60. The Prudential Code requires the Council to demonstrate that its borrowing is affordable and sustainable. During the financial year, the Council operated within the treasury limits set out on the Council's treasury policy statement i.e. its prudential indicators. At 31 March 2012, the Council had £1.4 billion of debt (including HRA, Police and Fire), an increase of £112 million compared to the previous year. During 2011/12, the Council borrowed £135 million of PWLB (Public Works Loans Board) loans at an average interest rate of 4.28% with an average maturity in excess of 24 years. It is difficult to make a direct comparison with other local authorities because of differing positions on HRA debt and stock transfer. Having said that, the Council still has very substantial borrowing levels which have increased by some 30% since 2007/08. This is largely attributable to the tram project and purchase of Waverley Court and other assets.

61. In 2010/11, the Council borrowed in advance of need which resulted in the Council holding £83 million pre-borrowed. This was largely due to the Council's decision to take advantage of low interest rates and borrow £65 million during 2010/11. At 31 March 2012, the Council has a borrowing in advance position of £38 million. This reduction reflects the Council's strategy of reducing its investments and holding off borrowing further at present until it becomes clearer how the Eurozone sovereign debt situation will be resolved due to the effect it is having on borrowing and investment rates.

62. For 2011/12, the Council incurred loan charges (which included interest and repayments of debt) of £105 million (2010/11: £99 million) which represents 10% (2010/11: 10%) of the Council’s net operating expenditure.

63. The Council has a significant level of debt which is monitored as part of its overall financial strategy. Repayment plans are kept under review to ensure that the Council is in a position to continue to demonstrate that its level of borrowing is both affordable and sustainable. The development of the tram project has added to the level of debt that will be held by the Council and the repayments that will need to be made over the life of the debt, This will continue to represent a pressure for the Council's budget setting process and this has been reflected in the long-term financial plan.

Refer Action Point no. 8

Financial planning to support priority setting and cost reductions

Savings

64. The Council's budget for 2011/12 included a savings target of £28.6 million. The Council achieved 87% (£25.0 million) of the savings target. Where an element of the target was not achieved, a substitute saving of equivalent value was delivered. Some of the savings not achieved were in areas where the Alternative Business Model work had been carried out and in property conservation. The unachieved savings in 2011/12 of £2.1 million have been carried forward and added to the Council's 2012/13 saving targets. There is a risk that the Council will not achieve these savings which are part of the plan to reduce the funding gap in future years.

Refer Action Point no. 9

Workforce planning and management

65. The Council has established a Workforce Planning Task group that reports directly to the Corporate Management Team. The Group oversees and reports on workforce monitoring, recruitment controls, employment policies and strategies for voluntary retirement. The Council, however, recognises that further improvement is needed in relation to developing a more robust workforce planning strategy.

66. The Council has been steadily reducing its workforce through a planned process. Management report that this has not impacted significantly on employee relations or service delivery. Full time equivalent staff numbers have reduced by 797 in the period from the end of March 2010 to 31 March 2012. A significant number of staff (302) left under the terms of the Council's Voluntary Early Release Arrangements (VERA) with reported recurring annual savings of £9.6 million and total costs of £9.3 million. A further 102 staff left under the Council's redundancy policy while the remaining reductions have been achieved through turnover, redeployment and reducing temporary staff.

67. The Council has also developed a new Managing Attendance Procedure, in consultation with Trade Unions, which will assist managers to monitor, control and improve attendance levels while promoting good practice when dealing with sickness absence. It is also linked to the Council's Well Being Strategy. The Council achieved a "Gold" accreditation for Investors in people in January 2012.

Partnership working

68. The Integration of Adult Health and Social Care Bill will bring forward legislation to create Health and Social Care Partnerships (HSCP), which will replace Community Health Partnerships and will be the joint and equal responsibility of Health Boards and Local Authorities. The Bill will put in place:

- nationally agreed outcomes, which will apply across adult health and social care, and for which Health Boards and Local Authorities will be held jointly accountable
- a requirement on Health Boards and Local Authorities to integrate adult health and social care budgets
- a requirement on Partnerships to strengthen the role of clinicians and care professionals, along with the third and independent sectors, in the planning and delivery of services.

69. The Bill aims to ensure that adult health and social care budgets are used effectively to achieve quality and consistency, and to realise a shift in the balance of care from institutional to community based settings. Partnerships will be jointly accountable to Ministers, Local Authorities, Health Board Chairs and the public for delivering the nationally agreed outcomes.

70. In anticipation of the expected changes in adult health and social care the Council has been proactive in considering the move towards a HSCP. It has agreed to the early establishment of governance arrangements through the creation of a shadow HSCP. This will involve increasing the membership of the current Joint Board of Governance which exists between NHS Lothian and the Council. It acts as a high level governance structure to help the

development of policy, service delivery and performance monitoring between the two organisations in relation to their joint working in the health and social care areas.

71. The composition of this shadow HSCP will encompass a wider group which reflects the requirements of the health and social care legislation. It will include professional/clinical representation, staff from each body, people from the third sector and those who use health and social services and their carers. We will continue to monitor the development of the shadow HSCP through to the establishment of the HSCP, which is envisaged to commence on 1 April 2013.

Outlook

Budget and financial forecast beyond 2012/13

72. The Council's updated revenue budget shows a funding gap of £4 million for 2013/14, with a significant further increase expected in 2014/15. The Local Government Settlement 2012/13 to 2014/15 was announced on 8 December 2011, with the Council's grant funding allocation confirmed for 2012/13 and provisional figures given for the following two years. The Scottish government's decision that no authority should receive less than 85% of the Scotland-wide per capita average grant support has added approximately £22 million to the Council's allocation in each of the three years.

73. The updated funding projections, including the £22 million additional allocation, show a balanced budget for 2012/13. There is still an identified funding gap of £4 million for 2013/14 and a £32 million gap in 2014/15. The Council has undertaken a priority based planning exercise to identify savings which it intends will close the funding gaps in 2013/14 and 2014/15. We note that the suite of budget options was issued for public consultation in November 2012 after consideration by the relevant committee.

Refer Action Point no. 10

Governance and accountability

74. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

75. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

76. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

77. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

78. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. Following the local government elections in May 2012 there has been a change in the political administration of the Council with a Labour/ SNP coalition replacing the former Liberal Democrat/ SNP coalition. The Council provided a comprehensive induction programme for new members which covered the main functions of the Council, presentations from service directors, details of current and emerging issues impacting on the Council (e.g. welfare reform) and an overview of Council finances and funding.

79. During 2011/12 the main scrutiny role was performed by the Council's Audit Committee which has 13 elected members. Since the local government elections in May 2012, the Audit Committee has comprised 9 members of the administration coalition and 4 opposition members. The committee's remit includes risk management, IT security and anti-fraud reporting.

80. The Audit Committee is well attended. We would highlight, though, that the chair of the Audit Committee was a member of the ruling coalition for a short period of time. This is not consistent with best practice principles in terms of governance. We understand that this was a

temporary measure and that Councillor Balfour from the opposition has been appointed Convener of the new Governance, Risk and Best Value Committee (which has replaced the Audit Committee).

81. All Council and committee meetings, including the Audit Committee, are open to the public and committee agendas (and supporting papers) are readily accessible on the Council's website. Furthermore, the Council is now piloting webcasting Council meetings to promote greater transparency and accountability. This is in line with best practice.

82. The Council at its meeting on 24 May 2012 agreed to a comprehensive review of its political governance arrangements. Following full consultation with members the new arrangements were approved by the Council at its meeting on 20 September 2012. In parallel, the standing orders, financial regulations and the Scheme of Delegation for officers are being reviewed and significantly updated.

83. There have been significant changes within the Council over the last 18 months and further changes are in the process of being implemented. On 30 June 2011 the Council approved a new senior management structure. The main change was the merger of the Departments of Finance and Corporate Services under the Director of Corporate Governance (appointed September 2011). Further, following a review by the Chief Executive a number of services were re-aligned across directorates and this was approved by Council. This included Transport, Property and Planning transferring from City Development and a transfer of Significant Trading Organisations services from Corporate Governance to Services for Communities.

84. The Director of Corporate Governance is leading on a fundamental review of operational governance arrangements that covers audit and risk management, anti-fraud arrangements, the effectiveness and suitability of the framework of internal controls, IT strategy and financial controls, procurement and new developments such as the establishment of a Corporate Programme Office. Some of this work was commissioned from Ernst & Young and KPMG.

85. As part of the governance review the post of Head of Finance became vacant. At a meeting of the Council, on 28 June 2012, the Corporate Finance Manager was appointed as Acting Head of Finance (and Section 95 Officer) for a period of up to six months while recruitment for a permanent replacement is underway. A new Head of Finance is expected to be appointed by mid-November 2012.

The Edinburgh Tram Project

86. This project has had a history of problems and contractual disputes leading to significant delays and cost overruns. In August and September 2011 this also involved public uncertainty on the scale and route of the project. These problems attracted considerable media interest and adverse publicity which damaged the Council's reputation. A significant turning point was mediation and the signing of the Settlement Agreement on 15 September 2011 with the contractor Bilfinger Berger, Siemens and CAF which allowed progress to be made. The tram network was also reduced in scale to a line now running from the airport to York Place.

87. At the same time the Council appointed Turner and Townsend to manage the project and to wind down Transport Initiative Edinburgh (tie). Tie was a company wholly owned by the Council and was formerly responsible for project management but had not delivered its remit satisfactorily.

88. Revised governance arrangements, which require officers to report directly and regularly to the Chief Executive, have been implemented to improve scrutiny of the project and these include representation by Transport Scotland at all levels of the project, monthly meetings of the Joint Project Forum chaired by the Chief Executive, a Project Delivery Group and monthly meetings of an All Party Oversight Group. The revised arrangements also include the role of an independent certifier to help ensure a speedier resolution of any contract related disputes.

89. Furthermore, the revised governance arrangements include a requirement that general performance of the tram project be reported to the Audit Committee. This has not been the case, however, and at the recent Audit Committee meeting (27 September 2012) members drew attention to this. Management have advised that the new Governance, Risk and Best Value Committee's Scrutiny plan includes regular updates on the Tram Project.

90. Since the signing of the Settlement Agreement the tram project has made tangible progress with tram lines being laid, overhead lines and electrification works appearing along the tram route. In addition, new infrastructure (e.g. bridges) is progressing on schedule.

91. The tram project has required an additional £231 million of funding, adding to the Council's overall borrowing, to allow completion of the project. This increased the original budget from £545 million to £776 million. As at 15 September 2012, the project remains within this revised budget with some £669 million spent on completed works.

92. As with any major capital programme, the tram project is very complex and until its planned completion date of summer of 2014 there remains the possibility of further delays. There is a risk, therefore, that the project is not delivered on its revised timetable or budget. The First Minister has previously intimated that there is likely to be a future public inquiry into the tram project.

Refer Action Point no. 11

Internal control

93. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work is informed by the auditor's assessment of risk and the activities of internal audit.

94. An early priority for our audit work in 2011/12 was the review of the Council's internal audit function. Our review covered the range and quality of work carried out by internal audit and an assessment of whether the internal audit function operated in accordance with the CIPFA code of practice for internal audit in local government. Based on our review we concluded that we could rely on aspects of internal audit work, either in full or part, in terms of International

Standard on Auditing 610 (Considering the Work of Internal Audit). Exhibit 7 summarises those areas where we placed formal reliance on internal audit work.

Exhibit 7: Aspects of internal audit work on which we relied

• Trade receivables • Housing rent • Payroll (partial reliance) • Trade payables (partial reliance)	• Treasury management (partial reliance) • Council Tax billing and collection (partial reliance) • Non Domestic Rates billing and collection (partial reliance)

Source: Audit Scotland's Review of the Adequacy of Internal Audit letter 2011/12

95. Internal audit's testing of Housing and Council Tax Benefits complemented the work we are required to undertake in order to sign off the annual benefits subsidy claim. This has enabled us to focus our attention on areas of higher risk.

96. Additionally, our own testing of systems and controls concluded that the Council's system of internal controls is adequate although with scope for improvement. Some of the risks identified in a management letter (August 2012) are summarised below:

- Delays in removing leavers' access rights to the payroll and general ledger systems.
- Bank reconciliations are not reviewed by a second more senior officer.
- Authorised signatures are not always checked.

97. These issues and others had already been highlighted by management and action plans are agreed. We will follow-up the action plan at a future date to confirm that agreed actions have been implemented.

98. Following a review of the internal audit function instigated by the Director of Corporate Governance summer 2012, the Council's internal audit service is going through a period of transition. The Chief Internal Auditor retired at the end of July 2012 and following a tender process a manager from PricewatehouseCoopers was appointed to manage the service on an interim basis. At the end of September 2012 a further seven internal auditors retired. The current internal audit plan is based on 2400 days but with these departures the available resource is reduced to 1600 days. These resources are not being replaced in the short term. Management advised that it is their intention to manage the shortfall over the audit year.

99. Tenders have been issued for the provision of an internal audit service with two options being proposed - full outsourcing or co-sourcing. Tenders were returned on 10 October 2012 and are due to be evaluated in late October 2012. The outcome of this exercise will determine the future shape of the internal audit function. Until then internal audit will be running below full strength and this will impact on the amount of work that can be carried out. There is a risk that until a decision on the structure for Internal Audit is finalised, the service will not be able to deliver on its plans.

Refer Action Point no. 12

ICT service review

100. We carried out a Computer Services Review (CSR) as part our planned programme of audit work in 2011/12. The CSR is a high-level risk based assessment of Information and Communication Technology (ICT) services and is based on a well established methodology developed by Audit Scotland. It focuses on five key areas: - governance and delivery, scope and strategy; contract controls and compliance, asset protection and business continuity. An integral part of our review involved looking at the contractual relationship between the Council and its outsourced provider (BT).

101. A number of good practices were identified during our review including:

- The change process for the ICT contract is managed through the Change Advisory Board which meets regularly to discuss the changes requested by departments.
- The Council's eGovernment Division engages on a number of levels with Council staff, including departmental ICT Steering Groups.
- Business continuity arrangements are well advanced with corporate and service business continuity plans in place.

102. At the same time, our review highlighted a number of significant challenges for the Council; some of which are summarised below:

- The Council's eGovernment Division does not have full information on all ICT systems/ services purchased outwith the contract with BT. As a result, security controls for these systems may be inadequate.
- The commercial nature of the ICT contract with BT makes it difficult for the Council to make changes to service provision which fully satisfy users' needs.
- The current contract with BT does not include disaster recovery arrangements. Until disaster recovery arrangements are specified, costed and implemented, individual services need to make their own arrangements in this area to ensure that critical information is available in case of a system outage.

103. Our overall conclusion is that the controls surrounding the management of the BT contract are adequate. However, the contractual relationship with BT may at times limit the flexibility to adopt changes in the ICT operating environment. This has been recognised and management advised that extensive scoping work on future ICT Strategy and arrangements are being put in place.

Prevention and detection of fraud and irregularities

104. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on the adequacy of the arrangements put in place to prevent and detect fraud.

105. The Council’s internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. The internal audit section also plays a key role in the

review of data matches as part of the National Fraud Initiative. Additionally, the internal audit section operate an anti-fraud public reporting system that allows members of the public to report suspected frauds directly to the Chief Internal Auditor. These initiatives form part of the Council's corporate anti-fraud and corruption policy.

106. Furthermore, the Council has put in a place a range of measures to prevent and detect fraud including guidance contained in Standing Orders and Financial Regulations; Codes of Conduct for Staff and Members and a 'whistleblowing' policy. The Council has also established a Benefits Investigation Team (BIT) dedicated to the identification, investigation and prevention of benefit fraud. The BIT works closely with the Department for Work and Pensions, HM Revenue & Customs and other public bodies to detect and prevent fraud.

107. We have concluded that, with the exception of parts of property services (highlighted elsewhere in this report), the Council has adequate arrangements for the prevention and detection of fraud and we are not aware of any specific issues that we require to bring to members' attention.

NFI in Scotland

108. The National Fraud Initiative (NFI) is a counter-fraud exercise that works by using computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify potential inconsistencies or circumstances that could indicate fraud or error which are called ‘matches’. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate results based on their investigations.

109. The NFI is co-ordinated by Audit Scotland and is carried out every two years as part of the statutory audit. The latest NFI exercise commenced in October 2010 with national findings reported by Audit Scotland in May 2012. The current NFI round has identified matches worth £19.8 million with a further £4 - 6 million anticipated. NFI has also resulted in 318 housing benefit frauds being stopped, the prosecution of 45 cases of alleged fraud, and public organisations identifying 184 pensioners whose deaths had not been reported to them and stopping those pension payments.

110. At a local level, internal audit play a key role in co-ordinating the investigation of matches with priority given to 'recommended matches' (i.e. indication of higher risk). Increasingly, service departments are being used to investigate matches with internal audit sample checking work done to confirm their results. It is intended that, in future, there will be less support from internal audit as NFI becomes more embedded within the Council.

111. The latest available information from internal audit has identified a sum of £0.325 million as a result of either fraud (51 matches) or error (125 matches). Recovery is under way in 42 of these matches and the total recoverable amount is recorded as £0.112 million.

112. A specific exercise was also carried out in the current year which compared single person discounts to the electoral register. Internal audit advised that, as at 4 October, a total of 55 matches had been identified with outcomes of £0.030 million. Recovery action is underway in

54 of these cases with a value of £0.028 million. A further 375 matches are still to be worked on.

113. The 2012/13 NFI exercise was launched in July 2012. Data matches will be returned in early 2013 for review and investigation.

Housing and Council Tax Benefits risk assessment

114. A risk assessment of the benefits service was carried out by one of our specialist benefits auditors earlier this year. The key objective of the risk assessment is to determine the extent to which the benefits service is meeting its obligations to achieve continuous improvement in all its activities. More specifically, the risk assessment considers the effectiveness of the benefits service in meeting the needs of the community and its customers, and delivering outcomes. The findings from the risk assessment were reported to management in September 2012.

115. The previous risk assessment of the Council's benefits service was carried out in March 2010. It identified 19 risks to continuous improvement. The findings were reported to the Chief Executive and the Council agreed an action plan to address these risks by October 2010. The current year's risk assessment confirmed that all but three of these 19 risks had been addressed, namely:

- The benefits service is committed to checking at least 4% of all benefits decisions. However, it has no process in place to ensure that the appropriate number of cases is being checked.
- Benefits cases to be checked pre-payment are selected from the workflow system rather than the benefits IT system. The latter would provide better assurance on security.
- Performance relating to dealing with requests for reconsiderations is not routinely monitored for speed or quality to ensure that those customers making such requests are provided with an effective and efficient service and one that complies with legislation.

116. The current risk assessment also identified a further four risks which were mostly related to performance reporting. Additionally, the assessment highlighted that the benefits service needs to do more to reduce the time taken to process new benefits claims. This latter point has been a recurring issue over the last three years.

Refer Action Point no. 13

117. Overall, the Council has been implementing a number of measures to help deliver continuous improvement following the risk assessment and management has agreed an action plan of improvements. It is important that these improvements are maintained and monitored particularly during a period of change due to the Welfare Reform Act 2012 and the introduction of a 'Universal Credit'. This will introduce significant changes in the way benefits are administered starting from 2013.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

118. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.

119. The Council recently strengthened its anti-corruption prevention measures by formally adopting an Anti-Bribery Policy and Anti-Bribery procedure to meet the requirements of the Bribery Act 2010. The Code of Conduct for Council Employees has also been strengthened to reflect the requirements of the Act and now includes specific reference to bribery and corruption. It also includes a wider definition of conflict of interest and reinforces the requirement for employees to declare any actual or potential conflicts of interest.

120. The Council's Monitoring Officer has overall responsibility for ensuring compliance with the new policy and procedure. In addition, service heads are required to appoint an officer within their services to be responsible for developing and monitoring bribery prevention arrangements and to submit these to the Monitoring Officer.

121. A number of other documents are to be updated to reflect the Anti-Bribery Policy and Procedure as follows:

- **Disciplinary Code:** to be revised to include specific reference to bribery as gross mis-conduct as part of a wider review of disciplinary, grievance and dispute arrangements.
- **New Employee Contracts:** to be amended to include a clause stating that employees will not commit a bribery or corruption offence.
- **Whistleblowing Policy:** to be amended to specifically refer to bribery and corruption.

Complaints Handling Procedures

122. The Council submitted its revised complaints handling procedure to the Scottish Public Services Ombudsman in September 2012. This will consolidate and update all the Council's previous complaints systems while being compliant with the Ombudsman's expectations. Staff will be trained in the principles and processes of the new procedure including the use of a single recording system across the Council by the end of March 2013. Over this period the Council will advise the public of the changes through a formal launch of the new procedures, revising printed materials and refreshing its complaints web page. This is consistent with good practice.

Outlook

123. New political governance arrangements were approved by the Council at its meeting on 20 September 2012. These replaced the committee structure that had been in place since 2007. The revised arrangements are designed to strengthen scrutiny and promote greater member involvement in policy development. The key elements of the new arrangements include:

- A Corporate Policy and Strategy Committee
- Seven executive decision making committees (Communities & Neighbourhoods; Culture & Sport; Economy; Education, Children & Families; Finance & Budget; Health, Wellbeing & Housing; and Transport & Environment)
- Governance, Risk and Best Value Committee
- Petitions Committee

124. An important development is the replacement of the Audit Committee with a Governance, Risk and Best Value Committee. The new committee will have a wider remit that will cover audit, risk, performance issues and scrutiny reviews (including operational and service reviews). It will also meet four weekly commencing 6 November 2012. The Council anticipates that this will strengthen oversight, accountability, transparency and scrutiny across the organisation. We will monitor developments, including a planned post implementation review, to ensure that they are effective.

125. The Director of Corporate Governance is leading on a comprehensive review of operational, strategic and programme governance arrangements that includes:

- Transformation of procurement arrangements with assistance from specialist consultants.
- Priority Based Planning which aims to align the Council's resources more closely to corporate priority outcomes.
- A review of information compliance and audit and risk management arrangements.
- The establishment of a Corporate Programme Office to lead, promote and support corporate working.
- A review of the governance framework for ALEOs.
- Development of a refreshed Council ICT strategy.
- Effectiveness of the framework of internal controls.
- The Council's vision, values and performance reporting arrangements.

126. These initiatives are at differing stages in their development and we will monitor their implementation over the course of our audit appointment to assess whether they deliver better governance.

127. The Tram Project will continue to remain an area of higher risk until its completion in the summer of 2014 because of its inherent complexity and the potential for unforeseen events. We will continue to monitor the project closely.

128. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset

management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

129. As part of our work on the 2012/13 audit, we will consider the Council's preparedness for introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

Best Value, use of resources and performance

130. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors are also required to review and report on an audited body's progress against its BV improvement plan.

131. Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

132. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

133. This section includes a commentary on the Best Value arrangements within the Council and where relevant includes the auditor's view on the appropriateness of arrangements for performance management and achieving continuous improvement. We also note any headline performance outcomes/ measures used by the Council and comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

134. The Council has set out a best value framework covering a range of relevant arrangements and activities, and these are underpinned by the Edinburgh Improvement Model (EIM). The EIM is a means of evaluating performance through structured self-assessment. This helps services gauge their performance, identify best practice, highlight areas for improvement and develop effective improvement plans. Performance scorecards are used at service level to assess the extent to which performance improvement is happening. The first round of reviews across the Council was completed in autumn 2010. Each review resulted in an improvement action plan and these will be followed-up during the second round of reviews currently underway.

135. The Council is developing a number of initiatives to improve its use of resources in a range of areas. These include reviews of procurement arrangements, asset management, priority based planning, managing attendance at work and internal improvement plans.

136. Phase II of Achieving Excellence was supported by a set of performance measures designed to gauge progress against 12 Achieving Excellence objectives e.g. high levels of satisfaction with the city, excellent educational attainment. These in turn were supported by 55 performance indicators.

137. The most recent Achieving Excellence performance report submitted to the Policy and Strategy Committee on 4 September 2012 highlighted that over the period 2007/08 to 2011/12 good progress had been made in most areas although in some areas performance was disappointing e.g. 46% of people surveyed were satisfied with the way the Council manages the city against a target of 50%. This in part reflects concerns with the trams project and statutory repairs.

138. Phase III of Achieving Excellence was approved by the Corporate Management Team in August 2012 and will run with the Capital Coalition's term. Progress will continue to be scrutinised at Committee to note achievements, impact and outcomes of the programme.

Performance management

139. The Council has a systematic approach to performance management supported by an integrated framework through a corporate performance management system (Covalent). The Council's performance management system has provided a basis on which to develop and establish outcome-focussed performance improvement across the Council. The performance management system draws on performance information from a number of sources including the Single Outcome Agreement, departmental performance scorecards, statutory and local performance indicators and customer feedback.

140. A new Performance Framework is being developed to take account of political, partnership and operational outcomes identified by the Capital Coalition Pledges, the Edinburgh Partnership's Single Outcome Agreement 2012-15 and the Council's overall responsibility for delivering a wide range of services to Edinburgh. Performance measurement will be outcome-based and provide holistic information to support effective decision making and to evidence progress. A report on this new framework was submitted to the Council on 25 October 2012.

141. Performance is reported and monitored on a regular basis with performance results and improvement actions scrutinised by, amongst others, elected members, corporate management team, service directorate and divisional management teams.

142. All Directorates are required to demonstrate that they have effective arrangements in place that monitor performance and hold management to account for improvement actions. Most services are able to demonstrate this effectively and work is on going to ensure consistency of approach across services.

143. Monthly performance reports have been introduced at Corporate Management Team level to replace two monthly performance reports for each Directorate. The new report draws on a

range of indicators which highlight progress towards delivery of the Council’s outcomes as set out in the Achieving Excellence programme.

144. The Council also publishes an Annual Performance Report to inform the public of its activities and achievements, financial position and performance. Single Outcome Agreement progress reports are also published by the Edinburgh Partnership. Additionally, statutory performance indicators are reported to committee and published on the Council's website. Taken together these reports provide an overview of the Council's performance.

145. Overall, the Council's performance management arrangements are soundly based with regular monitoring and reporting of performance to both management and elected members. As outlined above these arrangements are being reviewed as part of a new Performance Framework that will be more outcome focused. We will monitor developments in this area as they progress to assess their effectiveness.

Alternative Business Models (ABM)

146. In 2009, the Council initiated a major project to examine Alternative Business Models (ABM) for provision of some of its services. The Council recognised the need to achieve substantial savings while at the same time re-designing services to make them more efficient and effective. This led to the ABM programme which explored options through a structured tendering process known as Competitive Dialogue. Where there was a convincing business case, the Council planned to deliver some services using Strategic Partnerships or Joint Ventures with private sector partners. The following service areas were part of the ABM process:

- Corporate & Transactional Services (CaTS services) - including revenues and benefits, human resources and payroll.
- Integrated Facilities Management - covering building maintenance and design, catering, cleaning, janitorial, porterage and security services.
- Environmental Services - including refuse collection, street cleansing, road maintenance and design and ground maintenance.

147. As the ABM process was being progressed, potential savings and innovations were also being identified and developed internally using the Public Sector Comparator (PSC). In the event that the business case for ABM in any of the three categories was not adequate, the ABM process would stop and the PSC work would be used to develop the existing service.

148. Council officers presented their recommendations in relation to ABM to the Council in November 2011 and January 2012. At the Council meeting on the 24 November 2011, councillors voted to terminate the procurement process for the Environmental Services work stream without the award of any contract. On the 19 January 2012 councillors voted to terminate the procurement processes on both Integrated Facilities Management and Corporate & Transactional Services again without the award of contracts (the CaTS termination being in accordance with officer recommendations).

149. In all of these cases the Council noted that internal improvement plans had been developed which had the potential to deliver significant improvements and savings for in-house service delivery and instructed the Chief Executive to take these approaches forward. The financial implications of these decisions are potentially significant. The total value of the original ABM proposals is not lost as internal improvement plans are also anticipated to produce savings. But savings foregone could be substantial, and possibly in the region of £90 million over the period of the project. However the precise value will depend on what alternative schemes are brought forward.

150. Since then, officers have been working to develop the vision of the PSC options and to implement a programme of internal improvement for each service. An update on progress was reported to the Policy and Strategy Committee in August 2012. The key points are summarised below:

- **ImProve it.** This relates to the Environmental Service Plan. Management report that the programme is well established with a clear governance structure. A number of improvements have already been implemented such as a 5-day working week for collection staff, alternate weekly collection of refuse and a double shift pattern. The original public sector comparator anticipated £45 million of savings over a 7-year period. An on going review of financial costs and savings is likely to result in costs and savings being re-profiled.
- **Integrated Property and Facilities Management (iPFM).** An IPFM programme office has been established and a Project Board has been created to oversee improvements. A number of work streams are being developed including plans to reduce the size and improve the quality of the Council's operational estate. Other initiatives include investment in energy efficiency measures to reduce energy consumption and carbon emissions. The iPFM programme is expected to generate £30 million of savings over a 7-year period. The financial assumptions underpinning the plan are currently under review.
- **Corporate and Transactional Services (CaTS).** The CaTS programmed has focused on the Procurement Transformation Project to-date. This is now operational through the Council's partnership with an external consultant and has been removed from the scope of the programme while ICT and print services are now within scope. A Programme Board has been established to oversee developments and governance structures put in place. The committee report did not include any details of planned savings.

151. In each case the internal improvement plans are at an early stage in their development. An update on the internal improvement plans is due to reported to a late 2012/early 2013 meeting of the Council. Revised business cases for each internal improvement are also expected to be presented to Council when the full financial implications will be included along with their impact on the Council's long term financial plan. The business cases will provide details of revised costs and re-profiled savings figures.

152. At this stage it is difficult to assess whether the internal improvements and other initiatives such as transformation of procurement and priority based planning will be effective. There is a

risk, therefore, that the required service improvements and level of savings to help bridge the Council's funding gap in future years will not be achieved.

Refer Action Point no. 14

153. We will continue to monitor the progress made by the Council in implementing their internal improvement plans, priority based planning and the impact of the re-profiled savings on the Council's long term financial plan as part of our 2012/13 audit.

Economic Development

154. The Council's Economic Development Service (EDS) carries out work supporting local businesses, attracting inward investment, supporting physical development and helping unemployed people into work or learning. Since 2009, the EDS has been committed to carrying out robust self-assessment of its performance. In summer 2012, the EDS carried out an audit of its performance over the operational period 2009/10 to 2011/12. The main focus of the audit was on assessing the performance of the EDS against the headline objectives set in its operational plan using the key performance indicators developed for this purpose.

155. The audit found that the EDS had met five of its six headline objectives and completed 33 of the 36 projects it set out to achieve. The EDS underperformed the Council as a whole in terms of meeting equalities targets, but outperformed the Council as a whole in terms of value for money (measured on the basis of leveraged income).A number of "learning points" for the EDS have emerged from the audit; these have been presented to the relevant managers for their attention. The audit will be used to help the EDS participate in Council-wide self-assessments such as the Public Sector Improvement Framework.

Community and user engagement

156. An important component of the Council's Achieving Excellence programme is 'about putting customers first'. This includes carrying out surveys to gauge people's satisfaction with the services they receive from the Council and this is used to inform service development and policy. The annual Edinburgh People's Survey, covering 5,000 people, gathers data on a wide range of issues for analysis. The latest complete data is for 2011 and some of the findings include:

- 91% of those surveyed are satisfied with the city as a place to live
- 81% of respondents are satisfied or very satisfied with nursery provision
- 84% are satisfied or very satisfied with primary school provision
- 77% are satisfied or very satisfied with secondary education provision (11% higher than that achieved four years ago)
- 46% of respondents are satisfied with the way the Council manages the city. This in part reflects local concerns about the trams project and statutory repairs while the result is consistent with the national perception of councils not being fully effective.

157. The Council has used consultation with users and customers to shape policy *in a number of areas.* A good example of this is the Commissioning Strategy for Care and Support Services

where the final Strategy was influenced by engagement and *consultation* with service users, carers, voluntary and private sectors and staff and partner agencies. It is now routine practice for service design or change activity to be supported by the establishment of stakeholder Checkpoint Groups to ensure effective engagement of customers and stakeholders. Checkpoint Groups were a successful feature of the Commissioning Strategy for Care and Support Services.

158. The Council is working with the Consultation Institute to further develop and refine its approach to consultation. A consultation page has also been created on the Council's website and services are expected to post consultation exercises and their outcomes online.

Overview of performance in 2011/12

City of Edinburgh performance measurement outcomes

159. The Policy and Strategy Committee at its meeting on 4 September 2012 received a report outlining the Council's performance over the last three years. Performance was measured by 68 indicators, including local and national Statutory Performance Indicators, as summarised in Exhibit 8 below:

Exhibit 8: Summary of Edinburgh's Performance in 2011/12

	Measures	Improved (5%+)	Declined (5%+)	No change
Edinburgh's children and young people enjoy their childhood and fulfil their potential	9	4	1	4
Edinburgh is an excellent place to live, study, work, visit and invest	27	15	4	8
Health & well being is improved in Edinburgh and there is a high quality of care & protection for all who need it	12	11	0	1
The Council is an efficient and effective organisation	20	11	3	6

160. Some of the performance highlights achieved in 2011/12 include:

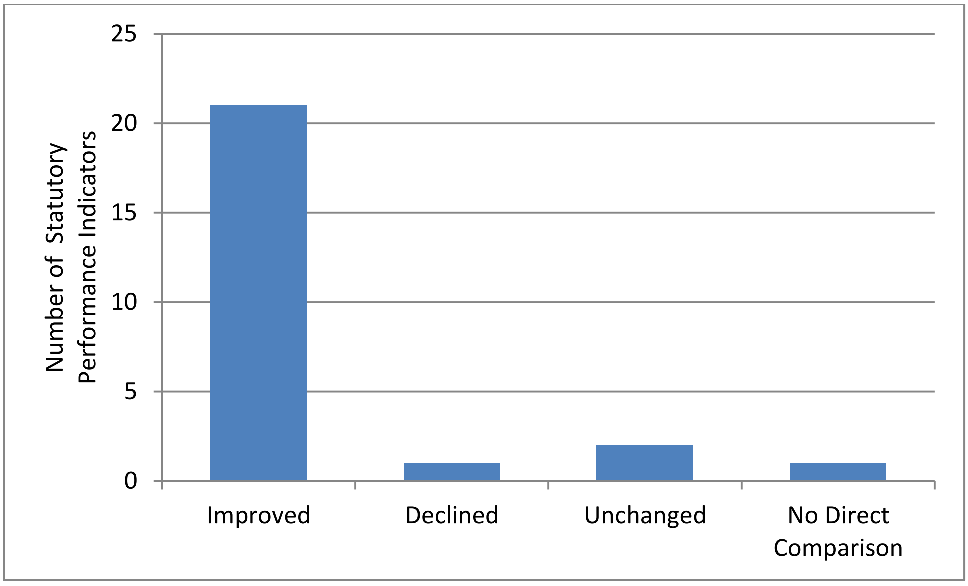
- 91% of pupils achieved 5+ standard grades at SCQF level 3
- 26% of pupils achieved 5+ highers at SCQF level 6
- 87.4% of school leavers were in a positive destination (the highest level achieved in ten years
- 74.5% of total dwellings meeting Scottish Housing Quality Standard
- 79.9% of home care clients age 65+ received personal care
- 93% of tenants are satisfied with repairs to their homes
- The net cost of refuse collection per premise (£66.12) is lower than in previous years.

161. Overall performance is positive with 88% of indicators showing performance being maintained or improving. In some areas performance has declined. 74% of residents are satisfied with their neighbourhood as a place to live (80% as recently as 2009/10) while the average number of days per case to process Housing Benefit / Council Tax Benefit new claims and change events has risen to 19.2 days (15 in 2010/11). Management is aware of such issues and has developed action plans to help improve performance.

Statutory performance indicators

162. In 2011/12, a total of 25 SPIs were required and these indicate an improving picture of performance. See Exhibit 9 below:

Exhibit 9: Improvements demonstrated by SPIs (total of 25 indicators)



Source: City of Edinburgh Council SPI data returns

163. Improved performance was recorded for those indicators relating to sickness absence levels, the cost of administering Housing and Council Tax Benefits and the cost of collecting Council Tax. In one area - the time taken to process planning applications - performance was poorer than that reported in 2010/11.

164. No direct comparison could be made for one indicator, the percentage of household waste recycled, as this statistic was not included in the SPIs for previous years.

Maintaining Scotland's Roads: a follow-up report

165. Audit Scotland published a national report on *Maintaining Scotland's roads: a follow-up report* in February 2011.This report examined the progress on implementing the recommendations contained in the initial report on Maintaining Scotland's roads which was published in November 2004. The follow-up report found that little progress had been made.

166. At a local level we carried out a targeted follow-up review to assess the situation in the Council area. A similar exercise was carried out at all 32 councils across Scotland. The local review focused on four key questions:

- How did the Council respond to *Maintaining Scotland's roads: a follow-up report* following publication?
- Does the Council have appropriate plans in place to operate road maintenance activities?
- How does the Council manage the performance of its road maintenance activities?
- What is the Council doing to maximise the value for money in its road maintenance service?

167. The local report highlighted that the Council has established a Service Innovation Team to help support improvements and deliver more efficient services. The Team has helped streamline the process for maintaining gullies and improved the way in which street lighting faults are dealt with.

168. The Scottish Road Maintenance Condition Survey shows that the percentage of roads that require intervention, within the Council area, has reduced from 52.8% in 2004/05 to 32.5% in 2011/12.

169. Our local report highlighted that there were key areas where improvements are required including the following:

- While the Council has made good progress in developing its Road Asset Management Plan (RAMP), there are some information gaps to be addressed before it can be finalised. In particular, life cycle plans of major road assets are incomplete in a number of aspects.
- Additionally, the RAMP shows that the Council has yet to formalise its long-term investment strategies for key assets such as carriageways, footpaths and lighting.
- At the time of the audit information on roads maintenance backlogs was not regularly reported to elected members and the public.

170. Our action plan of improvements has been agreed with management and its implementation will be monitored.

171. Crucially, however, our local report highlighted that there is still a significant backlog of maintenance work. Presently, the maintenance backlog stands at £72 million for roads, £69million for pavements and a further £12m for lighting. The backlog is based on the Society of Chief Officers of Transportation in Scotland (SCOTS) assessment criteria. With roads maintenance revenue expenditure remaining relatively static and capital expenditure expected to reduce it is unlikely that the current backlog can be addressed.

National performance reports

172. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 10 overleaf:

Exhibit 10: A selection of National performance reports 2011/12

- Commissioning social care
- The National Fraud Initiative in Scotland
- Best Value Audit - Lothian and Borders Fire and Rescue
- An overview of local government in Scotland - challenges and change in 2012
- Review of Community Health Partnerships
- Modernising the planning system
- Reducing greenhouse gas emissions
- Best Value Audit - Lothian and Borders Police and Police Board
- Transport for health and social care
- The role of community planning partnerships in economic development
- Scotland's public finances: addressing the challenges

Source: www.audit-scotland.gov.uk

173. Audit Scotland encourages local authorities to review national reports, assess local performance against them and identify actions required to improve performance. The expectation is that these reports are presented to an audit or scrutiny committee for members to review and to question management on key issues.

174. From our observations, national performance reports could be used more effectively by the Council. While these reports are submitted to committees, members are often only asked to note their content.

175. In terms of good practice, committee members should receive a paper from relevant managers outlining progress locally against the national report together with an action plan identifying any areas with scope for further improvement. The action plan can then be monitored to ensure improvements are achieved. Also, relevant managers should attend the committee to answer any questions raised by members and provide them with assurance on progress being made. This approach has been adopted successfully by a number of public sector bodies.

Refer Action Point no. 15

Shared Risk Assessment

176. The Local Area Network of scrutiny partners conducted a Shared Risk Assessment (SRA) and prepared an updated Assurance and Improvement Plan (AIP) covering the period 2012 to 2015. This was published on Audit Scotland's website and was submitted to the Audit Committee on 26 June 2012 for information and consideration. The main purpose of the AIP is to focus on scrutiny risk.

177. The AIP identified three areas of significant scrutiny risk. These are summarised below but have been reported in more detail elsewhere in this report.

- Statutory Repairs Service
- The Tram Project
- Alternative Business Model

178. The AIP and supporting evidence will be an important source of information for the forthcoming Best Value audit scheduled for the end of this calendar year.

Outlook

179. The Council received its first Best Value audit in 2006/07. It reported that the Council displayed many elements of a best value council. Another Best Value audit is scheduled towards the end of this calendar year. This will provide an independent assessment of whether the Council continues to demonstrate best value principles and is committed to continuous improvement. The field work for the Best Value audit is due to be carried out in the period November 2012 to January 2013 with a formal report published in spring 2013.

180. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. The approach is being piloted in a number of councils in the autumn of 2012. The lessons learned from the pilot audits will inform any amendments to our approach. The refined approach will then be rolled out across the local government sector.

181. In April 2011, the Equality Act 2010 introduced a new public sector ‘General Duty’ which encourages equality to be mainstreamed into public bodies’ core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of ‘Specific Duties’ which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the ‘General Duty,’ including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the Board/ Council in implementing these requirements as part of our 2012/13 audit.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	9 February 2012	19 April 2012
Shared Risk Assessment/Assurance and Improvement Plan	3 June 2012	26 June 2012
Internal controls management letter	30 August 2012	6 December 2012
Maintaining Scotland's roads - follow-up review	7 August 2012	27 September 2012
Report on financial statements to those charged with governance (ISA 260)	25 September 2012	27 September 2012
Audit opinion on the 2011/12 financial statements	28 September 2012	*27 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	5 October 2012	Not Applicable
Annual Report on the 2011/12 audit	31 October 2012	6 December 2012

***Proposed audit opinion issued on 25 September 2012 along with the ISA 260 and officially signed off on the 28 September 2012.**

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	13	**Significant Trading Organisations** While the STOs have achieved surpluses in the current year management acknowledged that plans have yet to be fully developed that will deliver improvements in these services. **Risk:** The surplus positions achieved in the current financial year may not be maintained in future years.	Action plans for the three STOs that did not meet the statutory target to break even over a rolling three year period are already being prepared as part of the overall internal improvement plans for the environment and integrated facilities management workstreams.	Director of Services for Communities	March 2013
2	30	**Statutory Repairs** The total value of work paid to contractors but not billed to owners is £27 million with approximately £11.3 million (41.8%) dating back to 2009. **Risk:** Anticipated levels of recovery are not achieved leaving the Council with significant levels of shortfall in income.	As noted in the report, the Council has been undertaking preparatory work to ensure that case history is understood prior to bills being issued, thus reducing the number of potential queries. The level of impairment provision will be reviewed in 2012/13. In the interim, active monitoring of the level of sums outstanding is being undertaken on a monthly basis.	Director of Services for Communities	June 2013

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	32	**Service re-design for Statutory Repairs** The Council plans to have a new service in place by Spring 2013. Its introduction will require a complete re-design of the current service including statutory powers, policy procedures, IT and financial systems and performance reporting. **Risk**: Good governance structures are not put in place and the re-design of the service is not properly implemented and monitored.	A dedicated Property Sub-Committee has now been established with a specific remit to examine the background to the difficulties affecting the service and oversee the introduction of the new arrangements.	Director of Corporate Governance	April 2013
4	36	**Tram vehicles** With the Council's decision to terminate the line at York Place, only 14 trams will be operationally required from the 27 ordered. The Council is currently examining disposal strategies for the remaining fleet which it anticipates will generate savings. **Risk:** The Council may not be able to readily dispose of the trams to generate savings and may still need to conduct an impairment review with regard to the surplus trams.	A plan is being put in place to dispose of surplus tram vehicles. It is envisaged as part of this plan that 14 trams are retained for the route from the Airport to York Place.	Senior Responsible Officer, Tram Project	November 2012
5	41	**Tie Limited accounts** The accounts have not been signed by tie limited or its auditors as there are no tie limited employees left who are legally able to sign the accounts. **Risk:** Tie Limited's final	tie's accounts will require to be filed with Companies House, in line with statutory requirements, by the end of December 2012 at the	Finance, Commercial and Legal Manager, Tram Project	November 2012

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		accounts are not properly concluded and this may result in reputational damage to the Council in relation to the trams project.	latest. Arrangements have been made to allow this deadline to be met.		
6	53	**Capital programme** The Council's current policy is to "over programme" its capital projects in the knowledge that all projects will not proceed in accordance with plans. A greater focus on prioritisation and oversight of the capital programme could result in a more effective approach. **Risk:** The Council's capital programme is inefficient and ineffective and does not focus on priorities.	The Council has centralised its capital function (excluding the Housing programme). Processes are currently being reviewed to identify best practices and to roll these out across the programme. A greater emphasis will be placed on ensuring that future years' plans are reviewed regularly so that projects can be accelerated where opportunities present themselves, thus getting the best use of available resources.	Head of Finance	On-going
7	57	**Capital receipts** There has been a significant negative variance between budgeted capital receipts and the actual income received in the last three years. **Risk:** Unrealistic budgets result in unanticipated increases in the level of borrowing required by the Council.	The Council's prime emphasis is on ensuring best value is obtained when disposing of surplus assets; in the current climate, concluding sales has proved particularly difficult to conclude, hence the budget variances. However, slippage arising on expenditure has ensured that there has been no	Director of Services for Communities	On-going

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			impact on the Council's overall borrowing requirement which is also reviewed on a regular basis.		
8	63	**Council borrowings** The annual cost of borrowing continues to put pressure on the Council's budget setting process which is already seeking to deliver savings to meet future funding gaps. **Risk:** Future savings plans could be put at risk by higher borrowing costs.	The Council's long-term financial plan is reviewed and updated on an on-going basis to incorporate provision for approved additional loan charges, including those relating to the tram project. To date, effective treasury management has ensured that loan charges have remained within the budgeted level. The affordability of any additional capital investment will be considered within the framework of the LTFP and overall budget strategy.	Head of Finance	On-going
9	64	**Savings programme** Unachieved savings in 2011/12 of £2.1 million have been carried forward and added to the Council's 2012/13 saving targets. **Risk:** The Council may not be able to achieve its planned savings and future funding gaps may increase.	As noted, a small element of savings originally planned for delivery in 2011/12 has been carried forward into 2012/13. In common with all approved savings in 2012/13, detailed implementation plans have been prepared and progress against these is included as part of	Head of Finance	March 2013

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			projecting an overall balanced revenue monitoring position for 2012/13.		
10	73	**Long term financial plans** The Council will need to identify significant savings in its long term financial plan to ensure that the identified funding gaps in 2013/14 and 2014/15 are closed. **Risk:** Funding gaps identified in 2013/14 and 2014/15, even with additional funding of £22 million from the Scottish government, may not be bridged.	A report to the Finance and Budget Committee identifies a funding gap of £3.888m for 2013/14. The Council has adopted a priority based planning approach in preparing a budget framework for 2013-2018 to address the funding gaps.	Head of Finance	February 2013 (for 2013/14)
11	92	**Tram project** The tram project is very complex and until it is completed in the summer of 2014 there remains a risk of impact from unforeseen events. **Risk:** There remains a risk that the project is not delivered on time or within budget.	Risks are inherent in any major capital project. Progress on the tram project is being kept under close review by revised governance arrangements referred to in the report.	Senior Responsible Officer, Tram Project	On-going
12	99	**Internal Audit function** The internal audit function is undergoing a period of change and is currently running below full strength. This could impact on the amount of work that can be carried out in relation to the 2012/13 financial year. **Risk:** The internal audit function may not be able to deliver on its planned programme of work in 2012/13.	A report on the proposed arrangements for the Internal Audit and Risk Management service will be considered by Council on 22 November. If approved by Council, these arrangements will supplement the existing level of resource to address any short-term reduction and thereby	Head of Legal, Risk and Compliance	September 2013

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			address any shortfall by the end of the audit year. In the short-term, work has been reprioritised to allow medium- to high-risk work to be undertaken.		
13	116	**Benefits service** The risk assessment of the Council's benefits service highlighted that the service needs to do more to reduce the time taken to process new benefits claims. This point has been a recurring issue over the last three years. **Risk:** The Council is unable to implement improvements to its benefits processing and fails to deliver a best value service.	The service is actively looking to automate further ATLAS processes which will reduce processing timescales. An organisational review is currently being undertaken, separating Housing and Council Tax Benefits with a view to improving focus on each of these activities.	Head of Corporate and Transactional Services	March 2013
14	152	**Internal Improvement plans** Revised business cases for each internal improvement plan are expected to be presented to a late 2012/early 2013 Council meeting when the full financial implications (including revised costs and re-profiled savings) will be detailed along with their impact on the Council's long term financial plan. **Risk:** Business cases are not robust and internal improvement plans do not generate the required level of savings to help bridge the Council's funding gap in future years.	While an important element of the Council's overall budget strategy, anticipated savings from the internal improvement plans form only part of a range of measures to address savings requirements going forward. The business cases will be subject to gateway reviews to assess the extent to which the savings and service improvements contained within them are robust and deliverable.	Director of Services for Communities Director of Corporate Governance	January 2013

Action Point	Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
15	175	**Scrutiny of Audit Scotland's national performance reports** From our observations, national performance reports could be used more effectively by the Council. While these reports are generally submitted to committees, members are often only asked to note their content. **Risk:** Members are not able to assess local performance against national reports effectively. Also, they are not able to gauge whether appropriate improvement actions are being taken locally and progress monitored.	The newly-formed Governance and Risk Committee will consider the most appropriate means through which to take forward the recommendations contained within relevant reports.	Head of Legal, Risk and Compliance	On-going