# Argyll and Bute Council

## Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for Members of Argyll and Bute Council and the Controller of Audit

October 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.

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# Key messages

## 2011/12 audit findings

This report summarises the findings from our 2011/12 audit of Argyll and Bute 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.

We have given an unqualified opinion that the financial statements of Argyll and Bute 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.

Financial management arrangements have operated effectively during the year. The financial position at 31 March 2012 is more favourable than was anticipated in the budget. Usable reserves have increased by £0.820 million to £38.196 million.

The initial 2011/12 budget planned to use £5.870 million of general fund reserves to balance the budget, mainly to fund the one-off severance costs. This was later revised to an estimated £2.403 million. The final reported outturn was an increase in the general fund of £0.665 million, a net underspend against the revised budget of £3.068 million. Departmental controllable expenditure was £1.220 million below budget. There were also savings in loan charges of £1.156 million and an increase in council tax income of £0.692 million.

Due to the underspend the general fund increased to £34.572 million as at 31 March 2012. This balance includes earmarked commitments of £29.454 million and an unallocated general fund balance of £5.118 million. The unallocated balance represents 2.0% of the Council's budgeted net expenditure for 2012/13. This is in accordance with the council's policy to maintain an unallocated balance in the general fund of at least 1.5% of budgeted net revenue expenditure.

There was minor slippage on the Capital Plan in 2011/12 but the council is making progress on major projects in line with its three year capital plans. In February 2012 the council agreed to increase capital expenditure in the two areas which the majority of its residents see as being the top spending priorities; education and roads. The council has approved plans to spend £30 million on education and £21 million on roads over the next three years.

Overall, we are satisfied with the council's governance arrangements. Following the May elections the members approved a change to the committee structure. Powers that were previously delegated to the Executive Committee have now reverted to the full Council. They also decided to replace the Policy and Performance groups with a Performance Review and Scrutiny Committee.

A review of existing improvement processes has been undertaken, including Public Service Improvement Framework findings, all external and internal audits, the Assurance and Improvement Plan, the previous Corporate Improvement Plan, and several national policy initiatives likely to have an impact over the course of the next year. A draft of a Corporate Improvement Plan is currently being prepared which is drawn from the information collated from the actions above along with a review of the scope of the current Transformation Programme. This will bring together all corporate improvement activity into a single Corporate Improvement Plan.

## 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.

Argyll and Bute Council moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial stability. The council has adopted a strategic 3 year approach to managing its budgetary position and has prepared budgets for the period to 2014/15. In February 2012, the council approved a revenue budget of £255.851 million for 2012/13, with approved budget savings across services of £6.425 million, resulting in a budgeted surplus of £3.760 million for the year. The council also approved a balanced position in 2013/14 and a surplus of £0.014 million in 2014/15. The budgets include all savings planned as part of the 3 year programme of service reviews.

In this environment, the Welfare Reform Act 2012 will bring about the biggest reform of the UK welfare system for 60 years. The introduction of the Universal Credit will have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. As part of our work on the 2012/13 audit, we will consider the council's preparations 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.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Argyll and Bute Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee in March 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 Argyll and Bute Council.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. 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 the 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 Argyll and Bute 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.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including [the directors' report, annual governance statement, statement on internal control or statement on internal financial control 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 Argyll and Bute Council for 2011/12 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2012 and of the income and expenditure for the year then ended.

### Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Head of Strategic Finance 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.

### Statement of governance and internal control

12. We are satisfied with the disclosures made in the statement of governance and internal control and the adequacy of the process put in place by the council to obtain the necessary assurances.

### Remuneration report

13. In 2010/11 the Scottish Government introduced a Remuneration Report into the financial statements. This required the disclosure of salary including bonuses, benefits in kind, compensation for loss of office, pension contributions and benefits for senior officers, senior members and anyone not otherwise included earning over £150,000 per year. Auditors are

required to audit part of the Remuneration Report and give a separate opinion within their report on the financial statements on whether it has been properly prepared.

14. From 2011/12, authorities are required to include in the report, summary information in relation to exit packages, including compulsory and voluntary redundancy costs, ex-gratia payments and other departure costs. The Remuneration Report submitted for audit did not include the total cost to the council of added years pension costs relating to non-teaching staff retiring early in 2011/12. The matter was resolved through discussion with officers and the disclosures were added to the revised Remuneration Report for both 2011/12 and 2010/11.

15. We are now satisfied that the Remuneration Report for 2011/12 has been prepared in accordance with Local Authority Accounts (Scotland) Regulations 1985 and the Scottish Government finance circular 8/2011 and includes all required disclosures.

## Accounting issues

16. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We are satisfied that the council prepared the 2011/12 financial statements in accordance with the 2011 Code. The council adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Head of Strategic Finance and the Audit Committee.

### Accounts submission

17. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation processes and working papers were generally of a high standard which enabled the audit to progress smoothly and allowed us to conclude the audit and certify the financial statements by the target date of 30 September 2012. The financial statements are now available for presentation to members and publication.

### Presentational and monetary adjustments to the unaudited accounts

18. A number of adjustments have been made to the 2011/12 unaudited financial statements in accordance with normal audit practice. These adjustments primarily related to reclassifications within the balance sheet and have not had any impact on the general fund balance of the council. Several unadjusted errors were also identified during the audit, where if adjustments were made these would have a net effect of reducing the net assets on the balance sheet by £0.102 million and reducing the surplus on provision of services by the same amount, with a corresponding impact on the general fund balance.

19. A number of presentational amendments were, however, made to improve the disclosures within the financial statements. The most significant of the changes was to amend the remuneration report to include the total cost to the council of added years pension costs relating to non-teaching staff retiring early in 2011/12, referred to at paragraph 14 above. Some of the remaining key issues from our audit are included in the following paragraphs.

## Refuse Disposal Sites

20. Valuations provided after the accounts had been prepared in respect of three landfill sites on Mull, Islay and Tiree included significant liabilities for future expenditure on restoration and aftercare, resulting in negative asset valuations for two of the three sites. Following discussion with officers and consideration of accounting guidance in this area, it was agreed that the sites should be impaired to the land and buildings asset values provided by the Valuation Office Agency. With regard to estimated future expenditure for restoration and aftercare, we agreed that the treatment will be kept under review going forward. The impairments are now reflected in the updated financial statements.

## Prior year adjustments

21. For the first time in 2011/12 the Code required local authorities to account for tangible heritage assets in accordance with Financial Reporting Standard 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. This change has resulted in £1.3m of assets being re-categorised from community assets into heritage assets. The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse.

## Equal Pay Provision

22. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. The ultimate cost to the council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer. The council's equal pay provision at 31 March 2012 of £0.191 million is based on full provision for all known claims against the council. The council have disclosed a contingent liability for any additional future claims that may potentially arise and will review the equal pay provision on an annual basis.

**Refer Action Plan No 1**

## Pension costs

23. The net assets on the council's balance sheet have decreased from £212.980 million in 2010/11 to £180.177 million in 2011/12, a reduction of £32.803 million. The principal reason for this decrease is due to the £52.865 million increase in the pension liability from £26.227 million to £79.092 million. This is also reflected in the balance sheet for the group. The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure.

24. The large increase in the pension liability in 2011/12 is due to financial assumptions about the cost of pension payments being less favourable at March 2012 than they were at March 2011 which has the effect of increasing the overall cost of pensions. In addition, the level of assumptions applied by the Actuary to the expected return on pension fund assets was more favourable than actual returns in most cases. Both these factors have contributed to the increase in the net liability faced by the council. The movement in the council's liability in respect of pensions in recent years is set out in the table at Exhibit 1.

**Exhibit 1: Pensions liability movement history**

| Balance sheet as at | Liability £ million | Increase/Decrease over previous year |
|---|---|---|
| 31 March 2007 | 36.228 | |
| 31 March 2008 | 0.598 | -98% |
| 31 March 2009 | 32.517 | 5,338% |
| 31 March 2010 | 107.969 | 232% |
| 31 March 2011 | 26.227 | -76% |
| **31 March 2012** | **79.092** | **202%** |

*Source: Argyll and Bute financial statements*

25. This additional liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

## Trade Receivables

26. In their report on the 2010/11 Audit, the auditors recommended that the bad debt provision (BDP) methodology should be reviewed on an annual basis, including a review of significant individual debtors for impairment. Our follow-up review identified

- That for 2011/12 there was a specific write off of bad debt of £305,000
- All debt on the "old" debtors system has a full 100% BDP
- The BDP for debt over one year old varies from 55% (12-24 months) to 70% (24 to 36 months) and 80% to 100% (36 to 60 months) and these are the same percentages applied in 2010/11
- Currently there are debtor balances of £159,390 over 12 months old that have not been fully provided for.

27. Our experience of the level of BDP in other councils suggests the percentage provisions for bad debt are lower than other councils. Taking all of this into account there is a risk that the

BDP is understated but not by a material amount. In resolution of this issue, officers have agreed that the basis of calculating the BDP will be reviewed annually.

## Trade Payables

28. Trade payables included within the financial statements include £214,083 relating to capital creditors brought forward from previous years and for which no supporting documentation is available. Following discussion with officers, we are advised that these brought forward creditors relate primarily to retentions for work carried out. We have also established that all capital creditors raised in 2011/12 can be agreed to listings of individual projects which split the amounts between retentions, fees and final payments. We are however unable to confirm that the brought forward capital creditors are valid entries in the financial statements and £214,083 has been included in the total of Unadjusted Errors at paragraph 18 above. Officers have agreed that for 2012/13, the capital creditors balance brought forward will be reviewed at an early date.

## Group accounts

29. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. The council has 5 associates: Strathclyde Joint Police Board, Strathclyde Fire and Rescue Joint Board, Dunbartonshire and Argyll & Bute Valuation Joint Board, Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee. These have been included in group accounts in accordance with the Code. The overall effect of inclusion of these group entities is to reduce net worth by £208.099 million giving the group a negative net worth of £31.012 million at 31 March 2012. This is primarily due to the IAS 19 pension liabilities within the associates' single entity accounts.

## Whole of Government Accounts

30. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July and the audited return was completed by the audit deadline of 5 October.

# Financial position

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

32. 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.

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

## Financial results

34. In 2011/12 the council spent £256.904 million on the provision of public services, resulting in an accounting surplus of £15.642 million. This surplus includes capital grants received and other amounts totalling £14.977 million that are specified by statutory provisions as being available to meet future capital and revenue expenditure. The net revenue surplus for 2011/12 was £0.665 million.

### Budgetary control

35. In 2011/12 there was a net underspend against the revised budget of £3.068 million (1.1%). Departmental controllable expenditure was £1.220 million below budget. There were also savings in loan charges of £1.156 million and an increase in council tax income of £0.692 million.

36. The initial 2011/12 budget planned to use £5.870 million of general fund reserves to balance the budget, mainly to fund the one-off severance costs. However, due to the net underspend noted above plus budget adjustments during the year and movements in the amount of earmarked reserves, the general fund increased by £0.665 million during the year.

37. The council has two significant trading operations: Roads and Lighting and Catering and Cleaning. Both achieved their statutory objective of achieving a breakeven financial position over a rolling three year period.

### Financial position

38. Exhibit 2 shows the balances in the council's funds at 31 March 2012 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure

or repay loan principal. The council's funds at 31 March 2012 totalled £38.196 million, an increase of £0.820 million on the previous year.

**Exhibit 2: Reserves**

| Description | 31 March 2011 £ million | 31 March 2012 £ million |
|---|---|---|
| General Fund | 33.907 | 34.572 |
| Capital Funds | 2.972 | 3.092 |
| Repairs and Renewals Funds | 0.497 | 0.532 |
| **Total** | **37.376** | **38.196** |

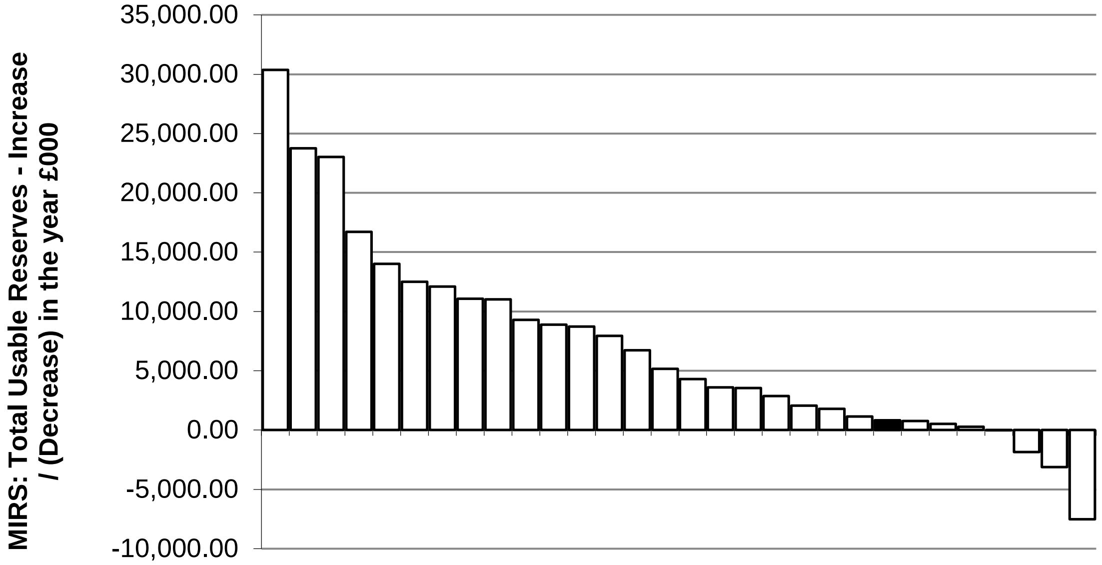
*Source: Argyll and Bute Council 2011/12 financial statements*

39. The general fund balance increased by £ 0.665million during the year to a balance of £34.572 million which equates to 14.4% of the council's net cost of services. Of this balance £29.454 million has been earmarked for specific purposes. This leaves an unallocated balance of £5.118 million. This equates to 2% of the budgeted net revenue expenditure for 2012/13. This is in accordance with the council's policy to maintain an unallocated balance in the general fund of at least 1.5% of budgeted net revenue expenditure.

40. The balances previously earmarked for the NPDO and Waste Management PPP Smoothing funds of £15.327 million were removed with £12.5 million being earmarked as a contribution to capital to fund the Dunoon and Campbeltown schools, as agreed by the council in February 2012 as part of the 2012/13 budget setting process.

41. Exhibit 3 below shows the movement in total usable reserves across all Scottish councils between 2010/11 and 2011/12. The increase in reserves for Argyll and Bute (highlighted in black) is modest compared to other councils; this does not give rise to any audit concerns.

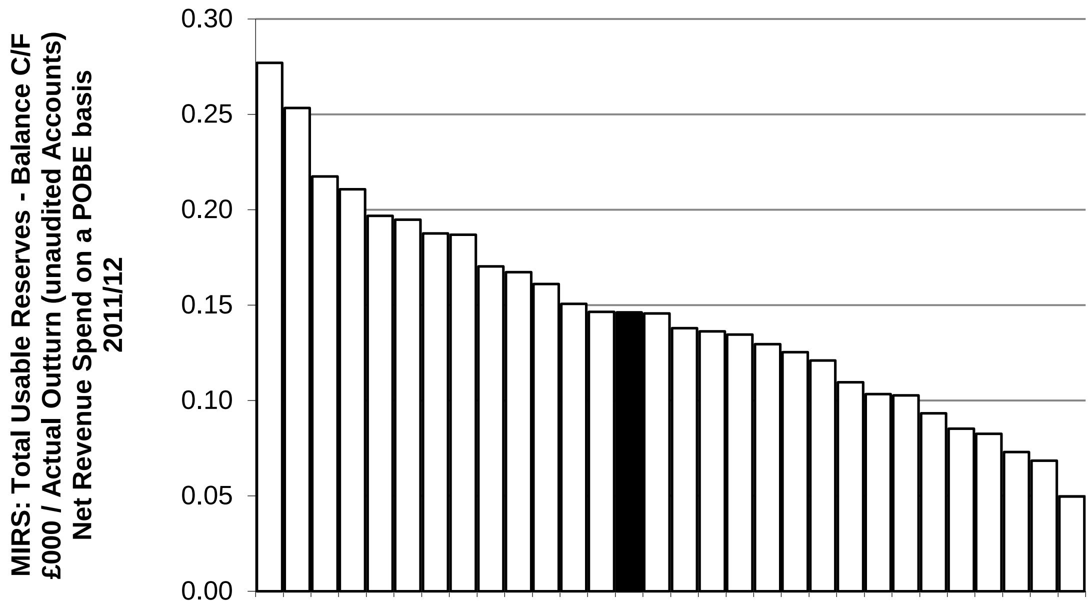
### Exhibit 3: Movement in total Usable Reserves




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

**42.** 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 council needs to ensure that the level of its reserves strikes a balance between meeting current obligations and preparing for future commitments or reductions in funding. The graph demonstrates that Argyll and Bute Council (highlighted in black) lies around the median in relation to this financial ratio, indicating that the council has made an average budgetary provision for future years' expenditure. The council will however need to ensure that earmarked funds are used for the intended purpose, or where appropriate, an alternative use is found.

**Exhibit 4: Usable Reserves carried forward as a proportion of net revenue spend**




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

## Capital investment and performance 2011/12

43. Capital expenditure per the capital plan in 2011/12 totalled £25.575 million compared with a budget of £26.962 million giving an underspend of £1.387 million (5%). Three projects accounted for most of the slippage; two carbon management projects where there was a longer than anticipated manufacturing time for the biomass plant and an IT centre where negotiations are continuing with the property owner over the purchase.

44. The Capital Plan for 2012/13 is £35.4 million. The current forecast outturn position as at the end of June 2012 is a forecast underspend of £3.249 million. However, this underspend relates mainly to the Helensburgh office project. A weather related decision was taken to delay construction until January 2013. Therefore a smaller number of contract payments are likely in 2012/13.

45. At the budget setting meeting in February 2012 the council committed an additional £8.2 million for roads reconstruction giving a total spend of £21 million over the three year period. They also committed an additional £2.1 million to education giving a total spend of £17 million over the next 3 years. In addition £12.5 million has been earmarked as a contribution to capital to fund the council's contribution to the replacement of Campbeltown Grammar School and Dunoon Primary School. The new schools will be delivered through a special purpose vehicle (hubco) under the 'Scotland's Schools for the Future' programme. The council will be required to make an up front payment to hubco to contribute to the capital costs of

constructing the new facilities. The council is also progressing the CHORD programme to assist with regeneration and economic development of 5 of the main waterfront towns: Campbeltown, Helensburgh, Oban, Rothesay and Dunoon.

46. In August 2012, the council agreed an £18 million housing investment to open up access to suitable affordable housing in the area. Six initiatives including a Local Authority Mortgage Scheme and an Empty Homes Strategy aim to bring back into use 10 unused properties per year. It will be funded using £8.35 million from the Strategic Housing Fund along with up to £9.5 million of loan funding.

47. Funding for the council's capital programmes is derived, in the main, from general and specific grant, capital receipts and borrowing. The chart at Exhibit 5 shows the sources of capital expenditure funding for the period 2010/11- 2011/12.

**Exhibit 5: Sources of capital expenditure funding 2010/11 - 2011/12**

| | 2010/11 Actual £000 | 2011/12 Actual £000 |
|---|---|---|
| Capital expenditure | 21,201 | 25,575 |
| Resourced by: | | |
| Capital receipts | 0 | 0 |
| Capital grants | 7,095 | 11,479 |
| Revenue | 915 | 124 |
| Borrowing | 13,191 | 13,972 |

*Source: Argyll and Bute Council 2011/12 financial statements*

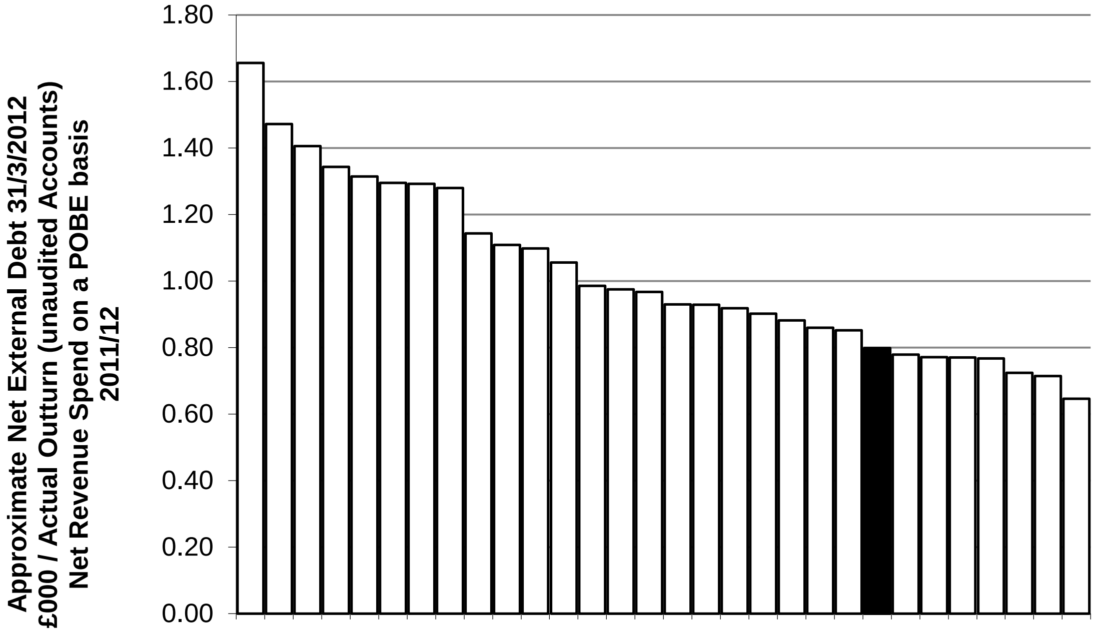
## Treasury management

48. As at 31 March 2012 the council held cash and temporary investments totalling £37.962 million (£34.836 million at 31 March 2011). £20 million was held in a one year fixed rate bond.

49. The council's borrowing was £160.763 million as at 31 March 2012 compared to £160.725 million as at 31 March 2011. The majority of this was financed by the Public Works Loan Board with the remainder coming mainly from the money market. No new long term borrowing was taken during the year and no long term borrowing was repaid during the year. The average loans pool rate at 31 March 2012 was 6.139%, the same as at 31 March 2011.

50. Analysing net external debt as a proportion of net revenue spend gives an indication of the relative indebtedness of the council. Exhibit 6 below shows the net external debt as at 31 March 2012 as a proportion of the actual outturn for the year for all councils in Scotland. Argyll and Bute Council (highlighted in black) fares well in this comparison with 80p of net borrowing for every £1 of taxation and grant income, compared to the highest council with over £1.60 of borrowing for every £1 of taxation and grant income.

**Exhibit 6: Net external debt as at 31 March 2012 as a proportion of the actual outturn for the year**




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

## Financial planning to support priority setting and cost reductions

51. The council has adopted a strategic 3 year approach to managing its budgetary position and has prepared balanced budgets for the period to 2014/15. The chart at Exhibit 7shows planned budget savings agreed to the period 2014/15 which include all savings planned as part of the 3 year programme of service reviews.

**Exhibit 7: Planned Budget Savings 2012/13 - 2014/15**

| | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|
| Budget Savings Agreed | (6.425) | (7.861) | (8.750) |
| Efficiency Savings to be Allocated | - | (1.595) | (3.641) |
| **Total** | **(6.425)** | **(9.456)** | **12.391)** |

*Source: Argyll and Bute Council 2011/12 financial statements*

52. Service reviews are considered through project boards, the Transformation Board and have been subject to budget seminars and consideration by the Executive before going out to public consultation where there is an impact on service delivery.

As part of the Transformation Programme, all services have been subject to review as part of the 3 year service review programme which has set targets for cost reduction of 15% and 20%. Although these will be challenging targets to achieve, the council has a robust methodology for identifying, implementing and monitoring savings and changes in service delivery that lead to efficiency savings, prioritisation or better use of resources. The council can also demonstrate a good track record of completing service reviews to time and also of implementing the recommendations that deliver the savings. There remains a risk however that the council is unable to deliver vital public services if these savings are not achieved.

**Refer Action Plan No 2**

## Asset management

53. Services prepare service asset management plans each year as part of the capital planning process. These consider issues of suitability, condition and asset performance. Any red risks in terms of asset management are highlighted as part of that process.

54. Argyll and Bute Council also has a corporate asset management programme in place. The programme prioritises work based on a risk assessment and on “spend to save” programmes. For 2011/12, 85% of the internal floor area of operational buildings was in a satisfactory condition and 66% of operational buildings were suitable for their current use, both improvements on the previous year.

55. In October 2011, following a procurement exercise, a new proprietary asset management software package "CONCERTO" was purchased. Work is ongoing to populate the new system. It is anticipated that this new tool will help streamline the management of property assets and will better integrate areas of property maintenance, capital programme delivery and asset management. The implementation of the system is being carried out in a phased manner.

## Procurement

56. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence based assessment tool, the procurement capability assessment (PCA) to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. Councils need to achieve 25% or more to achieve conformance status.

57. The council has shown consistent improvement since the assessment started. Last year's score was 41% compared to 36% in the previous year. This year's assessment will take place in the autumn and the council have set a target of 50% which would take them into Level 2 - improved performance status. In readiness for this year's assessment, the council approved a revised Procurement Manual and Procurement Strategy in September 2011.

## Workforce reduction

58. As part of the Transformation Programme of service reviews, the council invited all employees to express an interest in voluntary redundancy. As a result of the budget savings options

approved by the council, a significant number of employees had their redundancy applications accepted. 264 employees left in 2010/11 and 167 left in 2011/12. Termination costs for all employees who have accepted redundancy by 31 March 2012 have been accounted for in 2011/12 or in previous years.

59. The Council has a workforce planning framework in place which informs a 5 year workforce planning strategy. All staff reductions have taken place as part of an integrated approach to transformation/modernisation. All service reviews have addressed workloads, job descriptions and have detailed implementation plans associated with them. There is no evidence thus far that the workforce reductions have impacted on the delivery of services or resulted in increased overtime and the use of temporary contractors.

## Other change management programmes

60. As outlined at paragraph 52 above, the council has established a Transformation Programme to assist in addressing the challenging financial outlook. The Programme is based around 4 themes:

- Strategic Council wide initiatives
- A programme of service reviews
- Efficiency and effectiveness of corporate resources
- Preparing to meet the challenge of BV2.

61. The Scottish Government has reiterated a commitment to ongoing efficiency savings of 2% year on year in the public sector. The efficiency savings budget target has been secured for 2012/13. However the balance of efficiency savings, to come from the transformation programme, is estimated at £1.164 million in 2013-14 and a further £1.892 million in 2014-15, giving a total of £3.056 million.

62. It is intended that these savings will be achieved through the next phase of the transformation programme where the focus will be on achieving improvements in productivity, improving use of corporate resources, focus and prioritisation on key services and reviewing service delivery/operating models through shared services, outsourcing and development of comprehensive sourcing strategies for complete service areas. The Public Service Improvement Framework self-assessment process, Annual Performance Reports and Service Improvement Plans will be used to help identify and deliver savings in productivity improvements.

## Partnership working

63. As a rural authority Argyll and Bute Council recognise that there are limited opportunities to develop and share services with neighbouring authorities. However, shared services and joint working continue to be considered with other councils and across community planning.

64. There is a well established and developed community planning partnership with a combined Community Plan and Single Outcome Agreement. Focus continues to be made on the four main themes of Economy, Social Affairs, Environment and Communities and the Third sector.

65. Work is ongoing across the council area on a range of shared services initiatives:

- All Community Planning partners in this area have been involved in an asset management project to identify options for sharing delivery points and activity reports will be produced
- Integrated Health and Social Care discussions have resulted in an in principle agreement by the council and NHS Highland to progress a joint business case investigation
- An informal network to share expertise and best practice has been established with Business Gateway and more formal shared arrangements are now being considered.
- Work is underway to examine Out of Hours services, Safety and Training and Policy support with Highland Council and NHS Highland.

66. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. This will continue to evolve in 2012/13.

## Outlook

### 2012/13 budget

67. The local government finance settlement was announced on 8 December 2011. This confirmed the level of Scottish Government grant funding for councils for the 3 years to 2014/15. The funding for Argyll and Bute Council saw an increase of 1.1% from 2011/12 to 2012/13 followed by reductions of 0.9% for 2013/14 and 0.8% for 2014/15.

68. The council has adopted a strategic 3 year approach to managing its budgetary position and has prepared budgets for the period to 2014/15. In February 2012, the council approved a revenue budget of £255.851 million for 2012/13, with approved budget savings across services of £6.425 million, resulting in a budgeted surplus of £3.760 million for the year. The council also approved a balanced position in 2013/14 and a surplus of £0.014 million in 2014/15. The budgets include all savings planned as part of the 3 year programme of service reviews.

69. The Scottish Government budget contained a commitment to on-going efficiency savings and the council has factored additional efficiency savings into the 2013/14 and 2014/15 budgets.

### 2012/13 budget reporting

70. The current forecast outturn position as at the end of June 2012 is a forecast overspend of £0.015 million. Community Services are the only department forecasting an outturn different to the annual budget. A projected overspend on the Children and Families service of £0.065 million in relation to two children going to secure placements is offset by a projected underspend on Adult Care of £0.050 million. Departments will continue to closely monitor the projected outturn position and report any anticipated over/under spends through the budget monitoring process.

## Financial forecasts beyond 2012/13

71. As outlined at paragraph 68 above, the council has adopted a strategic 3 year approach to managing its budgetary position and has prepared budgets for the period to 2014/15.

72. The current challenging financial environment is likely to continue however for the medium term and the Council will need to consider how best to address this challenge for the period beyond the current 3 year budget whilst also meeting the requirement for 2% efficiency savings each year. Proposals on this will require to be developed for the next planning and budgeting cycle.

## Significant financial risks

73. A report submitted by the Head of Strategic Finance to the Strategic Finance Committee in February 2012 summarises the results of a review of the risks associated with the various assumptions underpinning the 2012/13 to 2014/15 budgets. The report highlighted that there are a range of risks associated with these assumptions in terms of probability, service impact and financial impact.

74. A financial risks analysis was undertaken for each service and looked at each of the main activities/teams/business units within a service and identified risks related to cost levels, service demands and income. The probability, service impact and financial impact of each risk were then assessed. A range of council wide risks were also identified and assessed. Risks related to service reviews and funding were also identified and assessed.

75. The top three risks relating to service demands, in terms of the likely financial impact were identified as:

- Winter Maintenance – Adverse weather conditions which require a greater than budgeted number of gritting runs
- Adult care - Older People Population Growth
- Older People - Level of service demand remains at current commitment or increases due to needs becoming more complex.

76. The main funding risks relate to council tax and Scottish Government grant. The estimated level of council tax income was reviewed at the end of November 2011 and is based on current and forecast band D equivalents and non-payment rates. No further increase in council tax income has been assumed for 2013-14 and 2014-15. A 1% variation in council tax income amounts to £0.450 million.

77. Scottish Government funding is based on the local government finance settlement announcement. The announcement covered a 3 year period for 2012-13 to 2014-15. This represents a firm indication of funding for these 3 years and it is unlikely that funding will fall below these levels. One area of risk to funding would be if the Council were deemed not to have met the conditions attached to the finance settlement and this has been assessed as remote. A 1% variation in Scottish Government funding amounts to £2.2m.

78. The report by the Head of Strategic Finance highlights that the Council will need to monitor a number of the risks/assumptions contained in his report over the 2012/13 financial year and this monitoring will be built into the budget monitoring process. The report was considered by the council in February 2012 as part of the revenue budget setting process.

# Governance and accountability

79. 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.

80. 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.

81. 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.

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

## Corporate governance

### Processes and committees

83. Following the May 2012 elections the council is run by a coalition of councillors from SNP, Argyll First and Argyll and Bute Independent Councillors groups and also non aligned independent councillors.

84. In June 2012, the members voted to discontinue the Executive Committee with all previously delegated powers reverting to the Council. The Council also decided to discontinue Policy and Performance Groups. A Performance Review and Scrutiny Committee has been set up. This new committee will meet quarterly and will have an independent chair. Its remit includes reviewing performance against policy objectives and monitoring the delivery of corporate improvement programmes.

85. The Audit Committee chair and vice-chair are non-executive, unelected members. The audit committee has made good progress in ensuring its role is discharged effectively and is continuously seeking to improve.

### Internal control

86. 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 should also be informed by their assessment of risk and the activities of internal audit.

87. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

88. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of key controls were reported to the Audit Committee in September 2012. A number of minor weaknesses were identified relating to usage of corporate credit cards, Council Tax discounts and exemptions, the sundry debtors system and bank reconciliations. The weaknesses have all been addressed via an agreed action plan.

89. In April 2012, the Council re-tendered a multi-million pound contract for the Helensburgh town centre and West Bay public realm works. The £4m works contract is part of the council's CHORD programme which aims to regenerate 5 waterfront areas: Campbeltown, Helensburgh, Oban, Rothesay and Dunoon. The decision to re-tender was made after concerns were raised by one of the original tenderers regarding the contract evaluation procedures. A subsequent Internal Audit investigation identified that the council's Procurement Procedures Manual had not been followed.

90. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2011/12 audit we assessed whether we could place reliance on the council's internal audit function.

91. We concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in local government in the UK. We placed reliance on their audit work carried out on several of the key financial systems in forming our opinion on the 2011/12 financial statements, together with a number of governance areas including performance management arrangements and statutory performance indicators, as we anticipated in our annual plan.

## ICT data handling and security

92. As part of our 2011/12 work, a review of the council's ICT arrangements was carried out using a Preliminary Service Evaluation and elements of the Computer Services Review Client Questionnaire. These were completed in consultation with ICT management and from supporting documentation, as appropriate, as back-up evidence. In addition a number of the IT service functions were tested in detail to confirm operational effectiveness.

93. The results of our review were reported to IT Managers in September 2012 and the final report will be presented to the Audit Committee in due course. A number of good practices were identified and include the following:

- there are sound practices in place for managing user access to systems controlled by the council

- business continuity arrangements have been developed for the back-up and recovery of data although under review
- there are arrangements in place for managing the council's ICT assets.

94. At the same time there are a number of challenges facing the council.  These include:
    - Information and Communication Technology (ICT) is an integral part of the council's service delivery activities. Investment in ICT provision is being provided and infrastructure and facilities are being re-configured with a project to close and transfer the Campbeltown server room to a new upgraded data centre at Kilmory
    - the Scottish Government are looking to the council to help develop and deliver plans for superfast broadband and invest further in the standardisation of networks and services to ensure compliance with the public service network (PSN)
    - the maintenance of business continuity / disaster recovery arrangements is part of an on-going process.  The requirements needed to support the arrangements at the new data centre will need to be incorporated into the current plans.
95. An action plan to address the challenges raised in the report has been agreed and will be followed up as part of the council's normal ongoing monitoring procedures.

## Prevention and detection of fraud and irregularities

96. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity.   Auditors review and report on these arrangements.
97. The council has appropriate arrangements in place to help prevent fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud strategy, a public interest disclosure policy and codes of conduct for councillors and staff.  We are not aware of any specific issues that should be brought to your attention in this report.

### NFI in Scotland

98. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012. The next round of NFI is due to commence in June 2012, and will look to expand the range of data sets and bodies.
99. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

100. The data supplied by all participating bodies for NFI 2010/11 returned 287,559 matches. Some 33,846 (11.8%) of matches were categorised as having a higher risk of fraud or error (matches recommended for investigation). Argyll and Bute's NFI data returned 9,502 matches, of which 836 (9%) were recommended for investigation. Individual bodies determine which matches and the number of matches to investigate. The council completed its match investigations on schedule. Fraudulent overpayments totalled £39,423.35. 7 frauds were stopped resulting in 4 cautions issued and 3 being reviewed for criminal prosecution.

101. The council commenced preparation for the 2012/13 NFI Exercise with the checking of the list of expected data sets, confirmed who the web application users would be, completed the requirements outlined for fair processing compliance and live data was uploaded to the NFI web application on 8 October 2012.

### Housing and council tax benefits performance audit

102. A follow up risk assessment of the council's benefits service was carried out in July 2011. It reported that the council had made a positive contribution to the continuous improvement of the benefits service. 24 of the 32 previously identified risks had been fully addressed and the remaining 8 partially addressed. 17 new risks were identified with an action plan being agreed to address them.

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

103. 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. We have concluded that the arrangements in Argyll and Bute Council are satisfactory and we are not aware of any specific issues that we need to identify in this report.

### Complaints Handling Procedures

104. The Scottish Public Services Ombudsman (SPSO) now requires councils to adopt a new two stage complaints handling procedure, which means informal complaints will need to be recorded by 1 April 2013. The council's corporate complaints procedure complies with the model complaints handling procedure proposed by the Scottish Public Services Ombudsman (SPSO). A copy of the council's procedures has been submitted to the SPSO as required by 14 September 2012.

## Outlook

105. The Westminster government's Welfare Reform Act received Royal Assent on 8 March 2012. This is the biggest reform of the UK welfare system for 60 years and promises to change the lives of millions of households by creating a new Universal Credit for working age claimants.

106. The main drivers for this legislation are to improve work incentives, simplify the benefits system, tackle the administrative complexity of existing systems and to deliver savings.

107. The provisions in the Act will result in a number of significant changes for how local authorities deliver services. Universal Credit will end the devolved administration of housing benefit. Council tax benefit will be replaced by a Scottish council tax reduction scheme from April 2013. There will also be a shift in terms of the delivery of services such as the Social Fund, community care grants and benefit fraud investigations. Going forward, the role councils will play in the delivery of welfare reforms is not yet clear although there is an expectation that councils will provide some face to face support to benefit claimants.

108. 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.

**Refer Action Plan No 3**

109. 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

110. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

111. 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 of local government bodies also 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.

112. 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.

113. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

114. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

115. This section includes a commentary on the Best Value/ performance management arrangements within Argyll and Bute Council. We also note any headline performance outcomes/ measures used by the council and comment on any relevant national reports and the body's response thereto.

## Management arrangements

### Best Value

116. Audit Scotland conducted a full best value audit during 2005 with the report being published in February 2006. A follow-up report was published in December 2008, and in January 2009 the council agreed its first Corporate Improvement Plan which contained the council's response to the findings in the follow-up report. During 2010, the Local Area Network (LAN) published an Assurance and Improvement Plan for the council which recorded that the council

has made significant progress in revising its corporate planning, strategic and performance management arrangements.

117. The council's second (2011/12) Corporate Improvement Plan builds on the improvements made since adoption of the first Plan and was developed from the following sources:

- The Public Service Improvement Framework (PSIF) corporate self-assessment
- Assurance and Improvement Plan
- BV2 Gap Analysis
- Code of Corporate Governance annual review.

118. The 2011/12 Corporate Improvement Plan focuses on four main areas/outcomes identified through the self-assessment and audit activity:

- Improvement – The Council delivers Best Value Services
- Effective leadership at both political and officer level
- People Management – the right people, in the right jobs, at the right time
- Work effectively with partners to deliver the Vision for Argyll and Bute.

119. For each of these outcomes within the Corporate Improvement Plan, a range of success measures are detailed within the Plan and underlying each outcome are a range of actions which have been assigned to the appropriate Executive Director. Monitoring these actions takes place via the Council Scorecard, and as such reported quarterly to the Executive.

120. The Performance Management Report for Quarter 4 2011/12 presented to the Council in June 2012 records that of the 18 Corporate Improvement Plan 2011/12 actions for the Council, 17 are complete and the remaining action (review of Political Management Arrangements) is on track for completion during 2012. The Council is also able to demonstrate that significant progress has been made in putting in place the key building blocks against all 6 improvement areas identified in the follow-up report.

121. In order to ensure that the improvements made are consolidated and built upon, work is underway to put in place a Corporate Improvement Programme bringing together the Transformation Programme and Corporate Improvement Plan under one coordinated and focussed programme.

122. A review of existing improvement processes has been undertaken, including PSIF findings, all external and internal audits, the Assurance and Improvement Plan, the previous Corporate Improvement Plan, and several national policy initiatives likely to have an impact over the course of the next year. These initiatives include the move towards single police and fire services, the national review of community planning, and work around social work and social care integration. A draft of a Corporate Improvement Plan is currently being prepared. This is drawn from the information collated from the actions above along with a review of the scope of the current Transformation Programme. This will bring together all corporate improvement activity into a single Corporate Improvement Plan.

123. The Corporate Improvement Plan will be managed using a formal project management approach, including production of project documentation and the appointment (from existing resources) of a project manager, sponsor and senior responsible officer for each workstream.

124. Internal Audit has recently completed a range of Corporate Performance Audits based on the BV2 toolkits. This has given the council an overview of how their services are performing in relation to the BV2 toolkits. Action plans have been prepared in relation to areas that require improvement and Heads of Service are currently progressing these plans.

125. As part of our work on the 2012/13 audit, we will consider how the council is developing and taking forward its strategies and plans to address the improvement areas identified from all sources.

## Performance management

126. The councils' Planning and performance Management Framework (PPMF) is a core component of the improvement process for the council, helping ensure delivery of the Improvement Plan. The PPMF draws together improvement activities within the council to ensure that improvement is taking place in a coordinated manner, including:

- Council and service performance scorecards
- Engagement with stakeholders
- Improvement plans resulting from: Best Value reviews, audits, inspections, sustainability and equalities impact assessments.
- Strategic and operational risk registers
- Higher level plans, e.g. Community Plan, Corporate Plan, Single Outcome Agreement
- Key performance measures, including statutory performance indicators
- Other performance information.

127. The council uses Pyramid performance management software system to record performance information and generate performance scorecards. Performance is monitored through the Council Scorecard, which includes the Council Corporate Plan and Single Outcome Agreement, and Departmental Scorecards. The PPMF was refreshed in 2011 to reflect the new council structure. The council also adopted a new Corporate Plan in 2011 that identified corporate outcomes and linked service outcomes to these. These are also mapped to the Scottish Government's National Outcomes. A new council scorecard was introduced to the Executive in August 2011 which shows progress against the corporate outcomes. This can be further interrogated to link through to service outcomes.

128. Each financial quarter the council's Performance Reports and Scorecards are reviewed for the council as a whole and for each of the departments. These identify areas of success, challenge and improvement by service area. All improvement actions are included in the Service Improvement Plans. Each review covers three areas:

- Key Successes - A numbered list of what the service has achieved particularly well during the last financial year

- Key Challenges - This section is a numbered list of any challenges that have prevented the service from achieving its targeted objectives
- Key Improvements to address Challenges - This section includes a numbered list of improvements that the service plans to carry out in the current financial year

**129.** Annual Performance Reviews (APRs) are prepared by Heads of Service and are submitted to the Executive in December for consideration. The format of the APRs reflects the quarterly reporting on performance by Strategic Management Team to the Executive.

## Community/user engagement

**130.** A Community Engagement Strategy was agreed and adopted by the Community Planning Partnership (CPP) in May 2009. The Council also has a Community Engagement Action Plan which is reported to the Community Planning Partnership Management Committee. The four Local Area Community Planning Groups and three Community Planning Partnership Thematic Groups as well as the Management Committee report to the CPP on a regular basis. A Third Sector and Communities CPP Sub-Group was also established to ensure that community engagement is given the same strategic guidance and monitoring as the other CPP Thematic Groups.

**131.** The CPP Community Engagement Strategy is currently under review by the Third Sector and Communities CPP Sub-group to be brought in line with the new Community Plan/Single Outcome Agreement. The Scottish Government Review of Community Planning will also influence the reviewed strategy.

**132.** A 2011 internal audit review of work carried out by the council in partnership with community groups recorded that good progress is being made with community engagement within the council area. Internal audit also recorded that this progress is reinforced by the formation of the Third Sector and Communities CPP Sub-Group and that there are four Community Development Officers, one for each of the administrative areas within the council.

**133.** Through our own audit work we also acknowledge the council's commitment to community engagement. The 2011/12 and 2012/13 budget setting processes included public meetings held by community planning partners plus innovative approaches to consultation: webchat and budget simulator plus the more traditional postcards, posters, web pages, presentations, Citizens' Panel and facilitated meetings. The council's Annual Report is available via the council's website, which has gained a four star rating from Socitm and has been listed as one of the top 20 best developed websites.

**134.** The current Citizens' Panel is made up of approximately 1,250 people who live in Argyll and Bute. Members of the Panel are recruited to be broadly representative of the wider population of the area in terms of their demographic profile and geographic distribution. Hexagon Research and Consulting currently have the contract to maintain the Citizens' Panel database and to administer the twice yearly Citizens' Panel surveys. The spring surveys are open to all community planning partner organisations. Autumn surveys are now council-only surveys, with the primary purpose to track customer satisfaction across a range of council services.

135. Recent examples of council consultation include:

- Helensburgh Pierhead Masterplan Consultation
- Libraries Customer Satisfaction Survey

## Overview of performance in 2011/12

### Argyll and Bute Council's performance measurement outcomes

136. There are 294 success measures monitored through the council scorecard. These were analysed for 2011/12 to show progress against target. The analysis showed an overall improvement position with 80% of indicators meeting or exceeding target and 20%% adrift of target.

137. Some of the performance measures achieved in 2011/12 include:

- Percentage of waste recycled and composted
- All roads asset capital and maintenance programmes in place
- Five year workforce plan completed.

138. some of the measures of performance not achieved in 2011/12 include:

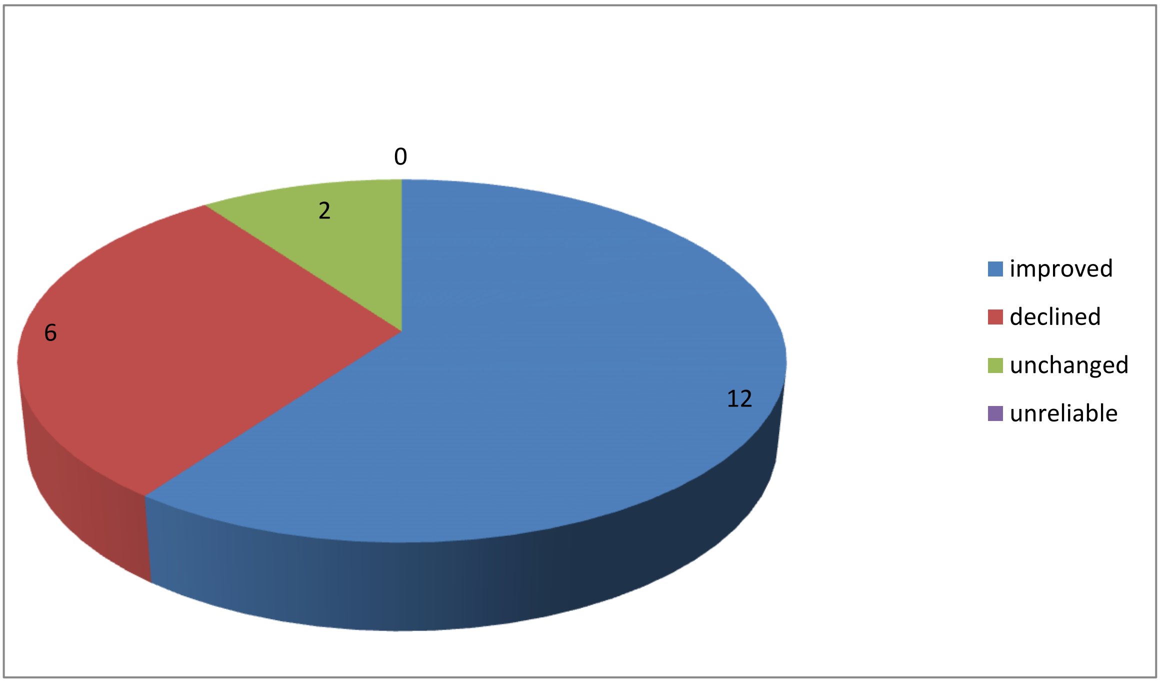
- Secondary school teaching staff sickness absence was 8.5 days against a target of 6.5 days
- % road work instructions completed within timescale was 85% against a target of 90%
- Implementation of employee development training for managers (Argyll and Bute Manager) has slipped.

139. The overall council staff sickness absence rate of 8.8 days is split local government (LG) employees 9.11 days and teachers 7.62 days. Comparing these figures to Audit Scotland's 2011/12 tables, puts the council at number 3 for LG employees, but at number 24 for teaching staff. A target of 7.5 days for all teaching staff has been agreed for 2012/13. Improvements in productivity during the year resulted in roads work instructions performance exceeding target by 3% points (achieving 93%) in Quarter 4 2011/12. This improvement will carry forward into 2012/13. A project plan is now in place for 'Argyll and Bute Manager' to report regularly to the Corporate Improvement Board to manage progress and performance.

### Statutory performance indicators

140. In 2011/12, a total of 20 SPIs were required and these indicate an improved picture of performance as illustrated at Exhibit 8 below.

**Exhibit 8: Improvements demonstrated by SPIs (Total 20 indicators)**




*Source: Argyll and Bute Council SPI data returns*

141. The improved indicators include sickness absence levels, equal opportunities, the gross administration cost per benefits case, the cost of collecting council tax per dwelling, homelessness processing, the provision of homecare to those aged over 65 and visits to museums The declines included the payment of invoices and visits to libraries.

142. The declines noted above are attributable mainly to an increase in the number of invoices being processed and Rothesay library being closed for major refurbishment. The council has set a target of paying 90% of invoices within 30 days for 2011/12. Rothesay library has now re-opened and provides a modern, customer orientated library service.

## Maintaining Scotland's roads: a follow-up report

143. During the course of 2011/12 we reviewed the council's response to Maintaining Scotland's roads: a follow-up report; published by the Auditor General and the Accounts Commission in February 2011. The review provided an assessment of the progress that Argyll and Bute Council had made in improving its management of road maintenance, focusing on road asset management planning, performance management and maximising value for money. We found that the council is taking steps to address the recommendations set out in the report. In particular that:

- The completion of the Roads Asset Management & Maintenance Strategy provides the strategic direction upon which detailed plans are based to deliver the road maintenance service in accordance with corporate policy and accepted best practice. The Strategy was completed in draft in December 2011, with formal approval expected during 2012.

- The council has developed 1, 3 and 10 year roads reconstruction programmes of work, with the 1 and 3 year programmes budget being largely programmes to recover from the effects of the winters of 2009/10 and 2010/11. The 10 year programme will be an improvement programme with the emphasis on upgrading the strategic network.
- The council have increased the roads capital maintenance budget for 2012/13 from an initial £5.0 million to £7.0 million. In addition, at the annual budget meeting in February 2012, the council increased the provision for roads reconstruction in the capital plan to £21m over 3 years.

144. We concluded that the council has responded to the recommendations of the report and there is evidence that actions to improve road maintenance are considered at the highest level within the council. We also noted that the SCOTS group have used the annual surveys of road condition to assess a maintenance backlog across Scotland and provide an assessment for each council. The backlog figure for Argyll and Bute was calculated as £162.38 million in February 2011. It is clear that even with the current level of investment and the use of revised asset management prioritisation techniques, a proportion of the road network in the council area will continue to deteriorate in future years.

**Refer Action Plan No 4**

## National performance reports

145. 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 9:

**Exhibit 9: A selection of National performance reports 2011/12**

- Commissioning social care
- The National Fraud Initiative in Scotland
- An overview of local government in Scotland - challenges and change in 2012
- Scotland's public finances: addressing the challenges
- Transport for health and social care
- Reducing greenhouse gas emissions
- The role of community planning partnerships in economic development
- Modernising the planning system
- Community Health Partnerships
- Managing performance: are you getting it right?

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

### Managing performance: are you getting it right?

146. The report is the fourth in the How Councils Work series. This series draws on audit work in all councils to highlight concerns, issues and good practice.

147. The report offers practical pointers and support to help councillors and officials with performance management. Effective management of performance is everyone's business from the chief executive down and in well-run councils, it is embedded throughout the

organisation as part of the day job and not seen as a burden. A key element is getting the culture right with councillors and officials sharing a common purpose and vision and setting clear priorities. The council has yet to consider this report as it was only published in October 2012.

## Scotland's public finances: addressing the challenges

148. The report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges.

149. The report, together with a management response, was considered by the council's audit committee in December 2011. As outlined at paragraph 68, the council has demonstrated a clear awareness of the financial challenges that are highlighted in this report, however they acknowledge that the current challenging financial environment will continue for the medium term and that the council will need to consider how best to address this challenge for the period beyond the current 3 year budget whilst also meeting the requirement for 2% efficiency savings each year. Proposals to address this issue are currently being developed.

150. The service review programme required benchmarking to be undertaken as a key stage in each service review. In addition benchmarking is carried out within some services. There is scope to develop a more coordinated approach to benchmarking and to demonstrate benchmarking is being carried out on a comprehensive basis across all services and that it is being used to improve performance. The process of mapping cost and budget to service and corporate outcomes could be further refined. This will be taken forward under the corporate improvement plan.

**Refer Action Plan No 5**

## Commissioning social care

151. Good strategic commissioning of social care is needed to ensure effective and efficient services are provided and continue to be developed, in partnership with users, carers and providers, so that sustainable services are in place in future. This report examined how well councils and their partners plan, and how councils either procure or deliver, effective social care services. The report also assessed the extent to which councils and their partners involve users and carers in developing services to meet their needs, and how they work with providers in the voluntary and private sectors to provide high-quality, sustainable services.

152. The Council has used the report in preparing updated commissioning strategy and plans which will be finalised by the end of December 2012. This work is being taken forward by Planning and Information Team Leader and Commissioning staff. The updated strategy and plans will ensure that the actions identified in the Audit Scotland self-assessment pro-forma are all addressed.

### The role of community planning partnerships in economic development

153. This review aimed to assess whether Community Planning Partnerships (CPPs) have made a difference to local communities. As CPPs cover a wide range of activity, the review focused on examining their contribution to economic development. This policy was chosen because CPPs have an important role in coordinating local economic development activity and it has a direct link to the Scottish Government's purpose of increasing sustainable economic growth.

154. The Council used the Audit Scotland checklist for CPP board members to assess whether they are meeting the recommendations contained within the report. The Council's assessment was generally positive although they acknowledge that a recent self-assessment of community planning identified some issues around the style and delivery of local community planning and the opportunity to improve strategic focus of management committee. These issues are currently being addressed by the CPP.

### Modernising the planning system

155. The planning system provides the framework for deciding how land is used, how communities take shape and how new developments look and work. It has to balance economic, environmental and community priorities and is central to achieving the Scottish Government's goal of sustainable economic growth and to Scotland's economic recovery.

156. The report assessed whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. The report evaluated the overall progress made by the public sector in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications.

157. The report, together with a management response, was considered by the council's audit committee in December 2011. An action plan has been prepared to address the outstanding recommendations within the report and to drive the planning system forward.

## Progress against audit risks identified in the SRA

158. The Local Area Network (LAN), completed its third shared risk assessment (SRA) in Spring 2012 and reported its findings in an Assurance and Improvement Plan (AIP). The risk assessment considered the audit and scrutiny risks in relation to the council's strategic priorities, service delivery, and corporate governance framework. This drew on evidence from a number of sources including:

- The annual report to the Controller of Audit and elected members for 2010/11 from the council's appointed external auditors
- The council's own self-evaluation, performance reporting and supporting evidence
- Evidence gathered from Education Scotland, the Care Inspectorate and the Scottish Housing Regulator (including published inspection reports and other supporting evidence).

159. No significant scrutiny risks were identified with the council's corporate governance framework. As was the case in the previous AIP, one significant scrutiny risk was identified with the council's transport service and roads maintenance performance outcomes. The area has a high dependency on the road network and the council faces many challenges in maintaining its road network, including the dispersed geography and extremities of weather within the area. The SCOTS group have used the annual surveys of road condition to assess a maintenance backlog across Scotland and provide an assessment for each Council. The backlog figure for Argyll and Bute was calculated as £162.38 million in February 2011. As outlined in paragraph 143, the council has undertaken a service review of its Roads Operations Service and capital programme which has led to the development of a 3 year roads Reconstruction Recovery Programme and a longer term strategy and plan for improvement. Additional capital funding has been allocated by the council to road maintenance to address this challenge.

160. Areas of uncertainty identified by the LAN were:

- Asset Management: management of the school estate
- Social Change: ensuring services are directed to the most vulnerable
- Support of adults at home rather than in residential settings.

161. In relation to the school estate, the council awaits the outcome of the Commission on Rural Education, and the Scottish Government's subsequent legislative response. In relation to Social Change, this assessment is linked to the national risk priority regarding the protection and welfare of vulnerable people. The Care Inspectorate have recently carried out a follow-through visit and will report publicly on the extent to which improvements have been delivered. For the support of adults at home, this area of uncertainty will be monitored by the council during the Care Inspectorate self-evaluation process, with the LAN maintaining a watching brief. An updated position will be reported by the LAN in the next AIP.

## Outlook

162. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter.

163. 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. Progress made by the council in implementing these requirements will be monitored in 2012/13.

# 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 | 24 March 2012 |
| Shared Risk Assessment/Assurance and Improvement Plan | 3 June 2012 | 16 June 2012 |
| Internal controls management letter | 16 June 2012 | 21 September 2012 |
| Maintaining Scotland's roads - follow-up review | 26 July 2012 | 21 September 2012 |
| Report on financial statements to those charged with governance | 17 September 2012 | 21 September 2012 |
| Audit opinion on the 2011/12 financial statements | 17 September 2012 | 21 September 2012 |
| Audit opinion on the 2011/12 Whole of Government accounts consolidation pack | 4 October 2012 | tba |
| Report to Members on the 2011/12 audit | 31 October 2012 | tba |

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|---|---|---|---|---|---|
| 1 | 22 | **Equal pay claims**<br>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.<br>***Risk: There is a risk that the ultimate cost to the council is greater than anticipated.*** | Negotiations around existing tribunal cases will be monitored and assessed against the current provision with any significant variation being reported through budget monitoring. The outcome of national legal test cases will be monitored and the implications assessed with the financial implications being considered as part of any revision of the provision. | Head of Strategic Finance | Ongoing |
| 2 | 52 | **Budget savings and financial pressures**<br>Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council. Planned budget savings are estimated at £9.456m in 2013-14 and a further £12.391m in 2014-15, giving a total of £21.847m.<br>***Risk: There is a risk that the council is unable to deliver vital public services if these savings are not achieved.*** | Implementation of savings will be monitored through regular monitoring with financial implications being picked up in budget monitoring and also through the budget preparation process. The impact on services will be monitored through service scorecards and the service planning process each year allows the Council to consider the relevant outcomes and performance levels for each service. | Head of Strategic Finance | Ongoing |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|---|---|---|---|---|---|
| 3 | 108 | **Welfare reform**<br>Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents.<br>***Risk: There is a risk that the council may fail to meet the requirements of the new welfare reform act.*** | A working group has already been set up in relation to welfare reform. It has cross service membership and given the impact this may have across the community a number of key partners have also been co-opted onto the group. The Council will continue to monitor developments and will bring forward plans based on developments. | Head of Customer and Support Services | Ongoing |
| 4 | 144 | **Roads maintenance**<br>The roads capital budget has increased however, the roads maintenance backlog figure for Argyll and Bute was calculated as £162.38 million in February 2011.<br>***Risk: There is a risk that a proportion of the road network in the council area will continue to deteriorate in future years*** | The Council has developed the Roads Maintenance and Management Strategy (RM&MS) to ensure that the Council spends its limited funding wisely on roads upgrade and maintenance. The strategy takes cognisance of Audit Scotland 2004 report – maintaining Scotland's Roads and the 2011 Follow up report. The objective of the RM&MS is to provide a strategy on which detailed plans can be based to deliver the road maintenance service in accordance with Corporate Policy and National accepted best practice. | Head of Roads and Amenity Services | October 2012 and during budget process 2013-14. |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|---|---|---|---|---|---|
| | | | The RM&MS was endorsed by the former Roads and Transport Working Group and will be considered by the Council - Target Date October 2012.<br><br>Capital Investment Plan founded on the RM&MS to be presented for consideration as part of budget process.<br>Target Date - During the budget process for 2013-14. | | |
| 5 | 150 | **Benchmarking**<br>There is scope to develop a more coordinated approach to benchmarking and to demonstrate benchmarking is being carried out on a comprehensive basis across all services and that it is being used to improve performance. This will enhance the information currently available to establish the efficiency and cost effectiveness of services and to identify scope for further performance improvements.<br>***Risk: There is a risk that the council may not be able to demonstrate whether or not its*** | This will be taken forward as part of the corporate improvement plan. It is covered by the project related to productivity and service improvement. This project will be monitored to ensure it develops further the Council's approach to benchmarking. | Head of Strategic Finance | Already covered by corporate improvement plan. Monitoring implement-ation will be ongoing. |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|---|---|---|---|---|---|
| | | ***services are providing value for money.*** | | | |